TwentyFour ASSET MANAGEMENT

# UK Mortgages Limited

**Annual Report and Audited Consolidated Financial Statements**

For the year ended 30 June 2017

# UK Mortgages Limited

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# CORPORATE INFORMATION

**Directors**
Christopher Waldron - Chairman
Richard Burrows
Paul Le Page
Helen Green

**Custodian, Principal Banker and Depositary**
Northern Trust (Guernsey) Limited
PO Box 71
Trafalgar Court
Les Banques
St Peter Port
Guernsey, GY1 3DA

**Registered Office**
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey, GY1 3QL

**Secretary and Administrator**
Northern Trust International Fund Administration Services (Guernsey) Limited
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey, GY1 3QL

**Alternative Investment Fund Manager**
Maitland Institutional Services Limited
Springfield Lodge
Colchester Road
Chelmsford, CM2 5PW

**Corporate Broker**
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London, EC4M 7LT

**Portfolio Manager**
TwentyFour Asset Management LLP
8th Floor
The Monument Building
11 Monument Street
London, EC3R 8AF

**Independent Auditor**
PricewaterhouseCoopers CI LLP
PO Box 321
Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey, GY1 4ND

**UK Legal Advisers to the Company**
Eversheds LLP
One Wood Street
London, EC2V 7WS

**Receiving Agent**
Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol, BS13 8AE

**Guernsey Legal Advisers to the Company**
Carey Olsen
Carey House
Les Banques
St Peter Port
Guernsey, GY1 4BZ

**Registrar**
Computershare Investor Services (Guernsey) Limited
1st Floor
Tudor House
Le Bordage
St Peter Port
Guernsey, GY1 1DB

# SUMMARY INFORMATION

### The Company

UK Mortgages Limited ("UKML") was incorporated with limited liability in Guernsey as a closed-ended investment company on 10 June 2015. UKML's shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 7 July 2015.

UKML and affiliate structure has been designed by the Board of Directors, the Portfolio Manager, the Corporate Broker and legal advisors to ensure the most efficient structure for regulatory and tax purposes.

UKML established an Acquiring Entity, UK Mortgages Corporate Funding Designated Activity Company ("DAC") for the purpose of acquiring and securitising mortgages via Special Purpose Vehicles ("SPVs"). UKML, the Acquiring Entity, the Issuer SPVs and the Warehouse SPVs (collectively, the "Company") are treated on a consolidated basis for the purpose of the Audited Consolidated Financial Statements.

### Investment Objective

The Company's investment objective is to provide Shareholders with access to stable income returns through the application of relatively conservative levels of leverage to portfolios of UK mortgages.

The Company expects that income will constitute the vast majority of the return to Shareholders and that the return to Shareholders will have relatively low volatility and demonstrate a low level of correlation with broader markets.

### Shareholders' Information

Northern Trust International Fund Administration Services (Guernsey) Limited (the "Administrator") is responsible for calculating the Net Asset Value ("NAV") per share of the Company. The NAV per Ordinary Share is calculated as at the last business day of every month by the Administrator and is announced through a Regulatory Information Service on, or within 2 weeks following, the last business day of the following month.

### Financial Highlights

| | **30.06.2017** | **30.06.2016** |
|---|---|---|
| Total Net Assets | £223,388,138 | £237,363,265 |
| Net Asset Value per ordinary share | 89.36p | 94.95p |
| Share price at 30 June 2017 | 96.40p | 96.75p |
| Premium to Net Asset Value | 7.88% | 1.90% |
| Dividends declared and paid in the year/period | 4.50p | 1.50p |
| Total dividends declared in relation to the year/period | 6.00p | 3.00p |
| **Ongoing Charges** | | |
| - UKML | 1.07% | 0.96% |
| - DAC and subsidiaries | 1.11% | 0.24% |
| Total ongoing charges for the Company | 2.18% | 1.20% |

## CHAIRMAN'S STATEMENT
for the year ended 30 June 2017

I am pleased to present the results of the Company for the period from 1 July 2016 to 30 June 2017, during which UKML substantially completed its allocation of the capital raised at IPO. At the beginning of the financial year, UKML had just completed the securitisation of its initial mortgage portfolio. By the end of this period, a second mortgage portfolio had been purchased and securitised, and the mortgage origination business, The Mortgage Lender ("TML") had grown its book of business from a standing start to £109m[1]. Based on current growth rates, the Board and Portfolio Manager hope to be in a position to begin the securitisation process for the TML portfolio in early 2018 and meanwhile the Portfolio Manager is also actively seeking further suitable mortgage pools to form the basis of UKML's fourth transaction.

During the period, the Company's first securitisation, Malt Hill No. 1 Plc., has continued to perform exceptionally well, with none of its underlying mortgages in arrears. Similarly, TML has performed well to date from a credit perspective, with no arrears to date, albeit that the pace of origination has been slower than originally anticipated.

The purchase of the Company's third investment was completed in February 2017. This was a £590m portfolio of loans originated primarily between 2004 and 2008 by Capital Home Loans, the UK BTL mortgage subsidiary of Permanent TSB. The portfolio was purchased at a significant discount, reflecting the low interest rates on the mortgages given the mature nature of the pool. The Portfolio Manager moved quickly to securitise this pool and this was successfully structured in May 2017 as Oat Hill No. 1 Ltd. The senior notes were sold at a yield of 85 basis points over 3 month LIBOR, an improvement on the Portfolio Manager's initial estimates, which resulted in a higher than anticipated release of capital of approximately £40m. It's also worth noting that the time taken from the purchase of this mortgage pool to its securitisation was around half of the time taken with the Malt Hill securitisation in 2016. This was partly due to more favourable market conditions, but also a consequence of the Company being more established as a participant in securitisation markets and improved processes at the Portfolio Manager.

A more detailed description of the performance of UKML's investments can be found in the Portfolio Manager's report on pages 6 to 20.

### Dividend and Outlook
Whilst it is gratifying that the initial capital raised at IPO has now been allocated, the process of investment has taken longer than envisaged when the Company was launched. However, this slower pace of investment means that the current annual dividend of 6p per share is still not fully covered by income. It was always expected that the early dividends would be uncovered to some extent, given the time involved in negotiating and structuring investments, as well as the "back-loaded" nature of returns from the securitisation process. Dividends to date have been paid on the basis that future revenues would not only cover current year dividends, but would also generate a surplus sufficient to repay the capital previously distributed. It is therefore vital that at each quarterly dividend meeting the Board confirms with the Portfolio Manager that these assumptions remain valid.

Once the exact terms of the Oat Hill securitisation were known, the Board and Portfolio Manager revisited the Company's cash flow models to consider the profile of expected returns. These were originally detailed in the webinar that the Portfolio Manager presented to investors in June 2017, refined further in September 2017 and can been found on the Company's website.

[1] Includes completions and pipeline (i.e. a decision in principle granted, and full formal application processed but not completed)

## CHAIRMAN'S STATEMENT Continued

for the year ended 30 June 2017

**Dividend and Outlook (continued)**

Whilst it is estimated that the 6p dividend will not be covered by income until 2020 when the Oat Hill securitisation is refinanced and much of its original purchase discount is unwound, the Portfolio Manager's latest modelling confirms that the original investment case and total return estimates remain valid. In addition, future transactions have the potential to improve returns, not least because any new fund raising can be deal-specific, avoiding the cash drag that hampered UKML in its first year.

Nevertheless, the pace of investment means that full coverage of the dividend will take longer than initially anticipated, so on September 21st 2017 the Board approved a temporary reduction in the portfolio management fee from 0.75% per annum to 0.6% with effect from the financial year beginning 1 July 2017. The Board will review this arrangement at the end of the 2021 financial year, or sooner should market conditions change.

This flexibility on the part of the Portfolio Manager is welcome and demonstrates its commitment to the long-term success of UKML. The last two years have certainly been challenging but the work of the Portfolio Manager and other service providers over this period means that the Company is now well positioned with established and repeatable processes to deliver attractive returns from mortgage portfolios that have little or no correlation with other financial assets.

Thank you for your continuing support.

**Christopher Waldron**
**Chairman**
**18 October 2017**

# PORTFOLIO MANAGER'S REPORT
for the year ended 30 June 2017

**Market Commentary**
The summer and autumn of 2016 saw dramatic changes across the entire financial and political landscape in the UK, Europe and the US. The UK's EU referendum result in late June set the tone for a second half of surprises, initiating a period of tension and political sparring within the re-formed and reshuffled UK government under Theresa May. The government appeared determined not to show its cards too early, whilst various UK Remain supporters, plus a host of European politicians were equally determined to stand firm against any potential UK proposals for favourable exit treatment. Populist movements gained ground, with Mario Renzi effectively being ousted in Italy in what became a highly personal vote of no confidence for his policy implementation referendum, plus the surprise election of Donald Trump as the new US President in November.

The UK's situation in particular, led initially to concerns about the economic damage Brexit might herald and in August the Bank of England reacted with a raft of economic policy easing measures, including an expected 25bp base rate cut, coupled with further QE measures including the reintroduction of a QE bond buying programme and the inclusion of corporate bond purchases for the first time. The programme also included a four-year Term Funding Scheme (TFS) providing secured funds at the new base rate, designed to help banks pass on the rate cut to borrowers. This certainly seemed to be the case as mortgage and other consumer borrowing rates were tightened but it also led to something of a repeat of the effect seen in 2012 following the introduction of the Funding for Lending Scheme, when banks substantially withdrew from issuance in wholesale funding markets in favour of cheap central bank subsidies.

The short and medium term consequences of this were to tighten issuance spreads across all wholesale funding markets, as the expectation of reduced issuance from the banking sector was borne out. In RMBS markets however, some of the slack was taken up by independent non-bank issuers, but the cost of funding continued to tighten nonetheless and this trend extended into 2017, with spreads moving to record post-crisis lows, although there was little sign of bank issuers being prompted back to the market by this.

In broader mortgage and housing markets, signals were very mixed, with conflicting data from source to source and from month to month but, for the main part, the overall market continued to show slow growth. Whilst regional data is available less frequently, subjective evidence from wider sources suggested that even though much of the London market had been suffering something of a slowdown in response to Brexit uncertainty, other parts of the country that had lagged behind were beginning to catch up.

In early 2017, the political focus shifted away from the UK somewhat towards the imminent elections in Europe, with real concerns about the potential for further populist victories, but in the end both the Dutch and French elections saw these candidates defeated, and hopes of a more stable outlook prevailed. In the US, President Trump continued attempts to push forward with his long-signalled radical policies, attracting news headlines, animosity and prompting potential volatility.

Meanwhile, the UK came sharply back into focus when the government finally triggered Article 50 as promised at the end of March. However, uncertainty remained, driven mainly by Brexit negotiations, talks and projections which clearly had an effect both on the real economy and financial markets. The government then called an unscheduled election in June with the intention of providing more certainty and to gain further strength at the table with Europe, but a poor campaign by the Conservatives resulted in a lost majority and Theresa May was forced to seek a coalition with the DUP to continue in power. At the same time, the message in Europe turned more stable, with the Macron victory in the French elections driving renewed confidence for the EU. Taken together, these results generate further uncertainty around the Brexit outcome, with a number of market participants pricing in a hard Brexit.

## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Market Commentary (continued)**
In the real UK economy, this translated into growth running at half the expected pace for the first half of the year. At the same time, whilst the official unemployment rate continues to reduce, having reached its lowest since 1975, there has been no corresponding improvement in wages, leaving consumers with a choice between cutting back on spending or saving less. The Bank of England has highlighted an increase in volumes for unsecured lending and financial institutions have responded with a tightening of criteria for new credit.

In the financial markets, the electoral shock was effectively absorbed in the exchange rate, with sterling down by around 3% versus the euro at the end of June. The currency depreciation allowed UK assets to remain stable or strengthen in sterling terms over the period.

Despite this, and as is often the case, the RMBS market showed good resilience, as a number of UK issuers announced new transactions following the UK elections, priced at levels in line, or tighter than, pre-election. Pricing levels have been underpinned over the period by a shortage of primary paper, as bank issuers continued to fund most if not all of their mortgage production via the TFS, which still provides cheaper funding than the capital markets despite the spread tightening. However, a level of indigestion was observed in the BTL market following the UK government's £13bn disposal in May of the former Bradford & Bingley mortgage book, which resulted in a larger than expected placement of RMBS bonds totalling over £4bn, putting the brakes on further spread tightening in that sector.

Broader mortgage and housing markets, seem to have substantially reached a stalling point at national level, although at regional level the picture continues to be mixed. The headline price growth rate slipped to the lowest level since 2013, with prices on an upward path in the South West, the Midlands and Northern Ireland, but downwards in London and the South East. The stock of properties on offer also continues to reduce, with a steady deterioration of fresh listings in the year to June 2017.

The volume of mortgages originated in the first half of the year remained stable overall, with first-time buyers and re-mortgage components sustaining volumes while BTL continued to be subdued. Lenders are facing increased competition to gain market share, with rates reaching historical lows.

**Portfolio Review**
Having closed the Company's inaugural securitisation, Malt Hill No.1 plc, in May 2016, securing the senior funding for the next three years (further details of subsequent performance below), the Company was able to announce its second transaction in early July.

**Cornhill No. 2 Limited Portfolio (The Mortgage Lender - TML)**
The Mortgage Lender (TML) is a new entrant to the UK mortgage lending market, albeit set up and managed by the team who had previous successfully founded and run Mortgages plc since the late 1990s. This transaction had been in negotiation for about six months but had taken longer to complete than hoped for, due to the newness of TML as an originator and a delay caused by a late change in the warehouse provider.

TML opened their doors for business in July 2016 and began to take applications. These were followed shortly afterwards with the first offers being made (as well as the first applications to be declined) and, as would be expected with a lag of about 2-3 months, the first completions. Applications, offers and completions initially grew broadly in line with expectations, albeit from a zero base, in line with initial projections of building a portfolio to reach securitisable size towards the end of 2017.

# PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Portfolio Review (continued)**

**Cornhill No. 2 Limited Portfolio (The Mortgage Lender - TML) (continued)**

Origination continued to progress in the first half of this year, albeit at a slower pace than had been projected, but in line with the reduced pace of origination in the overall mortgage market. As at the end of June the originated portfolio and loans in the pipeline were c. £109m, which means that the portfolio is now unlikely to reach securitisable size before the end of the 2017. In order to retain cost efficiency, in June, the Portfolio Manager negotiated and implemented amendments to the warehouse facility provided by NatWest Markets. The new terms of the facility allow significant cost savings (c. £50k/month) with the committed funding adjusted to the revised portfolio growth.

**Oat Hill No. 1 Plc Portfolio (Capital Home Loans - CHL)**

This portfolio was an approximately £590m pool of BTL loans originated primarily between 2004 and 2008 by Capital Home Loans, then the UK specialist BTL mortgage lending arm of Permanent TSB. CHL was sold to an affiliate of Cerberus Capital Management, L.P. in July 2015.

The term sheet was signed with the seller, another Cerberus affiliate, at the turn of the year. The acquisition was then completed in February, at which time the pool comprised 4,896 loans with an average balance of £120,610 and a weighted average indexed loan-to-value of 69.65%. Since acquisition, the performance of the pool has slightly improved, with just 0.85% of the loans more than one month in arrears, compared to 0.92% at the time of purchase.

The acquisition was initially funded through a private warehouse facility provided by Bank of America Merrill Lynch and subsequently refinanced through the issuance of AAA notes by the Oat Hill No.1 Plc entity in June, which provided cheaper funding and greater leverage for the investment. The refinancing also freed up c. £40m capital, for which the Portfolio Manager is exploring appropriate investments.

**Malt Hill No. 1 Plc Portfolio (Coventry Building Society)**

Malt Hill No.1 continues to perform ahead of expectations, with no loans in arrears. In May 2017 a number of loans reached the end of their initial fixed rate period and, as expected, the majority re-fixed their rate for an equal or longer term, with a minority prepaying and the balance switching to the Standard Variable Rate ("SVR"). The SVR proportion was initially larger than might have been expected, but in June further loans re-fixed or refinanced elsewhere, and we expect this trend to continue gradually. As is typical in these cases, some of the loans that re-fixed do not meet certain pre-established criteria within the securitisation documentation and would be expected to be re-purchased by the DAC. However, in this case, many of these instances are marginal and/or technical in nature, so rather than simply allow the loan repurchases and therefore subsequent amortisation of the senior notes, which would not be beneficial to either the senior noteholders or the leverage those notes give to UKML's investment, an RNS has been issued and noteholders will be contacted to discuss a potential solution.

At origination, the Malt Hill No.1 portfolio comprised loans with either an initial two-year fixed rate period (approx. 80%) or an initial five-year period. At the end of the fixed rate periods the loans revert to a floating rate (typically the SVR). Borrowers then have the option to either remain on the SVR, prepay without penalty (likely switching to a loan with another lender) or switch to a new fixed rate period with Coventry Building Society (a "product switch").

## PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2017

**Portfolio Review (continued)**

**Malt Hill No. 1 Plc Portfolio (Coventry Building Society) (continued)**

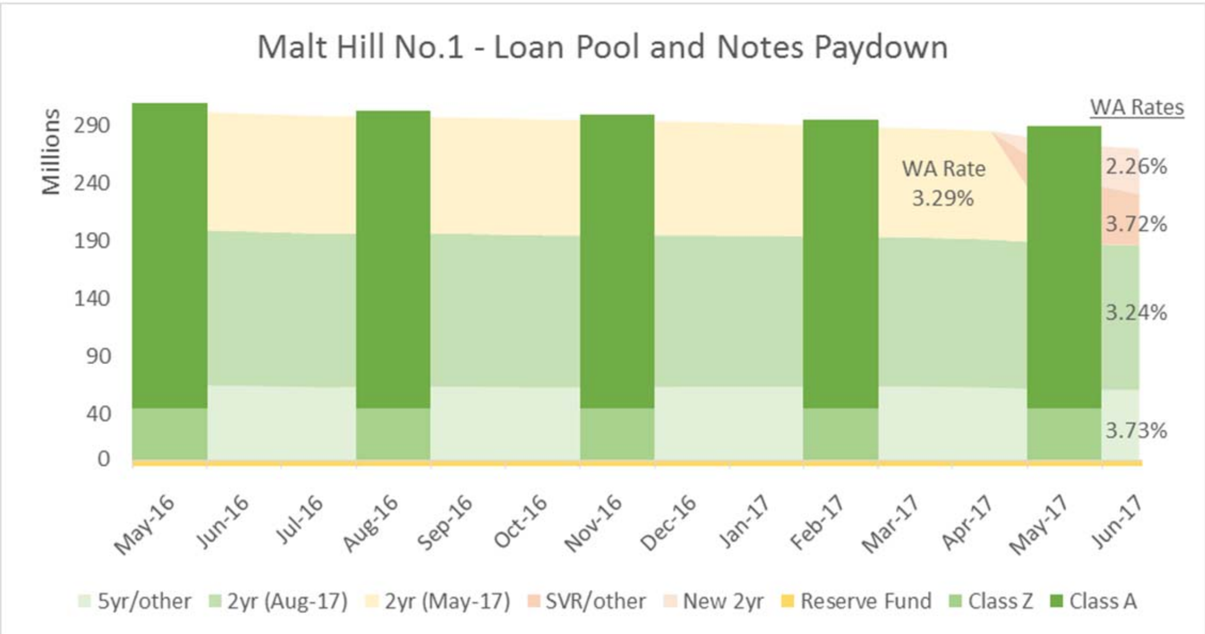
Given that the loan portfolio was predominantly originated between May and July of 2015, the portfolio recently began seeing the first of those loans with an initial two-year fixed rate period reach the end of that term. As is typical origination practice at Coventry and other similar lenders, the "two-year" period is usually offered for a short period of time (e.g. three months) to a specific date (e.g. a month end). In this case the initial two-year loans all reached their reset date in either May 2017 or August 2017.

Prior to May 2017, a combination of scheduled repayments from the loans and unscheduled prepayments on other loans (e.g. as borrowers sold a property) meant the initial £302m pool had amortised by £17m. In May, approximately £94m of loans reached their reset date. Of these around £7m prepaid, £30m reset to a new two-year rate, £5m switched to a new longer-term fixed rate and the remainder reverted to a floating rate, typically the SVR.

It was always expected that Coventry would have a high retention rate – as it proved – but at this early stage it was likely that many borrowers had allowed their loans to revert to SVR whilst they decided what to do next. In June, a further £4m prepaid and further £9m moved to a new two-year fixed rate. We expect this trend to continue over the next few months with a small amount of further prepayments, and some further product switches, with the second batch of resets (of around £125m) due from August.

The cut in UK interest rates, the introduction of the Term Funding Scheme in August 2016, along with increased competition in the UK mortgage market means that lending rates are at all-time lows and unsurprisingly the rates being offered on new fixed rate loans are lower than those offered two years ago. The loans that reached their reset date in May had a weighted average rate of 3.29%. By the end of June, those that had reset to a new two-year rate had a weighted average rate of 2.26%, although the rate on the balance was 3.72%. These lower rates are offset by product switch fees (typically either £999 or £1,999) which, for example, boost the two-year rate by between 25bps and 50bps respectively on an average size loan.

The breakdown of loans can be seen in the graph below along with the paydown profile of the Malt Hill No.1 AAA notes.



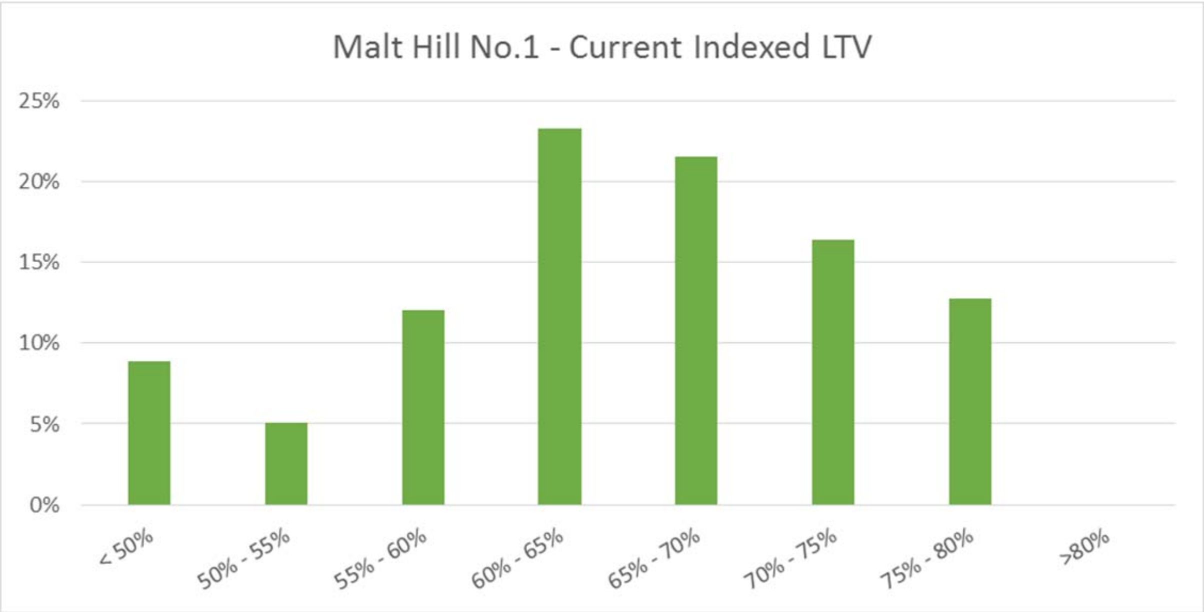

WA Rates shown do not include product switch fees

## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Malt Hill No. 1 Plc Portfolio (Coventry Building Society) (continued)**
**Key Performance Indicators**
The Malt Hill No.1 portfolio is an exceptionally high quality portfolio of loans. In its lifetime, just one loan has fallen into arrears, and by just one month, and those arrears have now been cured. Overall, the pool is well diversified, with low (and therefore lower risk) LTV ratios, loan balances and, importantly for BTL properties, generally high debt service coverage ratios.

At 30 June 2017, 1,561 loans with a value of c. £270m remained outstanding. The tables and charts below highlight some of the key performance metrics that are analysed on a monthly basis.

**Loan-to-Value (LTV)**
With no loans >80% LTV, the vast majority of loans below 70% and a weighted average of 63.8%, the pool exhibits low levels of risk.

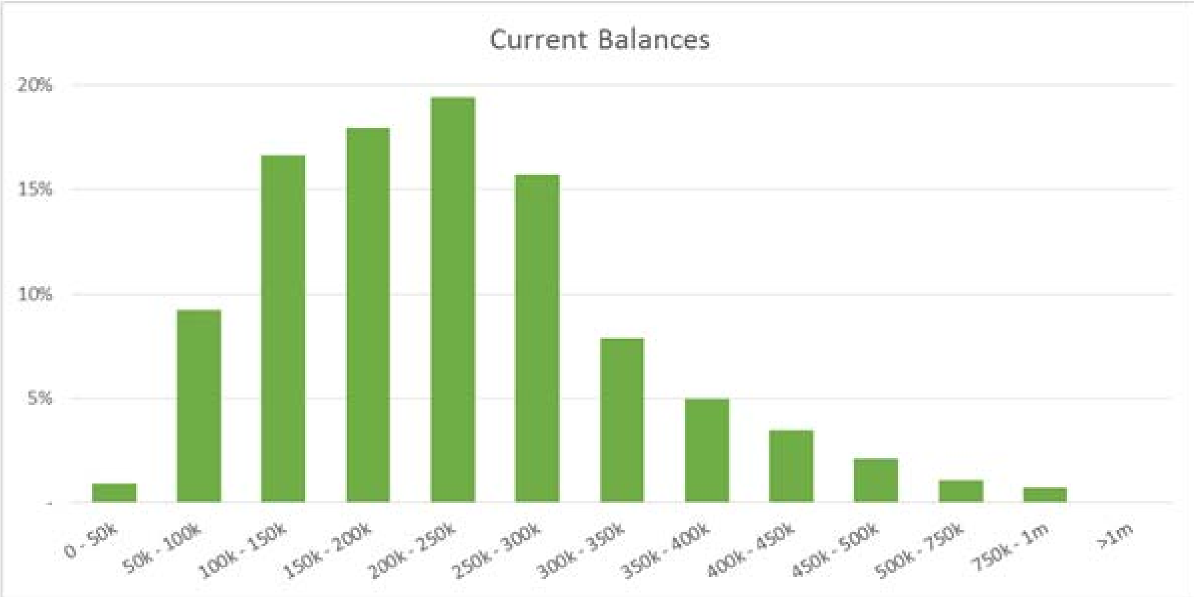


Indexed using the Nationwide House Price Index (non-seasonally adjusted)

**Current Balances**
Loan sizes are also generally moderate, with the vast majority clustered between £50k and £350k and a weighted average of c. £173k, and no jumbo loans (>£1m). Given the WA LTV, this suggests an average house price of c. £271k, below the June 2017 Land Registry average house price for England & Wales of just under £300k.

## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Malt Hill No. 1 Plc Portfolio (Coventry Building Society) (continued)**
**Current Balances (continued)**




**Geographic Dispersion**
As might be expected of a pool of BTL loans originated in 2015, a large concentration of properties are situated in London and the South East, where property price performance has been strongest but also where demand for rental property has been strong due to higher employment levels, but also where property prices are generally higher. Notably, the pool contains no loans from Scotland or from Northern Ireland and only minimal exposure to the North of England and to Wales.

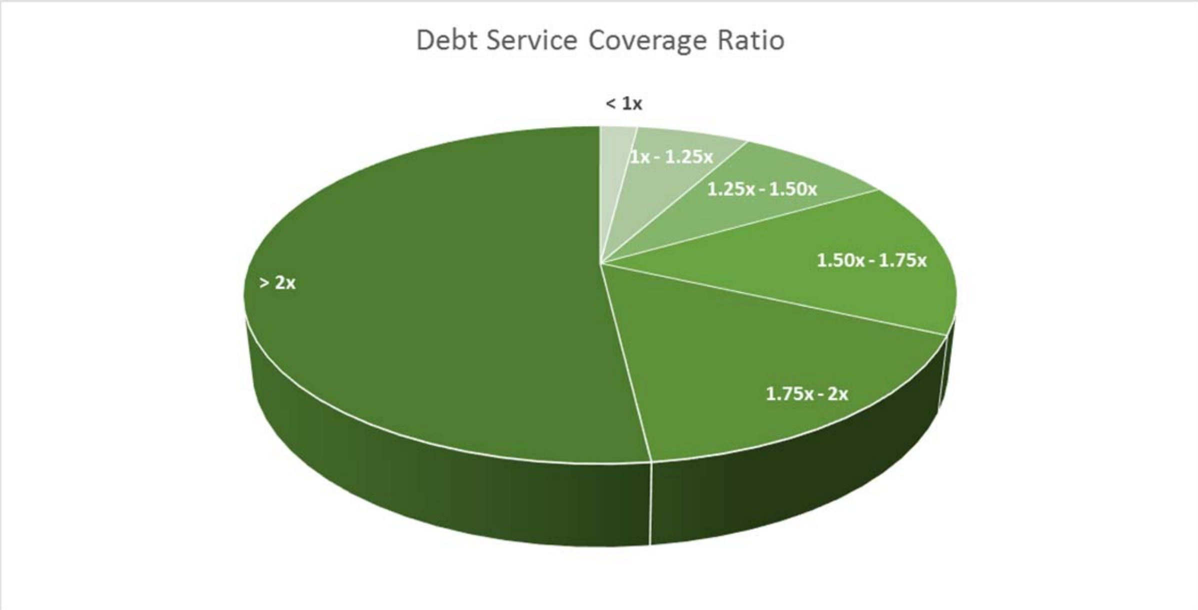
| Region | % | Avg. Loan Size | WA LTV |
|---|---|---|---|
| South West England | 7.3% | £125k | 63.9% |
| South East England | 16.3% | £163k | 64.9% |
| Greater London | 54.6% | £246k | 63.1% |
| East of England | 9.0% | £137k | 64.8% |
| East Midlands | 2.8% | £94k | 64.3% |
| West Midlands | 3.9% | £97k | 64.7% |
| North West England | 2.2% | £99k | 66.7% |
| Yorkshire and the Humber | 2.4% | £97k | 64.7% |
| North East England | 0.6% | £102k | 61.5% |
| Wales | 0.9% | £84k | 62.6% |

There is considerable consistency in the LTV dispersion across the regions, meaning that with a similar WA LTV in London and the South East to the overall pool, the exposure to higher property prices in those areas is reduced. As shown in the table above, loans in London have an average balance of c. £246k (the only sector which is higher than the pool average) and a WA LTV of 63.1%, whilst those in the South East have WA balance of c. £163k and a WA LTV of 64.9%. These figures compare extremely favourably with an implied average house price for the loans in London of c. £390k versus the Land Registry regional average of c. £482k and an implied level of £252k in the South East compared to the average for the region of c. £320k.

## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Malt Hill No. 1 Plc Portfolio (Coventry Building Society) (continued)**
**Rental Coverage**
The vast majority of the pool has a very healthy Debt Service Coverage Ratio (DSCR – the level of rental income versus the contractual monthly payment on the loan), with more than 50% of the loans having more than 2x coverage.

Most loans in the UK BTL mortgage market are interest-only loans, as given the stated intention to rent the property on an ongoing basis, the loan can ultimately be repaid either by refinancing the loan or from a property sale to a future potential landlord or occupier.




In this pool, c.19% of the loans are repayment mortgages, further enhancing the quality of the pool. Of those loans at the lower end of the coverage spectrum (<1.25x), 168 out of 171 loans including all 45 of the loans with <1x coverage are repayment mortgages, reflecting that the interest portion of the contractual monthly payment is lower than the actual payment amount, and therefore for those loans the interest coverage ratio is higher. Coventry's origination criteria when these loans were made required all loans to pass a stressed interest coverage test whereby the monthly rental income had to be at least 125% of the monthly interest amount at a stressed mortgage rate of at least 5%.

**Cornhill No.2 Portfolio (The Mortgage Lender - TML)**

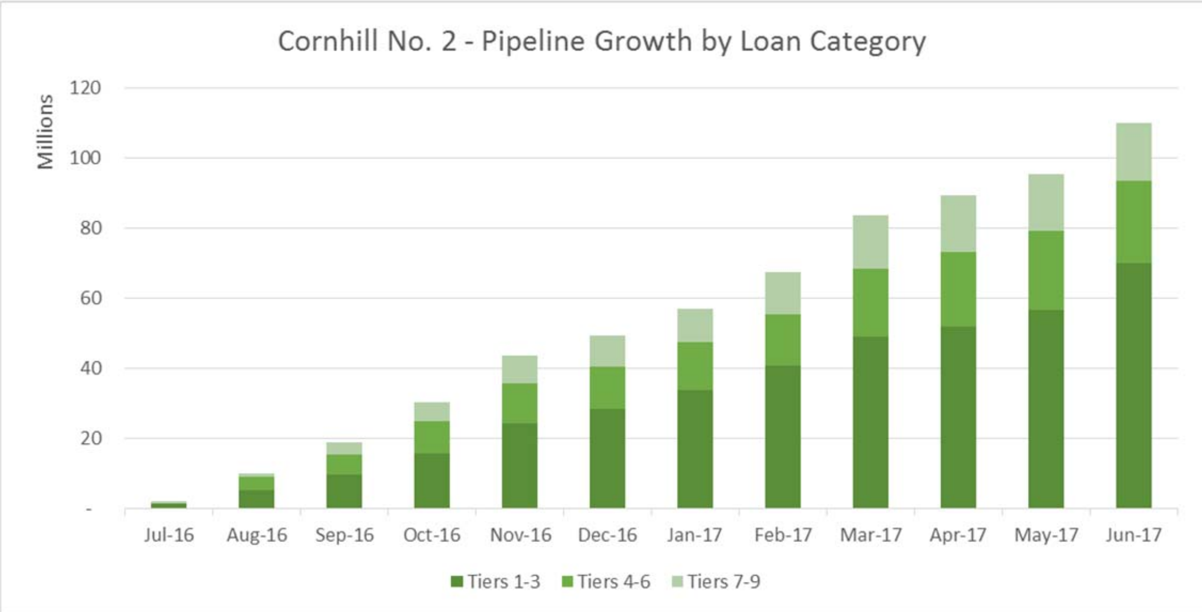
**Origination Progress**
The Mortgage Lender (TML) began offering mortgage loans in July 2016, with the first completions occurring approximately two months later. Whilst initial growth was in line with expectations, the acceleration of origination that had been initially anticipated has not been realised as expected and is discussed further in the Portfolio Manager's Report.

At 30 June 2017, completions and the mortgage application pipeline totalled 561 loans with a value of c. £109m, meaning an average loan size of c. £196k.

## PORTFOLIO MANAGER’S REPORT Continued

for the year ended 30 June 2017

**Cornhill No.2 Portfolio (The Mortgage Lender - TML) (continued)**
**Origination Progress (continued)**
TML currently originates loans graded by quality into tiers numbering from 1 (highest) to 9 (lowest). These tiers are the further grouped into 3 categories, 1-3, 4-6 and 7-9, where borrowers in each category share similar characteristics, but are differentiated by credit score. The quality of the portfolio has exceeded expectations, with a greater proportion of lending and applications seen in the highest quality credit category compared to the middle, category, with the lower category generally in line, and slowly falling as a proportion of overall lending. This is also borne out by the current arrears experience, with no loans having experienced arrears to date.



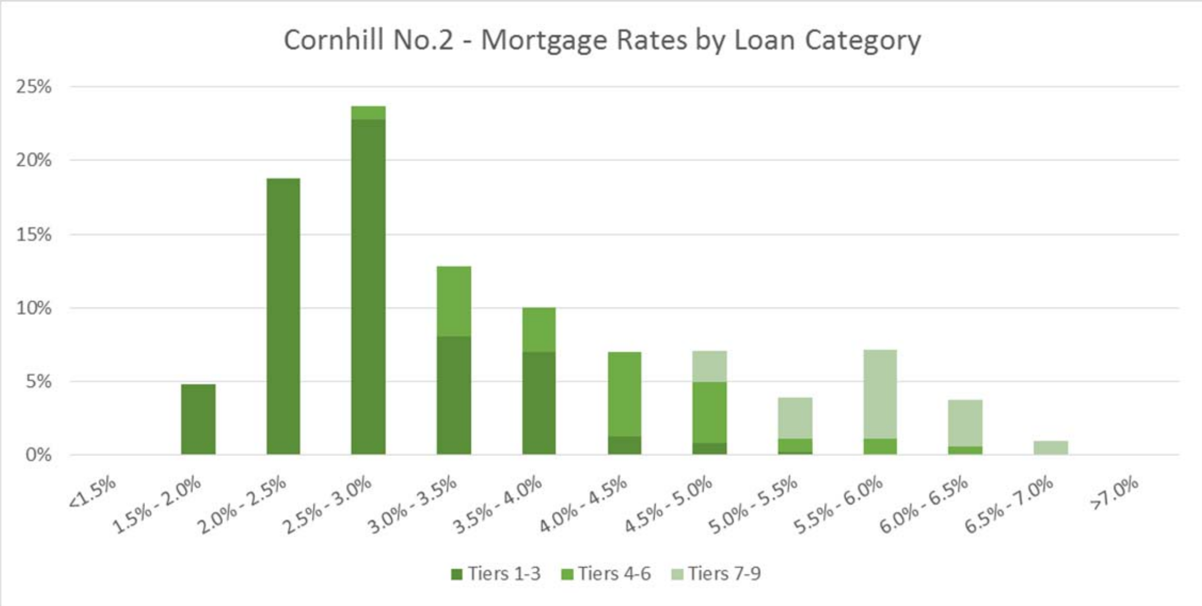

### Key Performance Indicators

**Mortgage Rates**
Due to the “risk-priced” nature of loans there is a wide spread of mortgage rates across the portfolio. However, as noted above, the portfolio has a high concentration of loans in the higher credit quality categories and therefore the majority of loans are concentrated in the 2% - 4% range, with a weighted average interest rate for the whole pool at 3.51%. As might be expected of the loans from the higher risk category they generate a higher interest rate and are concentrated in the bands with an interest rate of 5% or more.

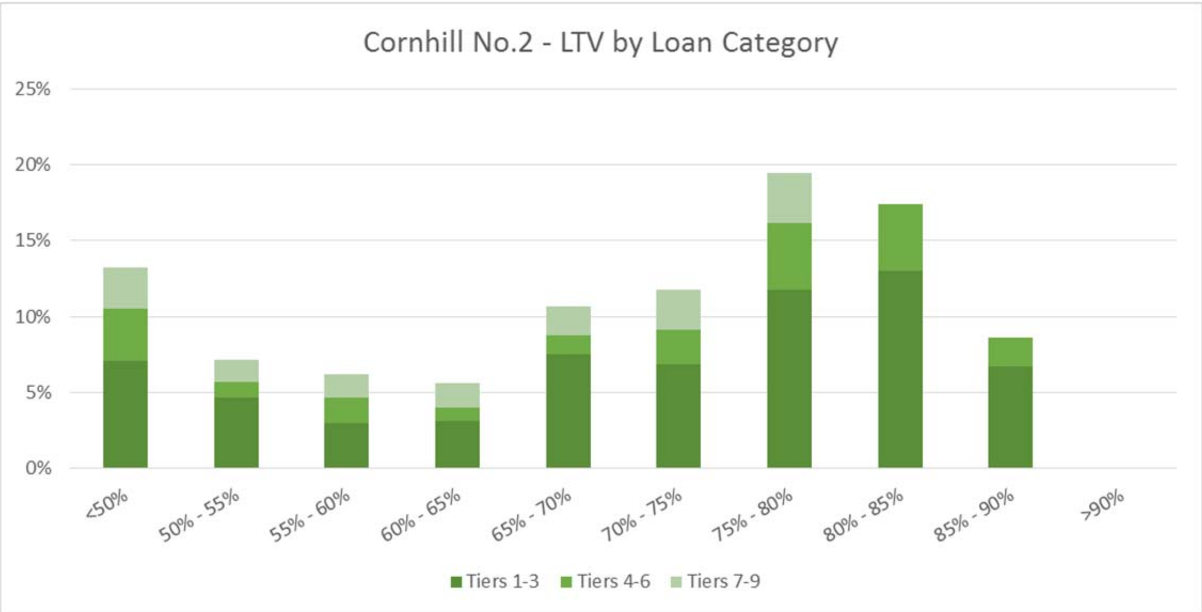
Around 62% of the loans have an initial two-year fixed rate period, 12% have a five-year initial fixed rate period and the balance (around 26%) are floating rate loans, tracking 3 month Libor. The two-year loans have a current average interest rate of 3.41%, with the five-year loans at 4.58% and the floating rate loans at 3.28%.

## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Cornhill No.2 Portfolio (The Mortgage Lender - TML) (continued)**
**Key Performance Indicators (continued)**




**Loan-to-Value**
LTV rates are broadly diverse, with a relatively high proportion of very low LTV loans (<50%) for a newly originated pool. As might be expected from a specialist lending business, whose primary target audience is borrowers who are unable to meet the lending criteria of the traditional high-street lenders, there are some higher LTV loans in the pool, although no loans are above 90% LTV, and no loans from the higher risk category are above 80% LTV.



## PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2017

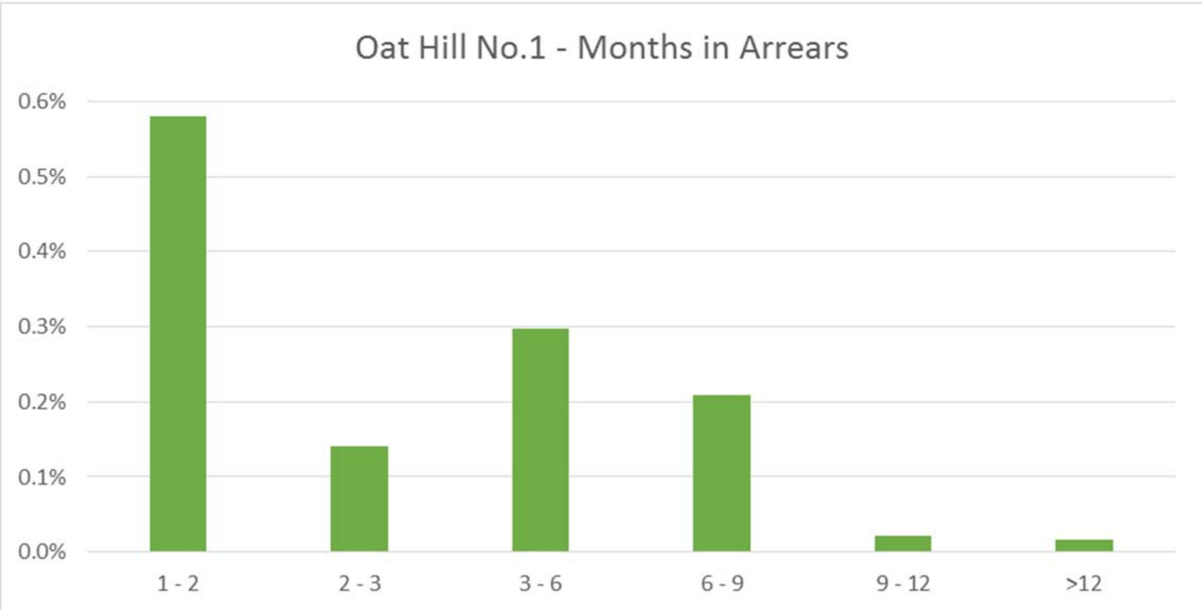
### Oat Hill No.1 Portfolio (Capital Home Loans - CHL)

**Key Performance Indicators**

The Oat Hill No.1 portfolio is a high quality pool of BTL loans originated predominantly between 2004 and 2008. As at 30 June 2017, the pool comprised 4,453 loans totalling £577m. Given the time they were originated, any initial short term fixed rate periods have long since expired and all the loans pay a floating rate of interest, with almost all of them linked to the Bank of England base rate.

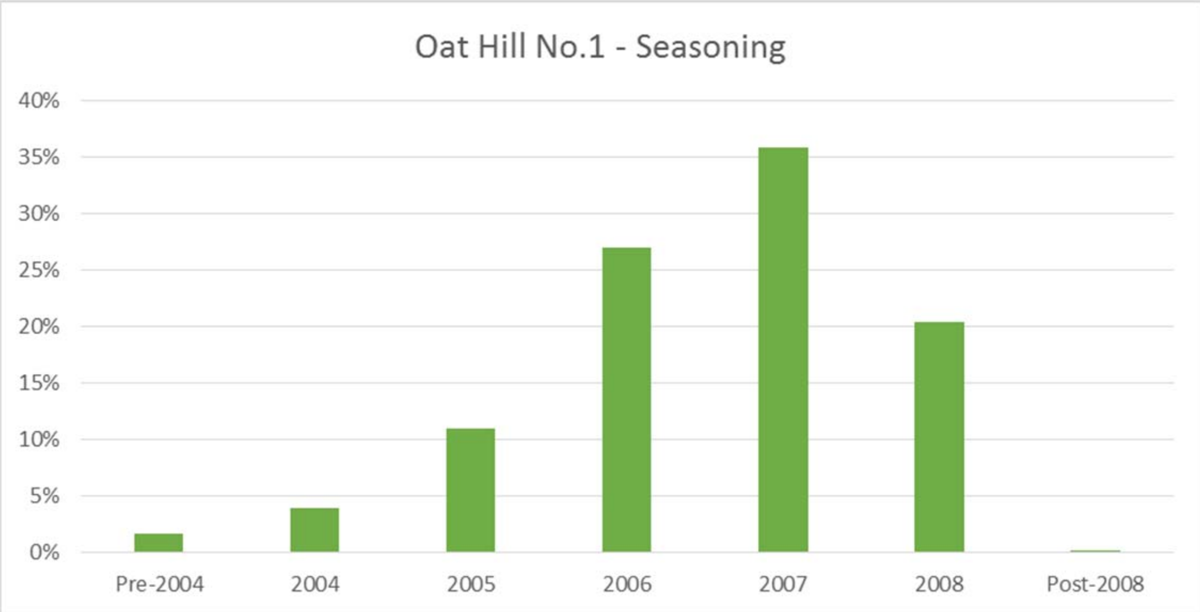
**Arrears**

The Oat Hill No.1 portfolio is currently the only pool that contains any arrears, although this is not particularly surprising given the average age of the loans is 10.4 years. However, the level of arrears still remains low, is consistent with other portfolios originated by the same lender and has been stable since the portfolio was acquired. Currently, 98.8% of the portfolio has no arrears at all, and just 0.56% of the portfolio has arrears of three months or more.



## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Oat Hill No.1 Portfolio (Capital Home Loans - CHL) (continued)**
**Arrears (continued)**
As can be seen in the graph below, the vast majority of loans were originated in the period between 2004 and 2008. Whilst some of the later loans may still be suffering some latent effects of house price falls following the financial crisis, these will be offset by embedded property price gains prior to the crisis on the earlier loans. Typically, the highly mature nature of the loan portfolio would indicate a significant vested interest by the borrowers in making payments against the properties and this is borne out by the low level of arrears.




**Geographic Dispersion**
The distribution of properties in this pool is much more diversified than those in the Malt Hill No.1 pool, again partially due to the seasoning and the different property market drivers in the mid-2000s. The pool contains no Scottish loans but does have some loans from Northern Ireland and the lower proportion of loans in London and the South East naturally translates to the more diversified distribution, although house prices in other areas have not performed as well as those in London in particular.

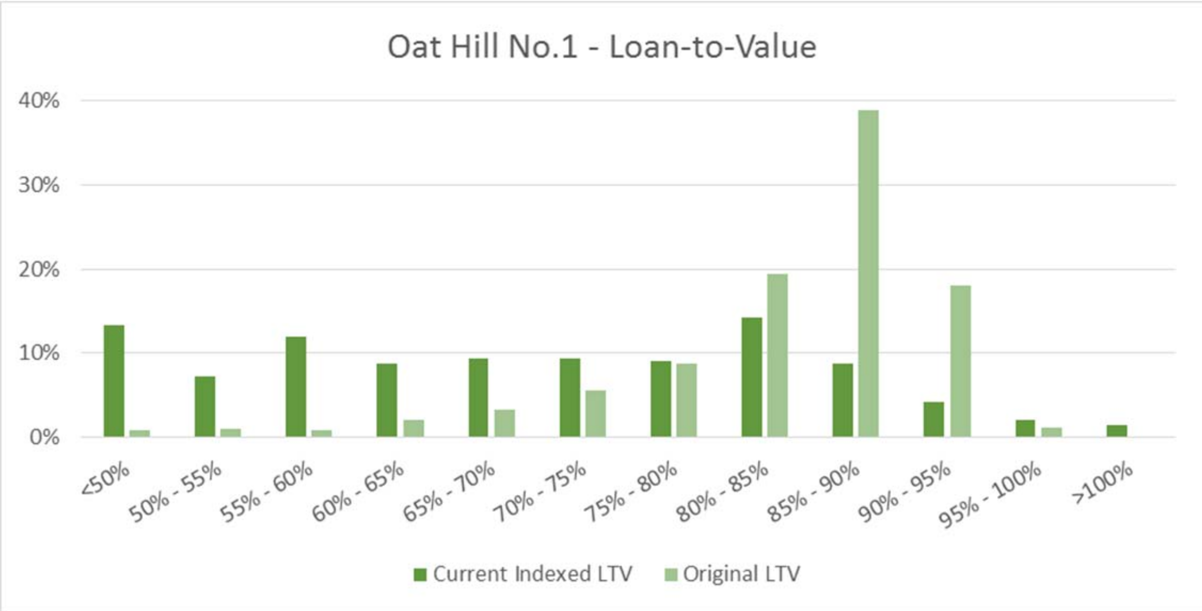
| Region | % |
|---|---|
| South West England | 6.96% |
| South East England | 17.87% |
| Greater London | 22.33% |
| East of England | 2.54% |
| East Midlands | 5.27% |
| West Midlands | 5.94% |
| North West England | 16.22% |
| Yorkshire and the Humber | 9.75% |
| North East England | 4.65% |
| Northern Ireland | 5.18% |
| Wales | 3.30% |

## PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2017

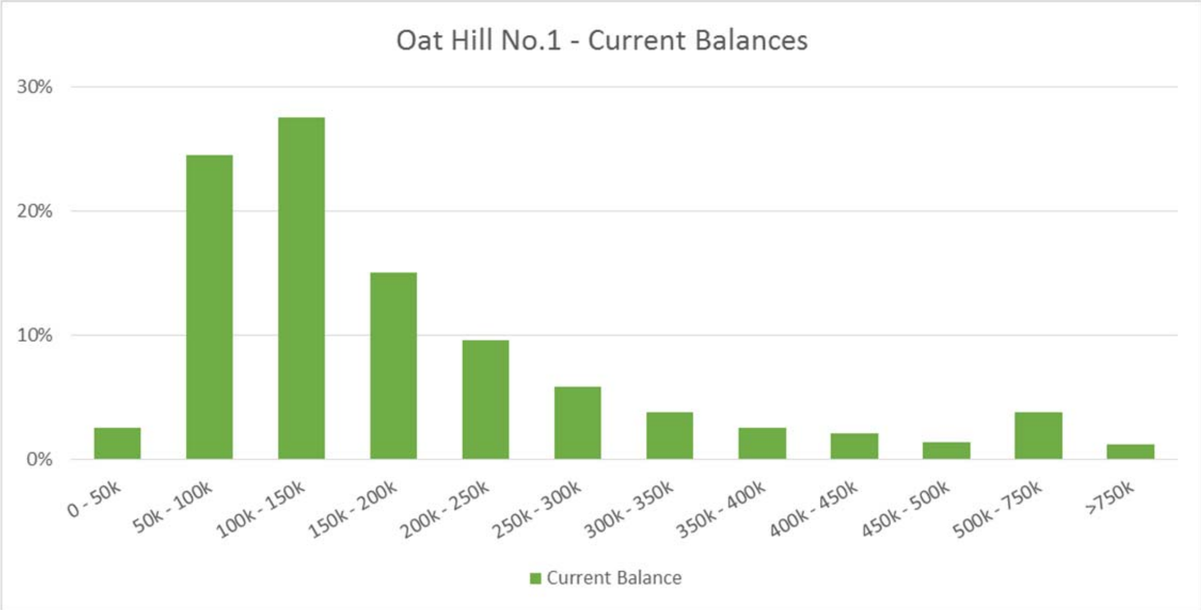
**Oat Hill No.1 Portfolio (Capital Home Loans - CHL) (continued)**
**Loan-to-Value**

Again, given the age of the pool, the portfolio contains a wide spread of loans across the LTV band spectrum, and is very evenly balanced, especially in the bands between 50% and 80%. The weighted average LTV is 69.1%. Whilst there is a very small proportion of higher LTV loans, which are typically either loans where previous arrears have been capitalised or where there have been further advances, it is notable that most of the loans that had a higher original LTV have migrated to the lower bands. Some of this will be due to house price rises in London and the South East, but, as detailed above, the pool has a wide geographic dispersion and those areas which haven't seen the same level of post-crisis property price appreciation are also well represented. Again, as previously noted, the older loans in the pool will have benefited from pre-crisis house price appreciation.



## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Oat Hill No.1 Portfolio (Capital Home Loans - CHL) (continued)**
**Current Balances**
Overall the loan balances in the pool are relatively low, with the majority clustered in a very reasonable £50k to £250k band, and with an average balance of slightly under £130k. Once again this demonstrates the mature nature and relatively low default risk of the pool.




**Rental Coverage**
From a risk management perspective, a notable statistic of the portfolio is the Debt Service Coverage Ratio (note that a small proportion of the loans in the pool – around 6% – are owner occupied loans and so these are excluded from the DSCR figures).

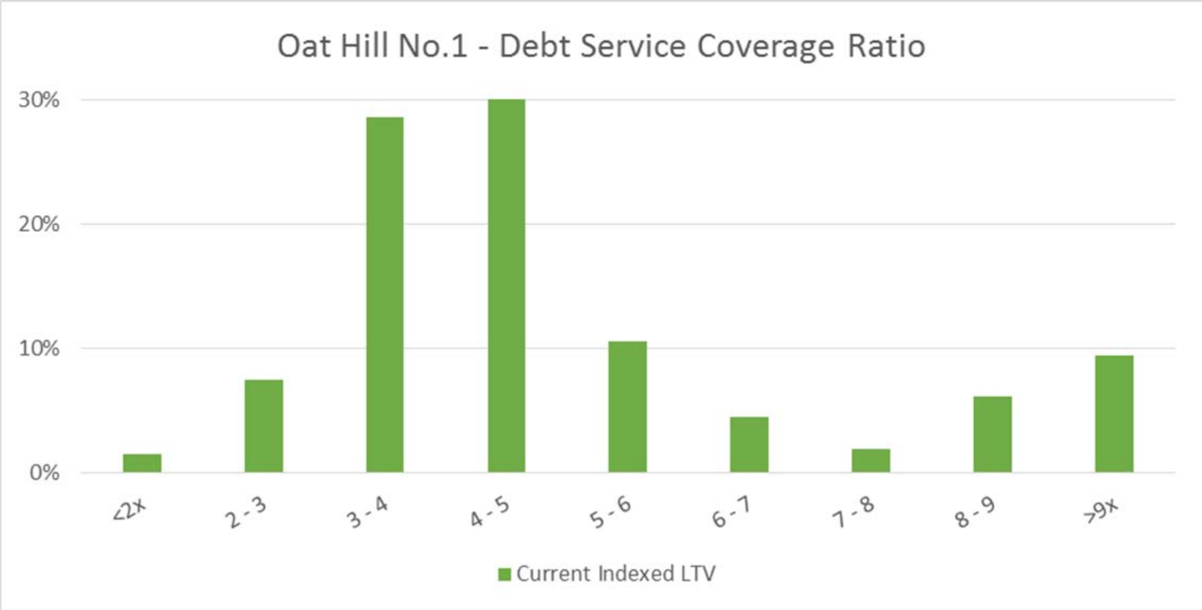
With interest rates having fallen by such a large amount since these loans were originated, and with all the loans now paying a floating rate, the monthly interest payments are far lower than the rental income on the properties. Virtually no loans have a DSCR less than 2x, a large majority are in the 3x to 5x coverage range and over 30% have coverage more than 5x.

If interest rates were to rise then some of this buffer would be eroded, but it should also be borne in mind that these coverage levels do not take into account any rises in rents during the time since origination. According to the Office for National Statistics, rents in England have in fact risen by 24% in the average time since origination, giving even further comfort.

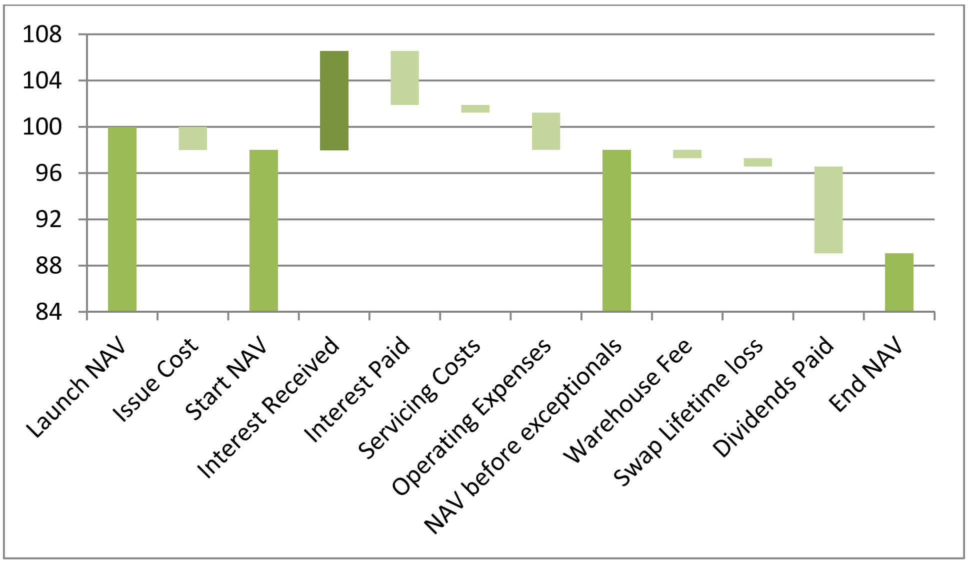
In addition, should interest rates begin to rise then we would expect to see an increasing number of borrowers begin to refinance their loans into a new fixed rate product to lock in their payments in a rising rate environment. This would result in early prepayments of those loans which would flow through to the portfolio at the securitisation refinancing dates, enhancing returns for the Company by crystallising the value of the discount paid for those loans earlier than expected.

## PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2017

**Oat Hill No.1 Portfolio (Capital Home Loans - CHL) (continued)**
**Rental Coverage (continued)**




**Portfolio Performance Review**




The above chart illustrates how the NAV of the Company has evolved since launch. After issue costs, the NAV started at a base of 98 pence per share in July 2015. The table below shows the major contributors to the performance of the NAV since that time. The longer time taken for the portfolio to become fully invested and the increase in the dividend to 6p per annum in the second year of operation have been the major drivers of NAV performance, along with the 0.7p fair value movement in the swap valuation, which due to the resets of the original two-year loans in the Coventry portfolio (approximately 80% of the pool) has largely expired. With the change to hedge accounting from July 2017, the 0.7p will be the only future contribution to swap fair value movements and will naturally unwind over the subsequent three years as the remaining 20% of the loans in the Coventry portfolio had an initial five year term.

# PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2017

**Portfolio Performance Review (continued)**

| NAV inception to end June-2017 | |
|---|---|
| **Start NAV** | **98.0** |
| Net Interest | 4.2 |
| Dividends paid | -7.5 |
| Costs (Servicing, Operating, Warehouse) | -4.6 |
| Swap MTM | -0.7 |
| **Company NAV** | **89.4** |

Whilst the NAV has continued to fall as dividends have been paid from capital, the completion of the CHL portfolio purchase in late February and subsequent securitisation in late June have been accretive to revenue. Due to the vintage of the CHL loans, the running yield on the loans is low at 1.56% and therefore the running income from these loans is also low. However the loans were purchased at a significant discount and the "pull-to-par" effect of this discount, whilst only realised at the securitisation refinance dates, is accounted for on an amortised cost basis and therefore accrues to the monthly NAV calculation.

**Proposed Changes**

At the end of June, TwentyFour hosted a webinar for investors along with a number of investor meetings where some proposals were made for potential changes to the Company's terms. Specifically TwentyFour announced that it would be making a proposal to reduce its management fee in recognition of the longer than anticipated time taken to fully invest the Company's initial capital, which as Stated in the Chairman's Statement has taken effect from the current financial year ending 30 June 2018.

**Market and Investment Outlook**

With a proportion of capital returned following the launch of Oat Hill No.1, the Portfolio Manager is actively seeking further investment opportunities in order to minimise any cash drag. The amount of available capital would allow for the purchase of a smaller portfolio and provides an excellent starting point to initiate conversations. Regardless, the intention is to identify and secure any opportunities before proceeding and should that opportunity prove larger, then to explore the possibility of raising additional capital as required.

The RMBS and primary funding market backdrop and technicals remain strong over the short term despite the slowdown in both the mortgage and housing markets. We remain positive but cautious on the outlook as we continue to discuss further opportunities.

**TwentyFour Asset Management LLP**
**18 October 2017**

## PORTFOLIO OF INVESTMENTS
As at 30 June 2017

| Portfolio Summary as at 30 Jun 2017 | Malt Hill No. 1 Plc | Cornhill No. 2 Limited | Oat Hill No. 1 Plc |
|---|---|---|---|
| Originator | Coventry Building Society | The Mortgage Lender | Capital Home Loans |
| Outstanding Balance | £270m | £109m* | £577m |
| Number Accounts | 1,554 | 559* | 4,453 |
| Average Mortgage Size | £177k | £196k | £130k |
| WA Current Indexed LTV | 63.8% | 66.6% | 69.1% |
| WA Interest Rate | 3.24% | 3.54% | 1.54% |
| WA Remaining Term (mth) | 225 | 297 | 149 |
| WA Seasoning (mth) | 23 | 3 | 125 |
| 3mth + Arrears (% balance) | 0.00% | 0.00% | 0.56% |

* includes completions and pipeline

## BOARD MEMBERS

Biographical details of the Directors are as follows:

**Christopher Waldron (Chairman) - Independent Non-Executive Director – Guernsey resident**
Mr Waldron is the Chairman of Ranger Direct Lending Fund Plc and a director of a number of listed companies, including Crystal Amber Fund Limited and JZ Capital Partners Limited. He has over 30 years' experience as an investment manager, specialising in fixed income, hedging strategies and alternative investment mandates and until 2013 was Chief Executive of the Edmond de Rothschild Group in the Channel Islands. Prior to joining the Edmond de Rothschild Group in 1999, Mr Waldron held investment management positions with Bank of Bermuda, the Jardine Matheson Group and Fortis. Mr Waldron is also a member of the States of Guernsey's Policy and Resources Investment and Bond Sub-Committee and a Fellow of the Chartered Institute of Securities and Investment. Mr Waldron was appointed to the Board on 10 June 2015.

**Richard Burrows - Senior Independent Non-Executive Director - UK resident**
Mr Burrows works as Head of Treasury for Bank of China, London Branch following a role as Senior Regulatory Policy Adviser to Bank of China UK Ltd. He previously worked as a Capital and Liquidity Risk Consultant at Grant Thornton and before that at the Co-operative Bank plc, taking the role of Chief of Staff to the CEO appointed to lead the process of recapitalisation. Before Co-operative Bank plc Mr Burrows worked in the Technical Specialist Prudential Risk Division – Liquidity and ALM of the Financial Services Authority and led the on-site review of BIPRU firms' Supervisory Liquidity Review Process and subsequent panel submission to agree Individual Liquidity Guidance. In 2009 – 2010, before joining the Financial Services Authority Mr Burrows worked at Northern Rock plc as Assistant Director, Marketing and Liquidity Risk as the firm prepared for and completed its formal split of the balance sheet into core banking and non-core assets. From 1994 to 2008, Mr Burrows was Director, Head of Funding at Citi Alternative Investments and was responsible for efficient funding via debt issuance from Euro and US domestic programmes and hedging of all market risk via derivatives. Mr Burrows was appointed to the Board on 12 June 2015.

**Paul Le Page (Audit Committee Chairman) - Independent Non-Executive Director- Guernsey resident**
Mr Le Page is a director of Man Fund Management Guernsey Limited, Man Group Japan Limited and FRM Investment Management Limited which are subsidiaries of Man Group Plc. He is responsible for managing hedge fund portfolios, and is a director of a number of FRM and GLG funds. Mr Le Page is currently the Audit Committee Chairman for Bluefield Solar Income Fund Limited and was formerly the Audit Committee Chairman for Cazenove Absolute Equity Limited and Thames River Multi Hedge PCC Limited. He has extensive knowledge of, and experience in, the fund management and the hedge fund industry. Prior to joining FRM, he was an Associate Director at Collins Stewart Asset Management from January 1999 to July 2005, where he was responsible for managing the firm's hedge fund portfolios and reviewing fund managers. He joined Collins Stewart in January 1999 where he completed his MBA in July 1999. He originally qualified as a Chartered Electrical Engineer after a 12-year career in industrial research and development, latterly as the Research and Development Director for Dynex Technologies (Guernsey) Limited, having graduated from University College London in Electrical and Electronic Engineering in 1987. Mr Le Page was appointed to the Board on 10 June 2015.

**Helen Green - Independent Non-Executive Director - Guernsey resident**
Mrs Green is a chartered accountant and has been employed by Saffery Champness, a top 20 firm of chartered accountants, since 1984. She qualified as a chartered accountant in 1987 and became a partner in the London office in 1997. Since 2000 she has been based in the Guernsey office where she is client liaison director responsible for trust and company administration. Mrs Green serves as a Non-Executive Director on the boards of a number of companies in various jurisdictions, including Aberdeen Emerging Markets Investment Company Limited, Landore Resources Limited, John Laing Infrastructure Fund Limited, City Natural Resources High Yield Trust plc and Acorn Income Fund Limited, of which she is Chairman. Mrs Green was appointed to the Board on 16 June 2016.

## DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGES

**The following summarises the Directors' directorships in other public listed companies**

| Company Name | Stock Exchange |
|---|---|
| **Christopher Waldron (Chairman)** | |
| Crystal Amber Fund Limited | AIM |
| JZ Capital Partners Limited | London |
| Ranger Direct Lending Fund PLC | London |
| **Richard Burrows** | |
| None | |
| **Paul Le Page** | |
| Bluefield Solar Income Fund Limited | London |
| **Helen Green** | |
| Aberdeen Emerging Markets Investment Company | London |
| Acorn Income Fund Limited | Channel Islands and London |
| City Natural Resources High Yield Trust PLC | London |
| John Laing Infrastructure Fund Limited | London |
| Landore Resources Limited | AIM |

# DIRECTORS' REPORT

The Directors present their Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2017.

**Business Review**

**The Company**
The Company was incorporated with limited liability in Guernsey, as a closed-ended investment company on 10 June 2015. The Company's shares were admitted to trading on the Specialist Fund Segment on 7 July 2015.

**Discount/Premium Management Policy**
The Board of Directors monitors and has a policy to manage the level of the share price discount/premium to NAV. See information set out in note 18.

**Shareholder Information**
Shareholder information is set out in the Summary Information on page 3.

**Going Concern**
As a Specialist Fund Segment entity, the Company has voluntarily chosen to comply with the full requirements of Premium Listing rules and as such applies the AIC Code and applicable regulations. Under this code, the Directors are required to satisfy themselves that it is reasonable to assume that the Company is a going concern and to identify any material uncertainties to the Company's ability to continue as a going concern for at least 12 months from the date of approving the consolidated financial statements.

Having reviewed the Company's current portfolio and pipeline of investment transactions the Board of Directors believe that it is appropriate to adopt a going concern basis in preparing the Audited Consolidated Financial Statements given the Company's holdings of cash and cash equivalents and the income deriving from those investments, meaning the Company has adequate financial resources to meet its liabilities as they fall due over a period of 12 months from the approval of the consolidated financial statements.

**Results**
The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 59. The Company declared dividends of £15,000,000 in respect of the year ended 30 June 2017, a breakdown of which can be found in note 22.

Dividends paid with respect to any period comprise a significant majority of net income for the Company. The Board expects that dividends will constitute the principal element of the return to holders of Ordinary Shares. The dividends for the year have, as anticipated, been mostly paid out of capital of the Company as the portfolio was not fully invested during the financial year.

Signed on behalf of the Board of Directors on 18 October 2017 by:

| | |
|---|---|
| **Christopher Waldron** | **Paul Le Page** |
| **Chairman** | **Director** |

# STRATEGIC REPORT

### Investment Objective

The Company's investment objective is to provide Shareholders with access to stable income returns through the application of relatively conservative levels of leverage to portfolios of UK mortgages.

### Key Performance Indicators ("KPIs")

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. Below are the main KPIs which have been identified by the Board for determining the progress of the Company:

- Net Asset Value

The Company's net asset value has declined from 98p per share at launch to 89.36p at the year end. This decline in NAV is largely attributable to the mark to market valuation of the portfolio's interest rate swap hedge, servicing and warehouse costs, and total dividend payments of 7.5p per share, which have been mostly funded from capital during the portfolio investment phase. The Directors have agreed a plan with the Portfolio Manager to restore the capital value of the Company and would expect the Company's NAV to grow over time if the plan is successful.

- Discount/Premium

The Company has traded at an average premium of 6.1% to NAV for its second year which the Directors regard as a pleasing result in the context of volatility within the Investment Companies Sector.

- Ongoing Charges

The Company's ongoing charges ratio has increased to 2.18%. The Company reports a consolidated view of the charges incurred at all levels of its structure and effectively shows all of the underlying investment portfolio costs in addition to its own costs and those of the Acquiring Entity. The costs of the parent company, UK Mortgages Limited, remained approximately static at 1.07% of NAV because the variable management fee makes up the majority of the Company's costs. This cost is expected to decrease in the next financial year as the management fee has reduced from 0.75% to 0.6% with effect from July 1 2017. The costs of servicing the underlying mortgage portfolio have increased from 0.3% to 0.9% which is in line with the increase in the size of the investment portfolio. The Portfolio Manager incorporates servicing costs into their portfolio models and projections and the directors expect that these costs will rise in an approximately linear manner with the size of the underlying mortgage portfolio.

- Quarterly Dividends

The Company declared four interim dividends of 1.5p in relation to the year in accordance with the prospectus target. In the year to date, the Company's dividends were mostly uncovered by income. Over the expected life of the Company, the Directors expect dividends to be covered by income received.

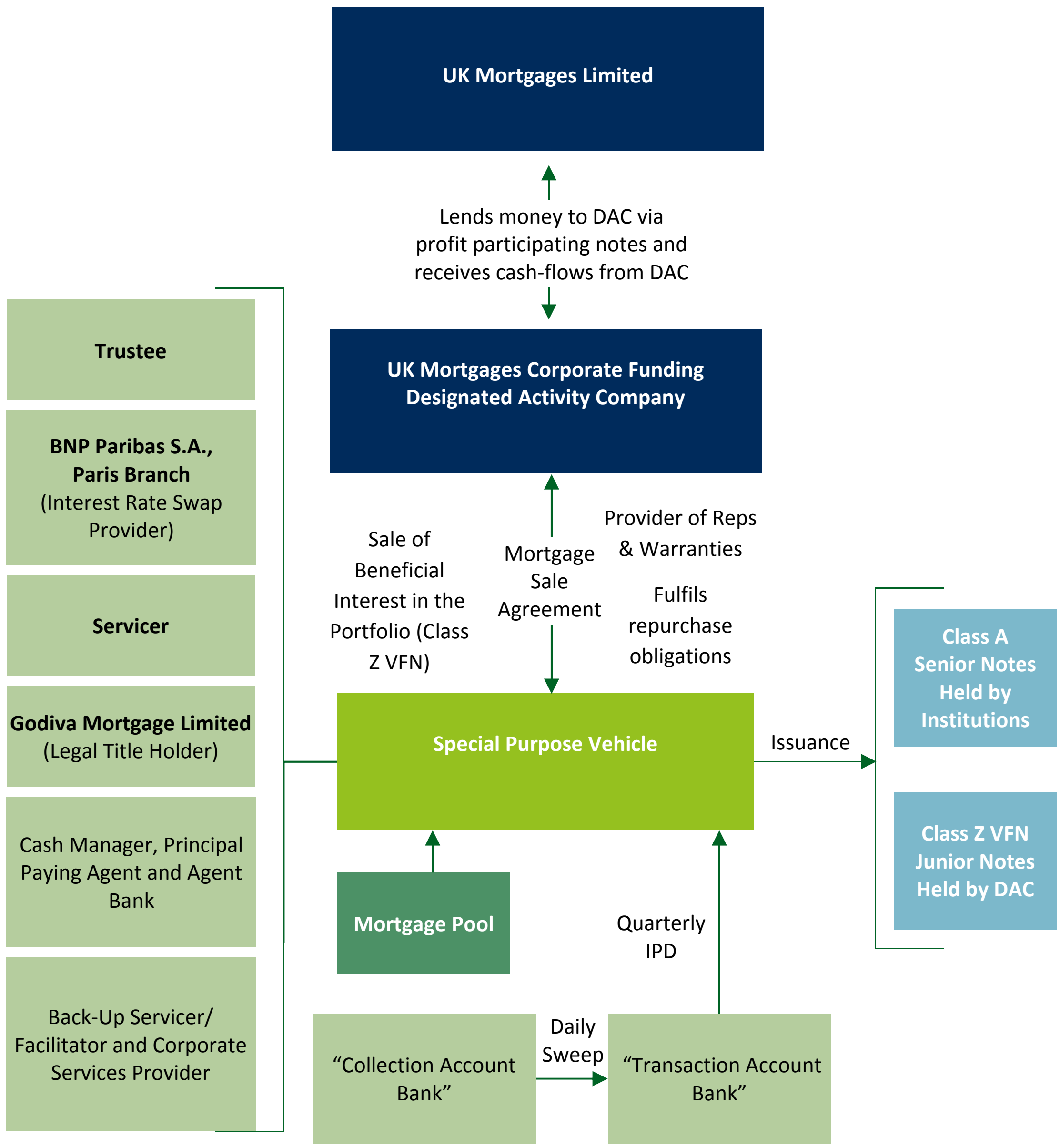
- Investment Level

At 30 June 2017, the Company had approximately £86m of cash and near cash working capital compared with £194m at 30 June 2016. As the Company now has a substantially leveraged exposure to mortgage investments the Directors now monitor uncommitted cash levels and intend to keep average working capital balances below £10m over the life of the Company. The year end working capital balance was in excess of the target level due to the repayment of loans in the Malt Hill portfolio and the successful securitisation of Oat Hill which released additional working capital at year end.

## STRATEGIC REPORT Continued

**Company Structure**
The Company pursues its investment objective via DAC. DAC is a SPV, incorporated in Ireland under the Section 110 regime, which was established prior to the Company acquiring the first mortgage portfolio from the Coventry Building Society. DAC is responsible for acquiring and leveraging mortgage portfolios in Warehouse SPVs. These portfolios are subsequently securitised by selling each warehoused portfolio to an Issuer SPV. The Issuer SPV issues tranches of securities, the junior tranche of which is then retained by DAC to provide it with leveraged exposure to the underlying mortgages. DAC is currently required under European law to retain a minimum of 5% of each securitisation that it originates. Whilst this retention limit would enable DAC to attain leverage by a factor of up to twenty times, the directors of DAC limit the size of any senior financing in order to meet the requirements for an AAA rating on issuance.

The structure of a typical securitisation issued by the Company is shown below. During the year a new Warehouse SPV, Cornhill Mortgages No.2 Limited, was incorporated to hold loans originated by TML prior to securitisation. A further securitisation, Oat Hill No.1 Plc, was issued by DAC following the purchase of the CHL portfolio in February. This portfolio had been held by Cornhill Mortgages No.3 Limited prior to the securitisation.



## STRATEGIC REPORT Continued

**Company Structure (continued)**

This company structure, whilst complex, comprises a standard Guernsey domiciled company listed on the Specialist Fund Segment with a portfolio of mortgage securitisation structures underneath and the addition of DAC based in the EU. DAC owns the junior class notes from each Issuer SPV and collects cash-flows for the Company. These cash flows are paid to the Company in the form of coupons on Eurobonds, called Profit Participating Notes that DAC sells to the Company. DAC qualifies for tax relief on the income that it distributes which ensures that the Company's investors are only taxed on their dividend income once, upon payment by the Company.

A number of relevant additional explanation points are set out below for the Malt Hill No.1 Plc and Oat Hill No. 1 Plc transactions:

- The Servicer, typically the originator of the underlying mortgages, is responsible for servicing the loans i.e. managing the underlying borrowers and collecting the mortgage payments. It is also common practice for third party servicers to be employed if the originator is incapable of servicing the loans that they have originated. A back up servicer is retained by the Issuer SPV to ensure continuity of cash flows in the event of failure of the main servicer.
- The Trustee provides monthly reports on the mortgage pool and ensures that the Issuer SPV complies with its investment policy.
- The Issuer SPV is a public Securitisation Vehicle modelled on Intex (ticker: MLTH1, OATH1), ABSNet and Bloomberg (ticker: MALTH Mtge, OATH Mtge).
- Loan level data for Malt Hill and Oat Hill is published on EuroABS on a monthly basis
- The Administrator is responsible for the administration and financial reporting of the securitisation.
- The Class A notes are the most senior part of the Issuer SPV securitisation structure and receive regular floating rate distributions and priority in the repayment of loan principal.
- The Class Z notes receive any residual income and capital distributions after payments have been made to the Class A note holders and the operating fees of Issuer SPV have been met.

**Investment Process**

Detailed "bottom-up" credit analysis is carried out on each mortgage portfolio before it is considered as an investment. This analysis includes a comprehensive review of the underlying mortgages in the transaction, including, but not limited to, a review of the original loan application documents and approval decisions, understanding the origination criteria of the lender and the credit approval process, reviewing the product suite within the mortgage pool and expected ongoing drivers of performance.

In the case of a forward flow portfolio purchase arrangement such as TML, the Portfolio Manager will initially, and in conjunction with the third party lender and originator, agree and if necessary design the product, lending and underwriting criteria for the pool to be originated. During the origination period, any modifications to such criteria that may be required due to changes in the market (e.g. interest rates) will be monitored and agreed in a similar tripartite manner.

Each mortgage portfolio is also analysed through a Rating Agency model to assess portfolio risks and create an initial funding structure. A bespoke cash flow model is then developed to create base case and stress test portfolio yield scenarios. The Portfolio Manager will also work with the mortgage Servicers to establish the servicing standards appropriate for each mortgage portfolio and monitor performance against these on an ongoing basis.

## STRATEGIC REPORT Continued

### Investment Process (continued)

The funding process for each transaction is an integral part of the Company's investment proposition. The Portfolio Manager will establish a committed funding line with a third-party lender to allow for the purchase of each mortgage portfolio. The funding is expected to be a short/medium term facility utilised by the relevant Warehouse SPV which will ultimately be replaced by senior notes issued to securitisation investors via the relevant Issuer SPV. As appointed by the Portfolio Manager, a lead investment bank will then arrange the structuring, ratings and marketing of the senior notes of the relevant Issuer SPV to provide long-term funding of the mortgage portfolio.

The Portfolio Manager will monitor performance of the mortgage portfolios. Individual investment performance will be compared to the initial investment hypothesis, and models will be updated to reflect differences in predicted and actual performance. Differences will be analysed and discussed with the relevant Servicers. The Portfolio Manager will continue to monitor the UK residential mortgage market and the UK securitisation market for comparative performance and to validate the ongoing investment thesis. The Portfolio Manager provides updates to the Directors of the Company in relation to the performance of the Company's investments.

### Key Service Providers

The Company does not have any employees and as such the Board delegates responsibility for its day to day operations to a number of key service providers. The activities of each service provider are closely monitored by the Board and they are required to report to the Board at each quarterly meeting. In addition, a formal review of the performance of each service provider is carried out once a year.

### Portfolio Manager

The Portfolio Manager provides a comprehensive range of portfolio management, securitisation and investment monitoring services as detailed above. In exchange for these services a fee is payable, quarterly in arrears at a rate of 0.75% per annum of the lower of NAV, which is calculated monthly on the last business day of each month, or market capitalisation. This fee was reduced to 0.60% per annum with effect from 1 July 2017 until further notice to compensate shareholders for a slower than expected investment of their capital. For additional information refer to note 16.

The Board considers that the interests of Shareholders, as a whole, are best served by the ongoing appointment of the Portfolio Manager to achieve the Company's investment objectives.

### Alternative Investment Fund Manager ("AIFM")

Alternative investment fund management services are provided by Maitland Institutional Services Limited ("Maitland"). In consideration for the services provided by the AIFM under the AIFM Agreement, the AIFM is entitled to receive from the Company a minimum fee of £20,000 per annum and fees payable quarterly in arrears at a rate of 0.07% of the NAV of the Company below £50 million, 0.05% on Net Assets between £50 million and £100 million and 0.03% on Net Assets in excess of £100 million. For additional information refer to note 17.

### Custodian and Depositary

Custodian and Depositary services are provided by Northern Trust (Guernsey) Limited. The terms of the Depositary agreement allow Northern Trust (Guernsey) Limited to receive depositary fees at a rate of 0.03% of the NAV of the Company as at the last business day of the month subject to a minimum £40,000 per annum payable monthly in arrears. The Depositary will charge an additional fee of £20,000 for performing due diligence on each service provider/administrator employed. The Depositary is also entitled to a custody fee at a rate of 0.01% of the NAV of the Company as at the last business day of the month subject to a minimum of £8,500 per annum. For additional information refer to note 17.

# STRATEGIC REPORT Continued

**Directors**
The Directors of the Company during the year and at the date of this report are set out on page 22.

**Directors' and Other Interests**
As at 30 June 2017, Directors of the Company held the following Ordinary Shares beneficially:

| | No. of shares 30.06.17 | No. of shares 30.06.16 |
|---|---|---|
| Christopher Waldron | 5,000 | 5,000 |
| Richard Burrows | 5,000 | 5,000 |
| Paul Le Page | 20,000 | 20,000 |
| Helen Green | - | - |

Signed on behalf of the Board of Directors on 18 October 2017 by:

**Christopher Waldron**
**Chairman**

**Paul Le Page**
**Director**

# CORPORATE GOVERNANCE REPORT

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for an investment company in order to comply with the principles of the UK Code issued by the Financial Reporting Council (the "FRC"). The Company is also required to comply with the GFSC Code.

The UK Listing Authority requires all UK premium listing companies to disclose how they have complied with the provisions of the UK Code. As a company with a Specialist Fund Segment listing, the Company has voluntarily chosen to report against the UK Code. This Corporate Governance Statement, together with the Going Concern Statement, Viability Statement and the Statement of Directors' Responsibilities, indicate how the Company has complied with the principles of good governance of the UK Code and its requirements on Internal Control.

The Company is a member of the AIC and by complying with the AIC Code is deemed to comply with both the UK Code and the GFSC Code.

The Board has considered the principles and recommendations of the AIC Code, by reference to the guidance notes provided by the AIC Guide, and consider that reporting against these will provide appropriate information to Shareholders. To ensure ongoing compliance with these principles the Board reviews a report from the Corporate Secretary at each quarterly meeting, identifying how the Company is in compliance and identifying any changes that might be necessary.

The AIC Code and the AIC Guide are available on the AIC's website, www.theaic.co.uk. The UK Code is available in the FRC's website, www.frc.org.uk.

Throughout the year ended 30 June 2017, the Company has complied with the recommendations of the AIC Code and thus the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:
- the role of the Chief Executive;
- Executive Directors' remuneration;
- annually assessing the need for an internal audit function;
- the whistle blowing policy;
- Remuneration Committee; and
- Nomination Committee.

For the reasons set out in the AIC Guide, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company. The Company has therefore not reported further in respect of these provisions. The Directors are all non-executive and the Company does not have employees, hence no Chief Executive or whistle-blowing policy is required for the Company. The key service-providers all have whistleblowing policies in place. The Board is satisfied that any relevant issues can be properly considered by the Board.

Details of compliance with the AIC Code are noted below and in the succeeding pages. There have been no other instances of non-compliance, other than those noted above.

## CORPORATE GOVERNANCE REPORT Continued

The Company has adopted a policy that the composition of the Board of Directors, which is required by the Company's Articles comprise of at least two persons, that at all times a majority of the Directors are independent of the Portfolio Manager and any company in the same group as the Portfolio Manager; the Chairman of the Board of Directors is free from any conflicts of interest and is independent of the Portfolio Manager and of any company in the same group as the Portfolio Manager; and that no more than one director, partner, employee or professional adviser to the Portfolio Manager or any company in the same group as the Portfolio Manager may be a director of the Company at any one time.

The Company's risk exposure and the effectiveness of its risk management and Internal Control systems are reviewed by the Audit Committee at its meetings and annually by the Board. The Board believes that the Company has adequate and effective systems in place to identify, mitigate and manage the risks to which it is exposed.

### Role, Composition and Independence of the Board

The Board is the Company's governing body and has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of Shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring protection of investors' interests. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- risk assessment and management including reporting compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Board's responsibilities for the Annual Report and Audited Consolidated Financial Statements are set out in the Statement of Directors' Responsibilities on pages 39 to 40.

The Board currently consists of four non-executive Directors, all of whom are considered to be independent of the Portfolio Manager and as prescribed by the Listing Rules.

### Chairman

The Chairman is Christopher Waldron. The Chairman of the Board must be independent for the purposes of Chapter 15 of the Listing Rules. Christopher Waldron is considered independent because he:

- has no current or historical employment with the Portfolio Manager; and
- has no current directorships in any other investment funds managed by the Portfolio Manager.

### Senior Independent Director

Mr Richard Burrows is the Senior Independent Director of the Company. Mr Burrows has extensive knowledge of the UK banking sector and mortgage lending and co-ordinates the annual reviews of key service providers in his capacity as Chairman of the Management Engagement Committee.

### Chairman of the Audit Committee

Mr Paul Le Page is the Chairman of the Audit Committee. Mr Le Page was selected for this role as he has over thirteen years' experience in this capacity with a detailed knowledge of financial risk management and alternative asset classes.

## CORPORATE GOVERNANCE REPORT Continued

**Role, Composition and Independence of the Board (continued)**
**Chairman of the Risk Committee**
Mr Richard Burrows is the Chairman of the Risk Committee. Mr Burrows was selected for this role as he has extensive knowledge of securitisations.

Biographies for all the Directors can be found on page 22.

**Composition of the Board**
The Board considers that it has the appropriate balance of diverse skills and experience, independence and knowledge of the Company and the wider sector, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making. The Chairman is responsible for leadership of the Board and ensuring its effectiveness.

**Financial Reporting**
The Board needs to ensure that the Annual Report and Audited Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. In seeking to achieve this, the Directors have set out the Company's investment objective and policy and have explained how the Board and its delegated committees operate and how the Directors review the risk environment within which the Company operates and set appropriate risk controls.

Furthermore, throughout the Annual Report and Audited Consolidated Financial Statements the Board has sought to provide further information to enable Shareholders to have a fair, balanced and understandable view.

The Board has contractually delegated responsibility for the management of its investment portfolio, the arrangement of custodial and depositary services and the provision of accounting and company secretarial services.

The Board is responsible for the appointment and monitoring of all service providers to the Company.

The Board recognises the importance of diversity, including gender, and has given careful consideration to the recommendations of both of the Davies and the Hampton-Alexander reviews. The Board operates a policy that aims to promote diversity in its composition. Under this policy, director appointments are evaluated against the existing balance of skills, knowledge and experience on the Board, with directors asked to be mindful of diversity and inclusiveness considerations when examining nominations to the Board. During its annual evaluation, the Board considered diversity as part of the review of its performance and effectiveness.

The Board has 25% female representation which is slightly in excess of the 23% level achieved by FTSE 350 companies in the Hampton-Alexander review when it was published in 2016. Our female representation is however below the increased 33% target set for calendar year 2020. Whilst the Board is fully aware of this revised target, the structure of the Board is determined by the need to achieve an appropriate balance of skills and experience whilst minimising operational costs in what is a relatively small company.

**Directors' Attendance at Meetings**
The Board holds quarterly Board meetings to discuss general management, structure, finance, corporate governance, marketing, risk management, compliance, asset allocation and gearing, contracts and performance. The quarterly Board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance, compliance and controls but these meetings are also supplemented by communication and discussions throughout the year.

## CORPORATE GOVERNANCE REPORT Continued

**Directors' Attendance at Meetings (continued)**

A representative of the Portfolio Manager, AIFM, Administrator, Custodian and Depositary and Corporate Broker attends each Board meeting either in person or by telephone thus enabling the Board to fully discuss and review the Company's operation and performance. Each Director has direct access to the Portfolio Manager and Company Secretary and may, at the expense of the Company, seek independent professional advice on any matter.

The Audit Committee meets at least twice a year, the Management Engagement Committee meets at least once a year and dividend meetings are held quarterly. In addition, ad hoc meetings of the Board to review specific items between the regular scheduled quarterly meetings can be arranged. Between formal meetings there is regular contact with the Portfolio Manager, AIFM, Administrator, Custodian and Depositary and the Corporate Broker.

Attendance at the Board and committee meetings during the year was as follows:

| | Board Meetings | | Audit Committee Meetings | | Risk Committee | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| Christopher Waldron | 4 | 4 | 4 | 4 | 2 | 2 |
| Richard Burrows | 4 | 4 | 4 | 4 | 2 | 2 |
| Paul Le Page | 4 | 4 | 4 | 4 | 2 | 2 |
| Helen Green | 4 | 4 | 4 | 4 | 2 | 2 |

| | Management Engagement Committee Meetings | | Ad hoc Meetings | |
|---|---|---|---|---|
| | Held | Attended | Held | Attended |
| Christopher Waldron | 1 | 1 | 6 | 4 |
| Richard Burrows | 1 | 1 | 6 | 4 |
| Paul Le Page | 1 | 1 | 6 | 6 |
| Helen Green | 1 | 1 | 6 | 4 |

At the Board meetings, the Directors review the management of the Company's assets and liabilities and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs.

The Board has a breadth of experience relevant to the Company and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new director appointment to the Board, consideration will be given as to whether an induction process is appropriate.

**Board Performance and Training**

The Directors consider how the Board functions as a whole taking balance of skills, experience and length of service into consideration and also reviews the individual performance of its members on an annual basis.

## CORPORATE GOVERNANCE REPORT Continued

**Board Performance and Training (continued)**
To enable this evaluation to take place, the Company Secretary will circulate a detailed questionnaire plus a separate questionnaire for the evaluation of the Chairman. The questionnaires, once completed, are returned to the Company Secretary who collates responses, prepares a summary and discusses the Board evaluation with the Chairman prior to circulation to the remaining Board members. The performance of the Chairman is evaluated by the other Directors. The board also conducts a 360 degree approach to their performance evaluation and requests that service providers each complete board performance questionnaires which are reviewed to understand whether there are any aspects such as communication which require improvement. On occasions, the Board may seek to employ an independent third party to conduct a review of the Board.

These evaluations consider the balance of skills, experience, independence and knowledge of the Board, its diversity and how the Board works together as a unit as well as other factors relevant to its effectiveness.

Training is an on-going matter as is discussion on the overall strategy of the Company and the Board has met with the Portfolio Manager at their offices and elsewhere during the year to discuss these matters. Such meetings will be an on-going occurrence. The Portfolio Manager organised a workshop for all service providers and Directors in advance of the year end, for further information on the Company's structure and deals in progress.

**Retirement by Rotation**
Under the terms of their appointment, each Director is required to retire by rotation as detailed in the Directors' report.

**Board Committees and their Activities**
**Terms of Reference**
All Terms of Reference of the Board's Committees are available from the Administrator upon request.

**Management Engagement Committee**
The Board has established a Management Engagement Committee with formal duties and responsibilities. The Management Engagement Committee commits to meeting at least once a year and comprises the entire Board with Richard Burrows appointed as Chairman. These duties and responsibilities include the regular review of the performance of and contractual arrangements with the Portfolio Manager and other service providers and the preparation of the Committee's annual opinion as to the Portfolio Manager's services.

At its meeting held on 31 March 2017, the Management Engagement Committee carried out its review of the performance and capabilities of the Portfolio Manager and other service providers and the Committee recommended that the continued appointment of TwentyFour Asset Management LLP as Portfolio Manager was in the best interests of Shareholders. The Committee also recommended that the appointment of all of the Company's current service providers should continue.

**Audit Committee**
An Audit Committee has been established consisting of all Directors with Paul Le Page appointed as Chairman. The terms of reference of the Audit Committee provide that the committee shall be responsible, amongst other things, for reviewing the Consolidated Interim and Annual Financial Statements, considering the appointment and independence of external auditor, discussing with the external auditor the scope of the audit and reviewing the Company's compliance with the AIC Code.

Further details on the Audit Committee can be found in the Audit Committee Report on page 43.

## CORPORATE GOVERNANCE REPORT Continued

**Risk Committee**
The Board has established a Risk Committee with formal duties and responsibilities. The Risk Committee commits to meeting at least twice a year and comprises the entire Board with Richard Burrows appointed as Chairman. These duties and responsibilities include the review of the effectiveness of the Company's internal control policies and systems and to report to Audit Committee.

**Nomination Committee**
There is no separate Nomination Committee. The Board as a whole fulfils the function of a Nomination Committee. Whilst the Directors take the lead in the appointment of new Directors, any proposal for a new Director will be discussed and approved by all members of the Board.

**Remuneration Committee**
In view of its non-executive and independent nature, the Board considers that it is not appropriate for there to be a separate Remuneration Committee as anticipated by the AIC Code. The Board as a whole fulfils the functions of the Remuneration Committee, although the Board has included a separate Directors' Remuneration Report on pages 41 to 42.

**International Tax Reporting**
For purposes of the US Foreign Account Tax Compliance Act, the Company registered with the US Internal Revenue Service ("IRS") as a Guernsey reporting FFI, received a Global Intermediary Identification Number (IV8HG9.99999.SL.831), and can be found on the IRS FFI list.

The CRS is a global standard for the automatic exchange of financial account information developed by the Organisation for Economic Co-operation and Development ("OECD"), which has been adopted in Guernsey and which came into effect on 1 January 2016. The CRS has replaced the inter-governmental agreement between the UK and Guernsey to improve international tax compliance that had previously applied in respect of 2014 and 2015.

The Board has taken the necessary actions to ensure that the Company is compliant with Guernsey regulations and guidance in this regard.

**Strategy**
Having purchased and securitised two existing pools of Buy-to-Let mortgages and committed to a customised residential mortgage origination programme the Company is preparing to securitise this third portfolio whilst the lender originates mortgages under the supervision of the Portfolio Manager. This parallel work-flow should enable a rapid securitisation process on completion of the loan portfolio. In addition, following the release of capital from the Oat Hill securitisation, the Company is seeking to commit the available capital to its next transaction, with a view to achieving a covered 6p dividend as soon as practically possible.

**Internal Controls**
The Board is ultimately responsible for establishing and maintaining the Company's system of internal financial and operating control and for maintaining and reviewing its effectiveness. The Company's risk matrix is the basis of the Company's risk management process in establishing the Company's system of internal financial and reporting control. The risk matrix is prepared and maintained by the Board and identifies the risks facing the Company and then collectively assesses the likelihood of each risk, the impact of those risks and the strength of the controls operating over each risk. The Board uses the product of risk and impact scores to determine key areas requiring their attention. The system of internal financial and operating control is designed to manage rather than to eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

These controls aim to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information for publication is reliable. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

# CORPORATE GOVERNANCE REPORT Continued

**Internal Controls**
This process has been in place for the year under review and up to the date of approval of this Annual Report and Audited Consolidated Financial Statements and is reviewed by the Board and is in accordance with the AIC Code.

The AIC Code requires Directors to conduct at least annually a review of the Company's system of internal financial and operating control, covering all controls, including financial, operational, compliance and risk management. The Board has evaluated the systems of Internal Controls of the Company. In particular, it has prepared a process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed. The Board also considers whether the appointment of an internal auditor is required and has determined that there is no requirement for a direct internal audit function.

The Board has delegated the day to day responsibilities for the management of the Company's investment portfolio, the provision of depositary services and administration, registrar and corporate secretarial functions including the independent calculation of the Company's NAV and the production of the Annual Report and Audited Consolidated Financial Statements which are independently audited.

Formal contractual agreements have been put in place between the Company and providers of these services. Even though the Board has delegated responsibility for these functions, it retains accountability for these functions and is responsible for the systems of Internal Control. At each quarterly Board meeting, compliance reports are provided by the Administrator, Company Secretary, Portfolio Manager, AIFM and Depositary. The Board also receives confirmation from the Administrator of its accreditation under its Service Organisation Controls 1 report.

The Company's risk exposure and the effectiveness of its risk management and Internal Control systems are reviewed by the Audit Committee and the Risk Committee at meetings and annually by the Board. The Board believes that the Company has adequate and effective systems in place to identify, mitigate and manage the risks to which it is exposed. Principal Risks and Uncertainties are set out below.

**Principal Risks and Uncertainties**
In respect to the Company's system of Internal Controls and reviewing its effectiveness, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; and
- have reviewed the effectiveness of the risk management and Internal Control systems including material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

## CORPORATE GOVERNANCE REPORT Continued

**Principal Risks and Uncertainties (continued)**

When considering the total return of the Company, the Board takes account of the risk which has been taken in order to achieve that return. The Board looks at the principal risks and uncertainties, an overview of which is set out below:

- The risk of failing to securitise purchased mortgage portfolios. If there is any significant delay in the ability to securitise a portfolio, the interest rates payable by the Warehouse SPV to third party providers of loan finance are likely to increase over time leading to falls in the value and/or yield of the instruments held by the Acquiring Entity, the value of which will impact the yield of the Company. In addition, the underlying portfolios will need to be re-financed periodically in order to maintain optimal levels of leverage. Failure to re-securitise at a suitable rate and/or reinvest the proceeds of subsequent securitisations may also adversely impact the yield of the Company. The risk has been mitigated by the Portfolio Manager hiring additional team members with extensive securitisation experience and by being engaged with the UK RMBS market and service providers. This enables the Company to optimise the timing of its securitisation transactions.

- The risk of the Company's hedges being deemed ineffective following the adoption of hedge accounting which will be applied from 1 July 2017. With the adoption of hedge accounting, the Company will be required to assess the historic and future effectiveness of the company's hedges. Should the hedges be deemed ineffective the company's net asset value would need to be adjusted to reflect the hedge ineffectiveness which could result in changes to the Company's NAV.

- The risk of the Company being unable to pay target dividends to investors due to a shortfall in income received on the portfolio. The risk is controlled by the Board receiving quarterly reports from the Portfolio Manager, in conjunction with the Company's Administrator, which monitor the Company's cash flow and income position, as well as the macro economic environment, paying particular attention to movements in the house price index, unemployment levels and interest rates as well as loan level and portfolio attributes such as prepayment rates and the possibility and timing of defaults, all of which could reduce cash flow to the Company. The Company can also pay dividends from capital with Board agreement.

- The risk of the Company being unable to invest or reinvest capital repaid from mortgage loans to purchase additional mortgage portfolios in a timely manner. The risk is mitigated by the Board monitoring the portfolio pipeline in regular communication with the Portfolio Manager, and in quarterly and ad hoc Board meetings.

- The risk of investor dissatisfaction leading to a weaker share price, causing the Company to trade at a discount to its underlying asset value and a potential lack of market liquidity. The risk is mitigated by regular updates to Shareholders from the Portfolio Manager, and regular shareholder engagement both directly and via the company's brokers.

**Viability Statement**

The UK Code requires the boards of investment companies such as the Company to review the longer term strategic risks faced by the business. The Board has conducted a robust assessment of the principal risks faced by the Company and has conducted detailed reviews of the Company's underlying mortgage portfolio models for the period up to and including May 2020. The models subject the underlying mortgage pools to a variety of stresses including elevated levels of default, reduced levels of recovery following default, financing stresses and delays in loan origination.

Having considered the above, and with reference to the Company's current position and prospects, and assuming that in the event of a dividend trigger (see note 19) a continuation vote would be passed, the Board is of the opinion that the Company is viable until at least May 2020 and in all scenarios, would be able to meet its liabilities as they fall due.

# CORPORATE GOVERNANCE REPORT Continued

### Shareholder Engagement

The Board welcomes Shareholders' views and places great importance on communication with its Shareholders. Shareholders wishing to meet the Chairman and other Board members should contact the Company's Administrator.

The Portfolio Manager and Corporate Broker maintain a regular dialogue with institutional Shareholders, the feedback from which is reported to the Board.

In addition, the Company maintains a website which contains comprehensive information, including links to regulatory announcements, share price information, financial reports, investment objective and investor contacts (www.ukmortgagesltd.com).

The Company's Annual General Meeting ("AGM") provides the Shareholders a forum to meet and discuss issues of the Company and as well as the opportunity to vote on the resolutions as specified in the Notice of AGM. The Notice of the AGM and the results are released to the London Stock Exchange in the form of an announcement. Board members will be available to respond to Shareholders' questions at the AGM.

### Significant Shareholdings

As at 18 October 2017, the Company has been notified of the following interests in the share capital of the Company exceeding 3% of the issued share capital:

| | Number of shares | Percentage of issued share capital |
|---|---|---|
| Investec Wealth & Investment | 27,492,407 | 10.99% |
| Twentyfour Asset Management * | 25,118,649 | 10.05% |
| Seven Investment Management | 19,496,689 | 7.80% |
| Coutts & Co | 18,181,250 | 7.27% |
| Old Mutual Global Investors | 14,855,777 | 5.94% |
| Fidelity International | 13,209,817 | 5.28% |
| City Financial Investment Company | 11,304,984 | 4.52% |
| | | |
| *Twentyfour Asset Management acting as investment manager of: | | |
| St. James's Place Strategic Income Unit Trust | 15,668,000 | 6.27% |
| MI TwentyFour Investment Funds – Asset Backed Income Fund | 9,450,649 | 3.78% |

The percentage of Ordinary Shares shown above represents the ownership of voting rights at the year end.

It is the responsibility of the shareholders to notify the Company of any change to their shareholdings when it reaches 3% of shares in issue and any change which moves up or down through any whole percentage figures above 3%.

### Disclosure of Information to Auditor

The Directors who held office at the date of approval of these Audited Consolidated Financial Statements 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 they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Independent Auditor

A resolution for the reappointment of PricewaterhouseCoopers CI LLP ("PwC") will be proposed at the forthcoming AGM.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Audited Consolidated Financial Statements in accordance with International Financial Reporting Standards and applicable Guernsey law and regulations.

Guernsey Company law requires the Directors to prepare Audited Consolidated Financial Statements for each financial year. Under that law, they have elected to prepare the Audited Consolidated Financial Statements in accordance with IFRS and the Companies (Guernsey) Law, 2008.

The Audited Consolidated Financial Statements are required to 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 Audited Consolidated Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Audited Consolidated Financial Statements; and
- prepare the Audited Consolidated Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with these requirements in preparing the Audited Consolidated Financial Statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Audited Consolidated Financial Statements have been properly prepared in accordance with the International Financial Reporting Standards and the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

So far as the Directors are 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 or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for the oversight of the maintenance and integrity of the corporate and financial information in relation to the Company website; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES Continued

The Directors confirm that to the best of their knowledge:

(a) The Annual Report and Audited Consolidated Financial Statements have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as at and for the year ended 30 June 2017.

(b) The Annual Report which includes information detailed in the Chairman's Statement, Portfolio Manager's Report, Directors' Report, Strategic Report, Corporate Governance Report, Directors' Remuneration Report, Audit Committee Report, Alternative Investment Fund Manager's Report and Depositary Statement provides a fair review of the information required by:

(i) DTR 4.1.8 and DTR 4.1.9 of the Disclosure and Transparency Rules, being a fair review of the Company business and a description of the principal risks and uncertainties facing the Company; and

(ii) DTR 4.1.11 of the Disclosure and Transparency Rules, being an indication of important events that have occurred since the end of the financial year and the likely future development of the Company.

In the opinion of the Board, the Annual Report and Audited Consolidated Financial Statements taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's position and performance, business model and strategy.

Signed on behalf of the Board of Directors on 18 October 2017 by:

**Christopher Waldron**
**Chairman**

**Paul Le Page**
**Director**

# DIRECTORS' REMUNERATION REPORT

The Directors' remuneration report has been prepared by the Directors in accordance with the UK Code as issued by the UK Listing Authority. An ordinary resolution for the approval of the annual remuneration report will be put to the Shareholders at the AGM to be held on 4 December 2017.

**Remuneration Policy**
The Company's policy in regard to Directors' remuneration is to ensure that the Company maintains a competitive fee structure in order to recruit, retain and motivate non-executive Directors of excellent quality in the overall interests of Shareholders.

The Directors do not consider it necessary for the Company to establish a separate Remuneration Committee. All of the matters recommended by the UK Code that would be delegated to such a committee are considered by the Board as a whole.

It is the responsibility of the Board as a whole to determine and approve the Directors' remuneration, following a recommendation from the Chairman who will have given the matter proper consideration, having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. The Chairman's remuneration is decided separately and is approved by the Board as a whole.

No element of the Directors' remuneration is performance related, nor does any Director have any entitlement to pensions, share options or any long term incentive plans from the Company.

**Remuneration**
The Directors of the Company are remunerated for their services at such a rate as the Directors determine provided that the aggregate amount of such fees does not exceed £200,000 per annum.

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Director personally. No Directors have been paid additional remuneration by the Company outside their normal Director's fees and expenses.

In the year ended 30 June 2017, the Directors received the following remuneration in the form of Director's fees:

| | Directors' Fees for the Year £ |
|---|---|
| Christopher Waldron | 30,000 |
| Richard Burrows | 25,000 |
| Paul Le Page | 27,500 |
| Helen Green | 25,000 |
| Total | 107,500 |

The remuneration policy set out above is the one applied for the year ended 30 June 2017 and will be reviewed at the next meeting of the Management Engagement Committee. At the last meeting of the committee in June 2017, it was proposed that the Directors' fees should be increased to reflect market levels of remuneration and the significant time commitment required by the chairman and the sub-committee chairmen. The Committee recommended that with effect from 1 July 2017, the base Director fee level should be £30,000 per annum with an additional £10,000 per annum for the chairman and £5,000 per annum for the chairmen of the audit and risk committees.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

## DIRECTORS' REMUNERATION REPORT Continued

The Directors were appointed as non-executive Directors by letters issued prior to their appointment. Each Director's appointment letter provides that, upon the termination of his/her appointment, that he/she must resign in writing and all records remain the property of the Company. The Directors' appointments can be terminated in accordance with the Articles of Incorporation and without compensation.

There is no notice period specified in the articles for the removal of Directors. The articles provide that the office of Director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from board meetings for six months or more; (c) unanimous written request of the other Directors; and (d) an ordinary resolution of the Company.

Under the terms of their appointment, given its non-executive nature, the Board does not think it is appropriate for the Directors to be appointed for a specified term of no more than 3 years as recommended by the AIC Code. The Directors are also required to seek re-election if they have already served for more than nine years. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a Director of the Company becoming effective. All Directors have agreed to stand for re-election annually.

The amounts payable to Directors shown in note 16 are for services as non-executive Directors.

No Director has a service contract with the Company, nor are any such contracts proposed.

Signed on behalf of the Board of Directors on 18 October 2017 by:

**Christopher Waldron**
**Chairman**

**Paul Le Page**
**Director**

# AUDIT COMMITTEE REPORT

On the following pages, we present the Audit Committee's Report, setting out the responsibilities of the Audit Committee and its key activities for the year ended 30 June 2017.

The Audit Committee has scrutinised the appropriateness of the Company's system of risk management and Internal Controls, the robustness and integrity of the Company's financial reporting, along with the external audit process. The Committee has devoted time to ensuring that controls and processes have been properly established, documented and implemented.

During the course of the year, the information that the Audit Committee has received has been timely and clear and has enabled the Committee to discharge its duties effectively.

The Audit Committee supports the aims of the UK Code and best practice recommendations of other corporate governance organisations such as the AIC, and believes that reporting against the AIC Code allows the Audit Committee to further strengthen its role as a key independent oversight Committee.

### Role and Responsibilities

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. This includes reviewing the financial reports and other financial information and any significant financial judgement contained therein, before publication.

In addition, the Audit Committee reviews the systems of internal financial and operating controls on a continuing basis that the Administrator, Portfolio Manager, AIFM, Custodian and Depositary and the Board have established with respect to finance, accounting, risk management, compliance, fraud and audit. The Audit Committee also reviews the accounting and financial reporting processes, along with reviewing the roles, independence and effectiveness of the external auditor. The AIC Code requires the Audit Committee to annually consider the need for internal audit function.

The ultimate responsibility for reviewing and approving the Annual Report and Audited Consolidated Financial Statements remains with the Board.

The Audit Committee's full terms of reference can be obtained by contacting the Company's Administrator.

### Risk Management and Internal Control

The Board, as a whole, considers the nature and extent of the Company's risk management framework and the risk profile that is acceptable in order to achieve the Company's strategic objectives. As a result, it is considered that the Board has fulfilled its obligations under the AIC Code.

The Audit Committee has delegated responsibility for reviewing the adequacy and effectiveness of the Company's on-going risk management systems and processes to a newly constituted Risk Committee. The system of Internal Controls, along with its design and operating effectiveness, is subject to review by the Risk Committee through reports received from the Portfolio Manager, AIFM and Custodian and Depositary, along with those from the Administrator and external auditor.

### Fraud, Bribery and Corruption

The Audit Committee has relied on the overarching requirement placed on the service providers under the relevant agreements to comply with applicable law, including anti-bribery laws. A review of the service provider policies took place at the Management Engagement Committee Meeting on 23 March 2017. The Board receives confirmation from all service providers that there has been no fraud, bribery or corruption.

## AUDIT COMMITTEE REPORT Continued

**Financial Reporting and Significant Financial Issues**
The Audit Committee assesses whether suitable accounting policies have been adopted and whether the Portfolio Manager has made appropriate estimates and judgements. The Audit Committee reviews accounting papers prepared by the Portfolio Manager and Administrator which provides details on the main financial reporting judgements.

The Audit Committee also reviews reports by the external auditor which highlight any issues with respect to the work undertaken on the audit.

The significant issues considered during the year by the Audit Committee in relation to the Annual Report and Audited Consolidated Financial Statements and how they were addressed are detailed below:

(i) Valuation of investments:
The Company's investments in mortgage loans are carried at amortised cost, have a carrying value of £841,876,173 (fair value of £881,512,233) as at 30 June 2017 and represent a substantial portion of net assets of the Company. As such this is the largest factor in relation to the consideration of the Audited Consolidated Financial Statements. These investments are valued in accordance with the Accounting Policies set out in note 2 with further details in notes 20 and 21 to the Audited Consolidated Financial Statements. The Audit Committee considered the valuation of the investments held by the Company as at 30 June 2017 to be reasonable from information provided by the Portfolio Manager, AIFM, Administrator, Custodian and Depositary on their processes for the valuation of these investments with regular reporting being provided during the year to the Board as a whole.

(ii) Income Recognition:
The Audit Committee considered the calculation of income from investments recorded in the Audited Consolidated Financial Statements as at 30 June 2017. Following the Issuer SPV securitisation just before the start of the financial year, the Company's auditor agreed with the Audit Committee that going forward a detailed review of the cash-flow management process would be required to ensure that income from the underlying mortgages was being fully captured and distributed to holders of the Class A and Class Z notes in the correct proportions. Consistent with the prior audit, the auditor carried out testing of the year end accruals and reported to the Committee in this respect. The Audit Committee reviewed the Portfolio Manager's processes for income recognition and found it to be reasonable based on the explanations provided and information obtained from the Portfolio Manager. The Audit Committee was therefore satisfied that income was appropriately stated in all material aspects in the Audited Consolidated Financial Statements.

(iii) Expense Recognition:
The Audit Committee reviewed schedules provided by the Administrator to ensure that the costs associated with the transfer of the Company's mortgage portfolio from the Warehouse SPV to the Issuer SPV for the securitisations have been fully recognised and apportioned. The Audit Committee concluded that the apportionment and expense recognition policy had been followed correctly. PwC, as part of the audit process, also verified the treatment of the expenses and were satisfied that the accounting policy had been complied with.

(iv) Taxation:
The Audit Committee agreed with PwC that it would be appropriate to review the tax status of the Acquiring Entity to confirm that it was being managed in accordance with Section 110 rules. On the basis of a review by PwC Dublin and a tax structure legal opinion from Eversheds, the committee was satisfied that the Acquiring Entity was being managed in accordance with Section 110 rules.

# AUDIT COMMITTEE REPORT Continued

**Financial Reporting and Significant Financial Issues (continued)**

Following a review of the presentations and reports from the Portfolio Manager and Administrator and consulting where necessary with the external auditor, the Audit Committee is satisfied that the Audited Consolidated Financial Statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Audit Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

At the request of the Audit Committee, the Administrator and Portfolio Manager confirmed that they were not aware of any material misstatements including matters relating to Consolidated Annual Financial Statement presentation. At the Audit Committee meeting to review the Annual Report and Audited Consolidated Financial Statements, the Audit Committee received and reviewed a report on the audit from the external auditor. On the basis of its review of this report, the Audit Committee is satisfied that the external auditor have fulfilled their responsibilities with diligence and professional scepticism. The Audit Committee advised the Board that these Audited Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable.

The Audit Committee is satisfied that the judgements made by the Portfolio Manager and Administrator are reasonable, and that appropriate disclosures have been included in the Audited Consolidated Financial Statements.

**Going concern**

The going concern consideration and disclosures can be found in the Directors' Report on page 24.

**External Auditor**

The Audit Committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor. PwC were appointed as the first auditor of the Company. During the year, the Audit Committee received and reviewed audit plans and reports from the external auditor. It is standard practice for the external auditor to meet privately with the Audit Committee without the Portfolio Manager and other service providers being present at each Audit Committee meeting.

To assess the effectiveness of the external audit process, the auditor was asked to articulate the steps that they have taken to ensure objectivity and independence, including where the auditor provides non-audit services. The Audit Committee monitors the auditor's performance, behaviour and effectiveness during the exercise of their duties, which informs the decision to recommend reappointment on an annual basis.

As a general rule, the Company does not utilise the external auditor for internal audit purposes, secondments or valuation advice. Services which are in the nature of audit, such as tax compliance, private letter rulings, accounting advice, quarterly reviews and disclosure advice are normally permitted but will be pre-approved by the Audit Committee.

**Summary of Activity during the year**

As we entered the second year of the Company's life the Audit Committee met with the Portfolio Manager and the directors of DAC to review the Company's business model for loan origination. The committee also worked with the Portfolio Manager and PwC UK LLP to oversee the implementation of hedge accounting to take effect from the start of our new financial year in July 2017. This work was necessary to ensure that the portfolio valuation would not be impacted by differences in valuation methodologies between the portfolio which is valued at amortised cost and the portfolio interest rate hedges which are valued on a mark to market basis.

# AUDIT COMMITTEE REPORT Continued

**External Auditor (continued)**

**Summary of Activity during the year (continued)**

At the end of our financial year the Committee reviewed whether it would be appropriate to split the Company's financial reporting into three segments to reflect the purchase of third party portfolios and the origination of mortgage portfolios respectively. The Committee concluded that given that the Company has three distinct sub portfolios with very different risk profiles that our shareholders would benefit from the transparency offered by disclosing the key characteristics of each sub portfolio at this stage in its life and our reporting reflects this.

The following table summarises the remuneration paid to PwC CI LLP and to other PwC member firms for audit and non-audit services for the Company in respect of the year ended 30 June 2017.

| | For the year from 01.07.2016 to 30.06.2017 | For the period from 10.06.2015 to 30.06.2016 |
|---|---|---|
| **PricewaterhouseCoopers CI LLP - Assurance work** | **£** | **£** |
| - Annual audit of the Company | 31,000 | 30,000 |
| - Annual audit of the Company's subsidiaries | 25,000 | 15,000 |
| - Interim review | 25,000 | 55,000 |
| **Other PwC member firms - Assurance work** | | |
| - Annual audit of the Company's subsidiaries | 125,523 | 50,557 |
| **PricewaterhouseCoopers CI LLP - Non assurance services** | | |
| - Reporting Accountant services on IPO of Company * | - | 86,650 |
| **Other PwC member firms - Non assurance work** | | |
| - Due diligence services ** | - | 74,974 |

*Reporting Accountant services are included in issue costs

**Due diligence services are amortised over 7.5 years

The Audit Committee reviews and authorises any non-audit related services provided by PwC to the Company. PwC currently acts as auditor to the Company, specifically the Acquiring Entity DAC and the underlying securitisation SPVs.

The Reporting Accountant fee formed part of the 2% launch costs of the Company and as such does not form part of the recurring total expense ratio. This work was undertaken before PwC was appointed as auditor.

The Interim Review fee in the financial year ending June 2016 contained a substantial element of preparatory work for the year-end financial reporting at a cost of approximately £20,000.

For any questions on the activities of the Audit Committee not addressed in the foregoing, a member of the Audit Committee will attend each AGM to respond to such questions.

The Audit Committee Report was approved by the Audit Committee on 18 October 2017 and signed on behalf by:

**Paul Le Page**
**Chairman, Audit Committee**

# ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT

Maitland Institutional Services Limited acts as the Alternative Investment Fund Manager ("AIFM") of UK Mortgages Limited ("the Company") providing portfolio management and risk management services to the Company.

The AIFM has delegated the following of its alternative investment fund management functions:

- It has delegated the portfolio management function for listed investments to TwentyFour Asset Management LLP.
- It has delegated the portfolio management function for unlisted investments to TwentyFour Asset Management LLP.

The AIFM is required by the Alternative Investment Fund Managers Directive 2011, 61/EU (the "AIFM Directive") and all applicable rules and regulations implementing the AIFM Directive in the UK (the "AIFM" Rules):

- to make the annual report available to investors and to ensure that the annual report is prepared in accordance with applicable accounting standards, the Company's articles of incorporation and the AIFM Rules and that the annual report is audited in accordance with International Standards on Auditing;
- be responsible for the proper valuation of the Company's assets, the calculation of the Company's net asset value and the publication of the Company's net asset value; and,
- to make available to the Company's shareholders, a description of all fees, charges and expenses and the amounts thereof, which have been directly or indirectly borne by them,
- ensure that the Company's shareholders have the ability to redeem their share in the capital of the Company in a manner consistent with the principle of fair treatment of investors under the AIFM Rules and in accordance with the Company's redemption policy and its obligations.

The AIFM is required to ensure that the annual report contains a report that shall include a fair and balanced review of the activities and performance of the Company, containing also a description of the principal risks and investment or economic uncertainties that the Company might face.

**AIFM Remuneration**

Under the Alternative Investment Fund Managers Directive, acting as the AIFM, Maitland Institutional Services Ltd is required to disclose how those whose actions have a material impact on the Company are remunerated.

Due to the nature of the activities conducted by Maitland Institutional Services Ltd, it has deemed itself as a lower risk firm in accordance with SYSC 19B and the remuneration code. The only employees at Maitland Institutional Services Ltd permitted to have a material impact on the risk profile of the AIF are the Board and the Head of Risk and Compliance.

The delegated Portfolio Manager, TwentyFour Asset Management LLP, is subject to regulatory requirements on remuneration that are broadly equivalent to those detailed in the Alternative Investment Fund Managers Directive, which include the Capital Requirements Directive or Markets in Financial Instruments Directive. While a portion of the remuneration paid by the Portfolio Manager is variable and based, in part, on the performance of the investment portfolio, the investment discretion of the Portfolio Manager is strictly controlled within certain pre-defined parameters as detailed in the prospectus of the Company.

Under the AIFM Directive, the AIFM is required to stipulate how much it pays to its staff, in relation to fixed and variable remuneration and how much, in relation to the Company, is firstly attributed to all staff and those that are deemed, under the directive, to have an impact on the risk profile of the Company. Maitland Institutional Services Ltd does not pay any form of variable remuneration.

## ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT Continued

| June 2017 | Number of Beneficiaries | Total remuneration paid | Fixed remuneration |
|---|---|---|---|
| Total remuneration paid by the AIFM during the year | 67 | £96,730 | £96,730 |
| Remuneration paid to employees of the AIFM who have a material impact on the risk profile of the AIF | 5 | £17,411 | £17,411 |

In so far as the AIFM is aware:

- there is no relevant audit information of which the Company's auditor or the Company's board of directors are unaware; and
- the AIFM has taken all steps that it ought to have taken to make itself aware of any relevant audit information and to establish that the auditor is aware of that information.

We hereby certify that this report is made on behalf of the AIFM, Maitland Institutional Services Limited.

R.W. Leedham
D. Jones
Directors
Maitland Institutional Services Limited
18 October 2017

# DEPOSITARY STATEMENT
for the year ended 30 June 2017

**Report of the Depositary to the Shareholders**
Northern Trust (Guernsey) Limited has been appointed as Depositary to UK Mortgages Limited (the "Company") in accordance with the requirements of Article 36 and Articles 21(7), (8) and (9) of the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (the "AIFM Directive").

We have enquired into the conduct of Maitland Institutional Services Limited (the "AIFM") and the Company for the year ended 30 June 2017, in our capacity as Depositary to the Company.

This report including the review provided below has been prepared for and solely for the Shareholders. We do not, in giving this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

Our obligations as Depositary are stipulated in the relevant provisions of the AIFM Directive and the relevant sections of Commission Delegated Regulation (EU) No 231/2013 (collectively the "AIFMD legislation").

Amongst these obligations is the requirement to enquire into the conduct of the AIFM and the Company in each annual accounting period.

Our report shall state whether, in our view, the Company has been managed in that period in accordance with the AIFMD legislation. It is the overall responsibility of the AIFM and the Company to comply with these provisions. If the AIFM, the Company or their delegates have not so complied, we as the Depositary will state why this is the case and outline the steps which we have taken to rectify the situation.

**Basis of Depositary Review**
The Depositary conducts such reviews as it, in its reasonable discretion, considers necessary in order to comply with its obligations and to ensure that, in all material respects, the Company has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the constitutional documentation and the appropriate regulations. Such reviews vary based on the type of Company, the assets in which a Company invests and the processes used, or experts required, in order to value such assets.

**Review**
In our view, the Company has been managed during the year, in all material respects:

(i) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the constitutional document; and by the AIFMD legislation; and

(ii) otherwise in accordance with the provisions of the constitutional document; and the AIFMD legislation.

For and on behalf of
Northern Trust (Guernsey) Limited
18 October 2017

# INDEPENDENT AUDITOR'S REPORT
**To the Members of UK Mortgages Limited**

**Report on the audit of the consolidated financial statements**

## Our opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of UK Mortgages Limited (the "Company") and its subsidiaries (together "the Group") as at 30 June 2017, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

## What we have audited
The Group's consolidated financial statements comprise:

- the Consolidated Statement of Financial Position as at 30 June 2017;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

## Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Our audit approach
*Overview*

## INDEPENDENT AUDITOR'S REPORT Continued
**To the Members of UK Mortgages Limited Continued**

*Materiality*

- Overall Group materiality was £5.6 million which represents 2.5% of Group net assets.

*Audit scope*

- UK Mortgages Limited is incorporated and based in Guernsey.
- The Group has a number of subsidiaries, which are based in both Ireland and the United Kingdom ("UK"), and we perform our audit of the consolidated financial statements of the Group.
- The subsidiaries were established for the purposes of acquiring, securitising and holding mortgages.
- Group audit scoping was performed based on net assets held within the Group.
- As the Group auditor we conducted our audit in Guernsey from information provided by Northern Trust International Fund Administration Services (Guernsey) Limited (the 'Administrator') to whom the board of directors has delegated the provision of certain functions. The Group engages TwentyFour Asset Management LLP (the 'Portfolio Manager') to manage its assets.
- Our component audit team performed their audit work on the relevant subsidiaries in the UK and we perform our audit of UK Mortgages Limited and the one Irish subsidiary.
- We have included in scope all subsidiaries within the Group. We have confirmed that one immaterial subsidiary was dormant and is in liquidation and thus no further audit work was performed on this entity.
- We tailored the scope of our audit taking into account the types of investments within the Group, the accounting processes and controls, and the industry in which the Group operates.

*Key audit matters*

- Valuation of mortgage loans
- Risk of fraud in revenue recognition pertaining to interest income on mortgage loans
- Errors in the priority of payments to noteholders ("waterfalls")

### *Audit scope*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

## INDEPENDENT AUDITOR'S REPORT Continued

**To the Members of UK Mortgages Limited Continued**

*Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| *Overall Group materiality* | £5.6 million |
| *How we determined it* | 2.5% of net assets |
| *Rationale for the materiality benchmark* | We believe that net assets is the most appropriate benchmark because this is the key metric of interest to investors. It is also a generally accepted measure used for companies in this industry. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £280,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT Continued

**To the Members of UK Mortgages Limited Continued**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of mortgage loans**<br>Mortgage loans, carried at £841.9 million at year end as shown under note 7 of these Consolidated Financial Statements, are measured at amortised cost and comprise three distinct portfolios of UK mortgages including buy-to-let and owner-occupied mortgages.<br><br>We note that the mortgage loans represent the most significant balance on the Consolidated Statement of Financial Position and the valuation of these loans is driven by complex models that take into account management judgement and estimation.<br><br>The models rely on the accuracy of underlying loan book data including interest rates, principal amounts, term structures and delinquency status.<br><br>Such factors mean there is a high degree of subjectivity and reliance on information accuracy in the valuation of mortgage loans and we therefore consider this to be a key area of focus for our audit. | • We assessed the accounting policy for mortgage loans for compliance with International Financial Reporting Standards and we ensured the mortgage loans have been measured in accordance with the stated accounting policy.<br>• We understood and evaluated the internal control environment in place at the Portfolio Manager and the relevant service providers to the Group in relation to the servicing and valuation of the mortgage loans.<br>• We tested the mortgage loan data , on a sample basis, by performing the following substantive audit procedures:<br>• We agreed each of the three portfolio balances at year end to the underlying loan books.<br>• We verified standing data within the mortgage loan books, such as interest rates, principal and maturity dates, to the relevant supporting documentation.<br>• We agreed cash collections / advances / redemptions to supporting documentation and bank statements.<br>• We recalculated the split of interest and principal repayments during the year and confirmed these were correctly captured in the accounting records.<br>• Title deeds were inspected to validate the existence of the underlying properties.<br>• We agreed the mortgage loan balances through to management's appointed third party valuation specialist's models. We reviewed these effective interest rate ("EIR") models and understood the methodology adopted and the key assumptions applied within each model and assessed the assumptions for reasonableness. |

## INDEPENDENT AUDITOR'S REPORT Continued

**To the Members of UK Mortgages Limited Continued**

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| | • We reviewed investor reporting and the loan books for balances in arrears for indications of impairment. Further, we reviewed customer complaints raised during the year to assess whether the nature of these complaints indicated a heightened risk of arrears due to inaccurate servicing of the loans. No impairment indicators were identified.<br><br>No significant issues or concerns were noted with regards to the valuation of mortgage loans which required reporting to those charged with governance. |
| **Risk of fraud in revenue recognition pertaining to interest income on mortgage loans**<br>Interest income for the year of £15.6 million as reflected in the Consolidated Statement of Comprehensive Income, was measured in accordance with the effective interest rate method as required by International Financial Reporting Standards.<br><br>The requirement to estimate the expected cash flows when forming an effective interest rate model is subject to management judgement and estimation, and as such could be open to manipulation by management which is why we considered this a key area of focus to our audit. | • We assessed the accounting policy for the recognition of interest income for compliance with International Financial Reporting Standards and we ensured that interest income has been recognised in accordance with the stated accounting policy.<br>• We understood and evaluated the internal control environment in place at the Portfolio Manager and associated service providers to the Group in relation to the recognition of interest income.<br>• We verified the interest rates and mortgage portfolio standing data, as detailed in the key audit matter above, and thereby confirmed, inputs used in the EIR models were appropriate and supportable.<br>• We reviewed management's third party specialist's EIR models, assessed the reasonableness of assumptions used in the models and recalculated the initial EIR computed (arising from purchase price premium / discount, fees and expected prepayments on the mortgage loan portfolios) and tested the unwinding of this EIR adjustment which impacts revenue recognition for the year. |

| | |
|---|---|
| | • We performed substantive analytical procedures to assess the reasonableness of interest income recognised for the year based on average monthly interest rates and the average monthly portfolio balances, as obtained from the loan servicers.<br><br>No indications of management bias or manipulation of data with regards to revenue recognition were noted which required reporting to those charged with governance. |
| **Errors in the priority of payments to noteholders ("waterfalls")**<br>There is a risk that payments to noteholders are not processed in line with the priority of payments as prescribed by the transaction documents and prospectus, and as noted under note 13 of these Consolidated Financial Statements, given the complexity of the transactions. We consider this to be a key area of focus relevant to one subsidiary company, Malt Hill No.1 Plc only, due to this being the only subsidiary in the Group that has been securitised and has made payments to noteholders. | • We have understood the controls in place over the priority of payments structure and noted the high level of segregation in duties and layers of review within the process.<br><br>• We have reviewed the transaction documents and prospectus and ensured that the waterfall calculation, as set out in these documents, had been correctly applied in accordance with these agreements.<br><br>• We tested all payments to noteholders made per the waterfall by agreeing interest payments through to the bank statements.<br><br>No significant issues or concerns with the priority of payments to the noteholders were noted which required reporting to those charged with governance. |

## Other information

The directors are responsible for the other information. The other information comprises all information listed within the Contents page of the Annual Report other than the consolidated financial statements and our auditor's report thereon.

Other than as specified in our report, our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

# INDEPENDENT AUDITOR'S REPORT Continued

**To the Members of UK Mortgages Limited Continued**

## Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of Guernsey law 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 consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT Continued

**To the Members of UK Mortgages Limited Continued**

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

Under The Companies (Guernsey) Law, 2008 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;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

The directors' have volunteered to report on how they have applied the UK Corporate Governance Code (the "Code"). We have nothing to report in respect of the following matters which we have reviewed:

- the directors' statement set out on page 24 in relation to going concern. As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern;
- the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit; and
- the part of the Corporate Governance Statement relating to the Group's compliance with the ten further provisions of the UK Corporate Governance Code specified for our review.

# INDEPENDENT AUDITOR'S REPORT Continued
**To the Members of UK Mortgages Limited Continued**

This report, including the opinion, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Evelyn Brady
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands
18 October 2017

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2017

| | Note | For the year from 01.07.2016 to 30.06.2017 £ | For the period from 10.06.2015 to 30.06.2016 £ |
|---|---|---|---|
| **Income** | | | |
| Interest income on mortgage loans | | 15,594,254 | 6,164,354 |
| Interest income on cash and cash equivalents | | 11,423 | 256,391 |
| Net interest expense on financial liabilities at fair value through profit and loss | | (2,487,186) | (1,134,372) |
| Unrealised gain/(loss) on financial liabilities at fair value through profit and loss | 9 | 2,269,926 | (4,077,975) |
| **Total income** | | 15,388,417 | 1,208,398 |
| Interest expense on loan notes | 13 | 4,526,663 | 390,507 |
| Interest expense on borrowings | 14 | 2,216,204 | 805,092 |
| Portfolio management fees | 16 | 1,714,555 | 1,781,283 |
| Loan note issue fees | | 1,533,495 | 40,137 |
| Mortgage loans servicing fees | | 1,416,073 | 347,460 |
| Borrowings facility fees | 14 | 1,261,233 | 554,189 |
| Mortgage loan write offs | 7 | 405,699 | - |
| Administration & secretarial fees | 17 | 279,518 | 93,268 |
| Legal & professional fees | | 246,456 | 289,095 |
| General expenses | | 235,979 | 313,775 |
| Audit fees | | 182,246 | 85,000 |
| Directors' fees | 16 | 107,500 | 82,341 |
| AIFM fees | 17 | 96,730 | 102,047 |
| Depositary fees | 17 | 68,503 | 93,023 |
| Corporate broker fees | 17 | 50,131 | 48,907 |
| Custody fees | 17 | 22,559 | 69,009 |
| **Total expenses** | | 14,363,544 | 5,095,133 |
| Total comprehensive gain/(loss) for the year/period | | 1,024,873 | (3,886,735) |
| **Earnings /(loss) per ordinary share - basic & diluted** | 4 | 0.004 | (0.017) |

All items in the above statement derive from continuing operations.

The notes on pages 63 to 90 form an integral part of these Audited Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2017

| | | 30.06.2017 | 30.06.2016 |
|---|---|---|---|
| **Assets** | **Note** | **£** | **£** |
| **Non-current assets** | | | |
| Mortgage loans | 7 | 829,201,473 | 302,251,423 |
| Reserve fund | 8 | 13,157,350 | 4,739,400 |
| **Total non-current assets** | | 842,358,823 | 306,990,823 |
| **Current assets** | | | |
| Mortgage loans | 7 | 12,674,700 | 1,334,277 |
| Trade and other receivables | 10 | 3,522,323 | 4,792,524 |
| Cash and cash equivalents | 11 | 86,022,869 | 194,218,249 |
| **Total current assets** | | 102,219,892 | 200,345,050 |
| **Total assets** | | 944,578,715 | 507,335,873 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Loan notes | 13 | 715,734,468 | 261,784,493 |
| **Total non-current liabilities** | | 715,734,468 | 261,784,493 |
| **Current liabilities** | | | |
| Financial liabilities at fair value through profit and loss | 9 | 1,808,049 | 4,077,975 |
| Trade and other payables | 12 | 3,648,060 | 4,110,140 |
| **Total current liabilities** | | 5,456,109 | 8,188,115 |
| **Total liabilities** | | 721,190,577 | 269,972,608 |
| **Net assets** | | 223,388,138 | 237,363,265 |
| **Equity** | | | |
| Share capital account | 15 | 245,000,000 | 245,000,000 |
| Accumulated losses | | (21,611,862) | (7,636,735) |
| **Total equity** | | 223,388,138 | 237,363,265 |
| Ordinary shares in issue | 15 | 250,000,000 | 250,000,000 |
| Net Asset Value per ordinary share | 5 | 0.8936 | 0.9495 |

The Audited Consolidated Financial Statements on pages 59 to 90 were approved and authorised for issue by the Board of Directors on 18 October 2017 and signed on its behalf by:

Christopher Waldron
**Chairman**

Paul Le Page
**Director**

The notes on pages 63 to 90 form an integral part of these Audited Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

| | Share capital account | Accumulated losses | Total equity |
|---|---|---|---|
| | £ | £ | £ |
| **Balance at 1 July 2016** | 245,000,000 | (7,636,735) | 237,363,265 |
| Dividends paid | - | (15,000,000) | (15,000,000) |
| Total comprehensive gain for the year | - | 1,024,873 | 1,024,873 |
| **Balance at 30 June 2017** | 245,000,000 | (21,611,862) | 223,388,138 |

| | Share capital account | Accumulated losses | Total equity |
|---|---|---|---|
| | £ | £ | £ |
| **Balance at 10 June 2015** | - | - | - |
| Issue of shares | 250,000,000 | - | 250,000,000 |
| Share issue costs | (5,000,000) | - | (5,000,000) |
| Dividends paid | - | (3,750,000) | (3,750,000) |
| Total comprehensive loss for the period | - | (3,886,735) | (3,886,735) |
| **Balance at 30 June 2016** | 245,000,000 | (7,636,735) | 237,363,265 |

The notes on pages 63 to 90 form an integral part of these Audited Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2017

| | Note | For the year from 01.07.2016 to 30.06.2017 £ | For the period from 10.06.2015 to 30.06.2016 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Total comprehensive gain/(loss) for the year/period | | 1,024,873 | (3,886,735) |
| Adjustments for: | | | |
| Amortisation adjustment under effective interest rate method | 7 | (1,626,884) | 669,501 |
| Decrease/(Increase) in trade and other receivables | | 1,270,201 | (4,792,524) |
| Unrealised (gain)/loss on financial liabilities at fair value through profit and loss | | (2,269,926) | 4,077,975 |
| Increase in reserve fund | 8 | (8,417,950) | (4,739,400) |
| (Decrease)/Increase in trade and other payables | | (462,080) | 4,055,522 |
| Borrowings charges amortised | 7 | (424,709) | (297,374) |
| Mortgage loans written off | 7 | 405,699 | - |
| Amortised borrowing charges released | 7 | 52,218 | 26,433 |
| Purchase of mortgage loans | 7 | (576,732,728) | (316,819,347) |
| Mortgage loans repaid | 7 | 40,035,931 | 12,835,087 |
| Net cash outflow from operating activities | | (547,145,355) | (308,870,862) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | - | 246,153,156 |
| Share issue costs | | - | (1,098,538) |
| Proceeds from borrowings | 14 | 437,381,692 | 94,762,500 |
| Repayment of borrowings | 14 | (437,381,692) | (94,762,500) |
| Proceeds from issue of loan notes | 13 | 474,695,416 | 263,300,000 |
| Repayments of loan notes | 13 | (19,433,084) | - |
| Increase in loan note issue fees amortised | 13 | (1,312,357) | (1,515,507) |
| Dividends paid | | (15,000,000) | (3,750,000) |
| Net cash inflow from financing activities | | 438,949,975 | 503,089,111 |
| **(Decrease)/increase in cash and cash equivalents** | | (108,195,380) | 194,218,249 |
| Cash and cash equivalents at beginning of year/period | | 194,218,249 | - |
| **Cash and cash equivalents at end of year/period** | | 86,022,869 | 194,218,249 |

The notes on pages 63 to 90 form an integral part of these Audited Consolidated Financial Statements.

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2017

## 1. General Information

UKML was incorporated with limited liability in Guernsey, as a closed-ended investment company on 10 June 2015. UKML's Shares were listed with the UK Listing Authority and admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 7 July 2015.

The Audited Consolidated Financial Statements comprise the financial statements of UK Mortgages Limited, UK Mortgages Corporate Funding Designated Activity Company, Malt Hill No.1 Plc (UK based company), Oat Hill No.1 Plc (UK based company) and the Warehouse SPVs; Cornhill Mortgages No.1 Limited, until being placed into liquidation on 4 May 2017 (UK based company), Cornhill Mortgages No.2 Limited (UK based company) and Cornhill Mortgages No.3 Limited (UK based company) as at 30 June 2017, together referred to as the "Company".

The Company's investment objective is to provide Shareholders with access to stable income returns through the application of relatively conservative levels of leverage to portfolios of UK mortgages.

The Company expects that income will constitute the vast majority of the return to Shareholders and that the return to Shareholders will have relatively low volatility and demonstrate a low level of correlation with broader markets.

The Portfolio Manager to the Company and Portfolio Adviser to the UK Mortgages Corporate Funding Designated Activity Company is TwentyFour Asset Management LLP.

## 2. Accounting Policies

### Statement of compliance

The Audited Consolidated Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IFRS which comprise standards and interpretations approved by the International Accounting Standards Board, and interpretations issued by the International Financial Reporting Standards Interpretations Committee as approved by the International Accounting Standards Committee which remain in effect and are in compliance with the Companies (Guernsey) Law, 2008.

The Audited Consolidated Financial Statements have been prepared on a going concern basis. The Directors are satisfied that, at the time of approving the Audited Consolidated Financial Statements, it is appropriate to adopt the going concern basis in preparing the Audited Consolidated Financial Statements as they anticipate that the Company will be able to continue to operate and meet its liabilities as they fall due over a period of 12 months from the approval of these financial statements. In December 2016 a Continuation Vote was held where the Shareholders decided that the Company would continue to operate.

The Company has not been deemed an Investment Entity under the definitions of IFRS 10 'Consolidated Financial Statements' as the majority of Company's investments are measured at amortised cost rather than fair value and these Audited Consolidated Financial Statements are therefore prepared on a consolidated basis.

### Standards, amendments and interpretations issued but not yet effective

New standards, amendments and interpretations to existing standards that become effective in the future accounting periods and have not been adopted by the Company;

| International Financial Reporting Standards (IFRS) | Effective for periods beginning on or after |
|---|---|
| • IFRS 9 - Financial Instruments – Classifications and Measurement | 1 January 2018 |
| • IFRS 15 – Revenue from Contracts with Customers | 1 January 2018 |

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued
for the year ended 30 June 2017

**2. Accounting Policies (continued)**

**Standards, amendments and interpretations issued but not yet effective (continued)**

The Directors anticipate that the adoption of these standards effective in a future period will not have a material impact on the Audited Consolidated Financial Statements of the Company, other than IFRS 9. The Company is currently evaluating the potential effect of this standard and a quantified assessment will be performed in the year to 30 June 2018, ahead of adoption on 1 July 2018.

IFRS 9 'Financial Instruments' amends IAS 39. IFRS 9 specifies how an entity should classify and measure financial assets, including some hybrid contracts. The standard requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. There are three principal classification categories for financial assets which are, measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

IFRS 9 will also replace the existing incurred loss impairment approach with an expected credit loss approach. Under this approach at initial recognition of a financial instrument, an allowance is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months. In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk and the estimation of ECL must be unbiased and probability weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date.

**Consolidation**

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are derecognised from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary (for accounting purposes) is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

## 2. Accounting Policies (continued)

### Consolidation (continued)

The following table outlines the consolidated entities.

| Subsidiaries | Date of Control | Country of Incorporation | Principal Place of Business |
|---|---|---|---|
| UK Mortgages Corporate Funding Designated Activity Company | 19/11/2015 | Ireland | Ireland |
| Cornhill Mortgages No.1 Limited* | 19/11/2015 | UK | UK |
| Cornhill Mortgages No.2 Limited | 02/03/2016 | UK | UK |
| Malt Hill No.1 Plc | 02/06/2016 | UK | UK |
| Cornhill Mortgages No.3 Limited | 21/02/2017 | UK | UK |
| Oat Hill No.1 Plc | 23/06/2017 | UK | UK |

*placed into liquidation on 4 May 2017.

Based on control, the results of the Acquiring Entity, the Issuer SPVs (Malt Hill No.1 Plc and Oat Hill No.1 Plc) and the Warehouse SPVs (Cornhill Mortgages No.1 Limited, Cornhill Mortgages No.2 Limited and Cornhill Mortgages No.3 Limited) are consolidated into the Audited Consolidated Financial Statements.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, notes, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Company's accounting policies. During the year no such adjustments have been made given all subsidiaries have uniform accounting policies.

### Financial Assets

Financial assets are classified into two categories: financial assets at fair value through profit and loss, and loans and receivables.

Derivative Instruments are classified as financial assets or liabilities at fair value through profit and loss.

Mortgage loans are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market and include mortgage loans. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal and interest repayments, and where relevant less any write-down for incurred impairment provision. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premium or discount to maturity using the effective interest method.

### Mortgage loans impairment provisions

All mortgage loans are secured on residential property, and the Company places strong emphasis on the market value of the properties and the borrower's ability to service the loan.

**2. Accounting Policies (continued)**

**Mortgage loans impairment provisions (continued)**

Impairment provisions are recorded on mortgage loans in arrears where the value of the loan in arrears is in excess of the estimated forced sale value of the underlying property held as security based on the probability of the loan going to repossession. Estimates are required of the likely forced sale discount on the property and likelihood of the loan going to repossession based on the limited historical loss experience of the Company. Impairment provisions made during the year are charged to the Consolidated Statement of Comprehensive Income.

Impaired mortgages are written off after all the necessary collections procedures have been completed, the property repossessed and sold and the shortfall charged to Consolidated Statement of Comprehensive Income.

**Recognition and de-recognition of financial assets**

Financial assets are recognised on the Consolidated Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised only when either the contractual rights to cash flows from the financial assets expire or the transfer otherwise qualifies for de-recognition in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

**Loan notes**

Loan notes are initially recognised in the Consolidated Statement of Financial Position at proceeds received net of any direct issue costs. Loan notes are subsequently measured at amortised cost.

**Financial assets or liabilities held at fair value through the profit and loss**

**Interest rate swaps**

Financial assets or liabilities held at fair value through profit and loss include interest rate swaps, which are utilised by the Company to reduce exposures to fluctuations in interest rates, and to exchange fixed rate income payments on mortgage portfolios for floating rates required to access borrowings and hedge floating rate payments on issued loan notes. These interest rate swaps are recognised at their fair value, with movements in fair value taken to the Consolidated Statement of Comprehensive Income.

The fair values of interest rate swaps are based on external valuations. The valuation of the interest rate swaps' fair value means fluctuations in interest rates will be reflected in the unrealised gains or losses on financial assets or liabilities held at fair value through profit and loss.

Derivatives are carried in the Consolidated Statement of Financial Position as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

On 1 July 2017 the Directors designated both derivatives as fair value hedges and began hedge accounting from that date.

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

## 2. Accounting Policies (continued)

### Interest income and interest expense

Interest income on financial assets that are classified as mortgage loans, interest expense on borrowings and loan notes are recorded using the effective interest rate method. Interest income also includes income from cash and cash equivalents and interest expense on financial liabilities held at fair value through profit and loss, are recorded on an accruals basis.

### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, short-term deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities in the Consolidated Statement of Financial Position.

### Reserve fund

Reserve fund includes all cash held with banks with maturities of over three months. This cash is held on reserve with depositories and is not readily available to the Company and may only be used in accordance with the Issue and Programme Documentation for related securitisations.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income and amortised over the period of the borrowing facility using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the date of the Consolidated Statement of Financial Position.

### Share capital

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

### Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements are measured using Sterling the currency of the primary economic environment in which the entity operates, ('the functional currency'). The financial statements are presented in Sterling, which is the Company's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Consolidated Statement of Financial Position date.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit and loss are presented in the Consolidated Statement of Comprehensive Income.

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

**2. Accounting Policies (continued)**

**Transaction costs**

Transaction costs on financial assets or liabilities at fair value through profit and loss include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the Consolidated Statement of Comprehensive Income.

Transaction costs on mortgage loans are amortised over the average life of the mortgage portfolio. Issuer costs on the set up of the warehousing and issuer entities will be capitalised and expensed over 7.5 years and will be written off on securitisation.

**Expenses**

All other expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis.

**Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The Directors are of the opinion that the Company is engaged in three segments of business, being investments in diversified portfolios of loans secured against UK residential property; Malt Hill No.1 Plc, Oat Hill No.1 Plc and Cornhill Mortgages No.2 Limited. The Directors manage the business in this way.

**Taxation**

The Company is a tax-exempt Guernsey limited company. Please refer to note 6 for additional information.

**Trade and other receivables**

Trade and other receivables are amounts due in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Included in the trade and other receivables are formation expenses which have been capitalised and will be expensed over the expected life of the SPV.

**Trade and other payables**

Trade and other payables are obligations to pay for services that have been acquired in the ordinary course of business. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Dividend distributions**

Dividend distributions to the Company's Shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Board.

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued
for the year ended 30 June 2017

**3. Critical accounting judgements and estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Although these estimates are based on management's knowledge of the amount, actual results may differ from these estimates. If actual results differ from the estimates, the impact will be recorded in future years.

Estimates and judgements are regularly reviewed based on past experience, expectations of future events and other factors. The key areas where estimates and judgements are made are as follows:

**Fair value**

Fair values are used in these financial statements for recognition and disclosure purposes and to assess impairment of the carrying value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The existence of published price quotation in an active market is the best evidence of fair value and when they are available they are used. If the market for a financial instrument is not active, fair value is established using a valuation technique. Fair value represents point-in-time estimates that may change in subsequent reporting years due to market conditions or other factors. The only financial instruments included in the Company's Consolidated Statement of Financial Position that are measured at fair value are the interest rate swaps. Refer to note 21 for additional information.

**Amortised cost and effective interest rate model assumptions**

In determining the amortised cost of the mortgage portfolio using the effective interest rate method, the Portfolio Manager exercises significant judgement in estimating the remaining life of the underlying mortgages. In doing so the Portfolio Manager uses cash flow models which include assumptions on the likely macroeconomic environment, including the house price index, unemployment levels and interest rates, as well as loan level and portfolio attributes and the Company’s limited history used to derive prepayment rates, and the probability and timing of defaults. The estimated life of the mortgage portfolio, impacts the effective interest rate of the mortgage portfolio which in turn impacts the interest income recognised during the accounting period.

**4. Gain/(loss) per Ordinary Share - basic & diluted**

The gain per Ordinary Share of £0.004 (30 June 2016: loss of £0.017) - basic and diluted has been calculated based on the weighted average number of Ordinary Shares of 250,000,000 (30 June 2016: 232,558,140) and a net gain of £1,024,873 (30 June 2016: net loss of £3,886,735).

**5. Net Asset Value per Ordinary Share**

The Net Asset Value of each share of £0.8936 (30 June 2016: £0.9495) is determined by dividing the net assets of the Company £223,388,138 (30 June 2016: £237,363,265) by the number of shares in issue at 30 June 2017 of 250,000,000 (30 June 2016: 250,000,000).

**6. Taxation**

The Company has been granted Exempt Status under the terms of The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 to income tax in Guernsey. Its liability for Guernsey taxation is limited to an annual fee of £1,200.

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

## 6. Taxation (continued)

The Acquiring Entity should qualify as a qualifying company within the meaning of Section 110 of the Irish Taxes Consolidation Act, 1997 (“TCA 1997”). As such, the profits are chargeable to corporation tax under Case III of Schedule D of S.110, at the rate of 25%, but are computed in accordance with the provisions applicable to schedule D case I of TCA 1997 subject to one important distinction, that being interest payments made by the Company on its PPN should be tax deductible thereby leaving it with nominal profits of £1,000 per annum.

UK based companies (Malt Hill No.1 Plc, Cornhill Mortgages No.1 Limited (until its liquidation),Cornhill Mortgages No.2 Limited, Cornhill Mortgages No.3 Limited and Oat Hill No.1 Plc) should, in relation to any business they carried on in the year, be treated as being securitisation companies for the purposes of the United Kingdom’s Taxation of Securitisation Companies Regulations 2006 and should only be liable for UK corporation tax on amounts that form part of their “retained profit” for the purposes of those regulations. UK based company Cornhill Mortgages No.2 Limited should not be liable for corporation tax in respect of the prior year as it carried on no business during it. UK based company Cornhill Mortgages No.1 Limited should not be liable for corporation tax in respect of the year as it carried on no business during it.

## 7. Mortgage loans

| | For the year from 01.07.2016 to 30.06.2017 | For the period from 10.06.2015 to 30.06.2016 |
|---|---|---|
| | £ | £ |
| Mortgage loans at start of the year/period | 303,585,700 | - |
| Mortgage loans purchased | 576,732,728 | 316,819,347 |
| Amortisation adjustment under effective interest rate method | 1,626,884 | (669,501) |
| Mortgage loans repaid | (40,035,931) | (12,835,087) |
| Borrowings charges amortised | 424,709 | 297,374 |
| Amortised borrowing charges released | (52,218) | (26,433) |
| Mortgage loans written off* | (405,699) | - |
| Mortgage loans at end of the year/period | 841,876,173 | 303,585,700 |
| Amounts falling due after more than one year | 829,201,473 | 302,251,423 |
| Amounts falling due within one year | 12,674,700 | 1,334,277 |
| | 841,876,173 | 303,585,700 |

*Realisation of impairment provision at acquisition of the Oat Hill No.1 portfolio.

Mortgage loans at 30 June 2017 comprise of two securitised mortgage portfolios legally held in Malt Hill No.1 Plc and Oat Hill No.1 Plc and one mortgage portfolio held with Cornhill Mortgages No.2 Limited. Please refer to the Portfolio of Investments for breakdown of portfolios.

Note 18 sets out the liquidity and credit risk profile of the mortgage loans.

## 8. Reserve fund

The reserve fund is held with Citibank N.A. London Branch within the securitisation structure. The Company is required to maintain this reserve which is not readily available to the Company and may only be used in accordance with the Issue and Programme Documentation.

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

## 9. Financial liabilities held at fair value through profit and loss

**Derivative instruments - Malt Hill No.1 Plc**

On 3 November 2015, the Company entered into an Interest Rate Swap (under an ISDA agreement) at the point of the initial mortgage loan portfolio purchase to convert the fixed rate loan exposure back into 3 Month Libor. The notional value of the swap is balance guaranteed in order to track the principal balance of the mortgage loan portfolio and changes thereto quarterly in line with the movement in the mortgage loan portfolio.

On 2 June 2016, the initial mortgage loan portfolio was securitised and the swap was novated (transferred from the Warehouse SPV to the Issuer SPV), minimising risk of an interest rate exposure at that time.

The maximum notional amount of the swap per the agreement is £360m. The notional amount as at 30 June 2017 is £288.5m. The fair value of this swap at 30 June 2017 is £1,734,294 (2016: £4,077,975).

Collateral of £3m was held with BNP Paribas in relation to the interest rate swap. However on securitisation of the initial mortgage loan portfolio, the interest rate swap was novated and this collateral was due back to the Company. Payment was received for this on 12 August 2016.

**Derivative instruments - Cornhill Mortgages No.2 Limited**

On 7 July 2016, the Company entered into an Interest Rate Swap (under an ISDA agreement) to hedge the fixed rate loan exposure of the mortgages in the portfolio into 1 Month Libor. The notional value of the swap is balance guaranteed in order to track the new originations and the amortisation of the mortgage loan portfolio and changes on a monthly basis to reflect the principal balance of the portfolio.

The maximum notional amount of the swap as per the agreement is £350m. The notional amount as at 30 June 2017 is £35.5m. The fair value of this swap at 30 June 2017 is £73,755.

## 10. Trade and other receivables

| | As at 30.06.2017 | As at 30.06.2016 |
|---|---|---|
| | £ | £ |
| Collateral due from BNP Paribas | - | 3,000,000 |
| Interest receivable on mortgage loans | 1,343,479 | 834,356 |
| Capitalised formation expenses | 1,431,138 | 621,517 |
| Other receivables and prepayments | 747,706 | 332,123 |
| Interest receivable on cash and cash equivalents | - | 4,528 |
| | 3,522,323 | 4,792,524 |

Capitalised formation expenses are the set up costs of Cornhill Mortgages No.2 Limited, which are being amortised over 3 years.

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

### 11. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of less than 90 days.

| | As at 30.06.2017 | As at 30.06.2016 |
|---|---|---|
| | £ | £ |
| Cash at bank | 86,022,869 | 182,970,882 |
| Short-term deposits | - | 11,247,367 |
| | 86,022,869 | 194,218,249 |

The short-term deposits are investments into a BlackRock-managed institutional money-market fund – "Institutional Cash Series Plc - Institutional Sterling Liquidity Fund".

### 12. Trade and other payables

| | As at 30.06.2017 | As at 30.06.2016 |
|---|---|---|
| | £ | £ |
| Loan note issue fees payable | 1,707,580 | 1,975,461 |
| Portfolio management fees payable | 832,816 | 1,348,312 |
| Interest due on loan notes | 398,870 | 390,507 |
| Audit fees payable | 199,316 | 85,000 |
| Administration & secretarial fees payable | 176,533 | 27,389 |
| Mortgage loans servicing fees payable | 104,054 | 55,441 |
| Legal & professional fees payable | 81,201 | 74,508 |
| General expenses payable | 63,376 | 29,304 |
| AIFM fees payable | 48,148 | 25,804 |
| Directors' fees payable | 26,875 | 20,568 |
| Depositary fees payable | 5,498 | 51,362 |
| Custody fees payable | 3,793 | 26,484 |
| | 3,648,060 | 4,110,140 |

### 13. Loan notes

The Malt Hill No.1 Plc and Oat Hill No.1 Plc mortgage portfolio acquisitions are partially financed by the issue of notes. The notes are repaid as the underlying mortgage loans repay. The terms and conditions of the notes provide that the note holders will receive interest and principal only to the extent that sufficient funds are generated from the underlying mortgage loans. The priority and amount of claims on the portfolio proceeds are determined in accordance with strict priority of payments. Note holders have no recourse to the Company in any form.

**13. Loan notes (continued)**

Malt Hill No.1 Plc completed the public sale of £263.3m of AAA-rated bonds on 26 May 2016. The AAA notes were issued with a coupon of 3 month LIBOR plus 1.35% which is payable quarterly and are listed on the Irish Stock Exchange. The issue fees on loan notes will be amortised over the expected life of the loan notes, which is 3 years, being the call date.

Oat Hill No.1 Plc completed the public sale of £477.1m of AAA-rated bonds on 26 June 2017. The AAA notes were issued with a coupon of 3 month LIBOR plus 0.65% and a step up margin of 1.30% which is payable quarterly and are listed on the Irish Stock Exchange. The issue fees on loan notes will be amortised over the expected life of the loan notes, which is 3 years, being the call date.

| | As at 30.06.2017 | As at 30.06.2016 |
|---|---|---|
| | £ | £ |
| Loan notes at start of the year/period | 261,784,493 | - |
| Loan notes issued | 474,695,416 | 263,300,000 |
| Loan notes repaid | (19,433,084) | - |
| Loan note issue fees amortised | (1,312,357) | (1,515,507) |
| Loan notes at end of the year/period | 715,734,468 | 261,784,493 |

Interest expense on loan notes for the year amounted to £ 4,526,663 (30 June 2016: £390,507).

**14. Borrowings**

Cornhill Mortgages No.2 Limited was paying a commitment fee for £150m until 1 June 2017. The facility was restructured in June 2017, in order to improve the cost efficiency of the structure, with changes involving reduction of commitment fees and drawn margins on the facility. Any increase to the commitment amount is subject to NatWest Markets approval and the total facility size remains at £250m. The facility fees of £1,261,233 were expensed in the year.

Cornhill Mortgages No.3 Limited had a loan from Bank of America Merrill Lynch International Limited of £437,381,692 that commenced on 20th February 2017 and was repaid on 26 June 2017. Interest expense of £2,216,204 was incurred during the year.

During the period end to June 2016, the Company had a loan from Bank of America Merrill Lynch International Limited of £95,000,000. The loan commenced on 19 November 2015 and was repaid early during the period. The facility fees of £554,189 were expensed in the prior year.

Interest expense on borrowings of £805,092 was incurred during the prior period.

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

### 15. Share Capital

**Authorised Share Capital**

The share capital of the Company consists of an unlimited number of shares with or without par value which, upon issue, the Directors may designate Ordinary Shares or C shares or such other classes of shares as the Board shall determine, in each case of such classes and denominated in such currencies as the Directors may determine.

As at 30 June 2017, one share class has been issued, being the Ordinary Shares of the Company.

The Ordinary Shares carry the following rights:

a) are entitled to participate in dividends which the Company declares from time to time proportionate to the amounts paid or credited as paid on such Ordinary Shares.
b) all Ordinary Shares are entitled to a distribution of capital in the same proportions as capital is attributable to them (including on winding up).
c) every shareholder shall have one vote for each Ordinary Share held by it.

**Issued Share Capital**

| | As at 30.06.2017 | As at 30.06.2016 |
|---|---|---|
| **Ordinary shares** | **£** | **£** |
| Share capital at the beginning of the year/period | 245,000,000 | - |
| Issued share capital | - | 250,000,000 |
| Share issue costs | - | (5,000,000) |
| Total share capital at the end of the year/period | 245,000,000 | 245,000,000 |

| | As at 30.06.2017 | As at 30.06.2016 |
|---|---|---|
| **Ordinary shares** | **shares** | **shares** |
| Shares at the beginning of the year/period | 250,000,000 | - |
| Issue of shares | - | 250,000,000 |
| Total shares in issue at the end of the year/period | 250,000,000 | 250,000,000 |

### 16. Related Parties

**a) Directors' Remuneration & Expenses**

The Directors of the Company are remunerated for their services at such a rate as the Directors determine. The aggregate fees of the Directors will not exceed £200,000.

The annual Directors' fees comprise £30,000 (30 June 2016: £30,000) payable to Mr Waldron, the Chairman, £27,500 (30 June 2016: £27,500) to Mr Le Page as Chairman of the Audit Committee, and £25,000 (30 June 2016: £25,000) each to Mrs Green and Mr Burrows. During the year ended 30 June 2017, Directors' fees of £107,500 were charged to the Company (30 June 2016: £82,341), of which £26,875 remained payable at the end of the year (30 June 2016: £20,568).

**16. Related Parties (continued)**

**b) Shares held by related parties**

As at 30 June 2017, Directors of the Company held the following shares in the Company beneficially:-

**Directors' and Other Interests**

| | Number of Shares | |
|---|---|---|
| | **30.06.2017** | **30.06.2016** |
| Christopher Waldron | 5,000 | 5,000 |
| Richard Burrows | 5,000 | 5,000 |
| Paul Le Page | 20,000 | 20,000 |
| Helen Green | - | - |

As at 30 June 2017, the Portfolio Manager held Nil shares (30 June 2016: Nil) and partners and employees of the Portfolio Manager held 7,040,076 shares (30 June 2016: 8,040,076), which is 2.812% of the issued share capital (30 June 2016: 3.22%).

**c) Portfolio Manager**

The portfolio management fee is payable to the Portfolio Manager quarterly on the last business day of the quarter at a rate of 0.75% per annum of the lower of NAV, which is calculated monthly on each valuation day, or market capitalisation of each class of shares. For the period beginning six months after admission and ending when at least 75% of the net proceeds have been contractually exposed to mortgage portfolios, the amount of the net proceeds which have not been contractually exposed to mortgage portfolios will be deducted from the NAV and the market capitalisation for the purposes of calculating the fee payable to the Portfolio Manager. This fee was reduced to 0.60% per annum with effect from 1 July 2017.

The Company has also agreed to pay a marketing fee equal to 12.5% of the Placing commission calculated and payable to Numis Securities Limited in respect of the issue and each Placing whether under the Placing Programme or otherwise, to the Portfolio Manager in respect of its marketing activities.

Total portfolio management fees for the year amounted to £1,714,555 (30 June 2016: £1,781,283) of which £832,816 (30 June 2016: £1,348,312) remained payable at the year end.

The Portfolio Management Agreement dated 23 June 2015 remains in force until determined by the Company or the Portfolio Manager giving the other party not less than twelve months' notice in writing. Under certain circumstances, the Company or the Portfolio Manager are entitled to immediately terminate the agreement in writing.

**17. Material Agreements**

**a) Alternative Investment Fund Manager**

The Company's Alternative Investment Fund Manager (the "AIFM") is Maitland Institutional Services Limited (formerly Phoenix Fund Services (UK) Limited). In consideration for the services provided by the AIFM under the AIFM Agreement the AIFM is entitled to receive from the Company a minimum fee of £20,000 per annum and fees payable quarterly in arrears at a rate of 0.07% of the NAV of the Company below £50 million, 0.05% on Net Assets between £50 million and £100 million and 0.03% on Net Assets in excess of £100 million. During the year ended 30 June 2017, AIFM fees of £96,730 (30 June 2016: £102,047) were charged to the Company, of which £48,148 (30 June 2016: £25,804) remained payable at the end of the year.

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

**17. Material Agreements (continued)**

**b) Administrator and Secretary**

Administration fees are payable to Northern Trust International Fund Administration Services (Guernsey) Limited monthly in arrears at a rate of 0.06% of the NAV of the Company below £100 million, 0.05% on net assets between £100 million and £200 million and 0.04% on net assets in excess of £200 million as at the last business day of the month subject to a minimum £75,000 per annum. These NAV based fees commenced from 19 November 2015 being the date Company acquired its initial investment.

In addition, an annual fee of £45,000 will be charged for corporate governance and company secretarial services and accounting services. Total administration and secretarial fees for the year amounted to £279,518 (30 June 2016: £93,268) of which £176,533 (30 June 2016: £27,389) remained payable at the year end.

**c) Depositary and Custodian**

Depositary fees are payable to Northern Trust (Guernsey) Limited, monthly in arrears, at a rate of 0.03% of the NAV of the Company as at the last business day of the month subject to a minimum £40,000 per annum. Total depositary fees and charges for the year amounted to £68,503 (30 June 2016: £93,023) of which £5,498 (30 June 2016: £51,362) remained payable at the year end.

The Depositary will charge an additional fee of £20,000 for performing due diligence on each service provider/administrator employed.

The Depositary is also entitled to a custody fee at a rate of 0.01% of the NAV of the Company as at the last business day of the month subject to a minimum of £8,500 per annum. These NAV based fees commence from 19 November 2015 being the date Company acquired its initial investment. Total custody fees for the year amounted to £22,559 (30 June 2016: £69,009) of which £3,793 (30 June 2016: £26,484) remained payable at the year end.

**d) IPO Sponsor's and Placing Agreement**

In connection with the Company's IPO, the Company engaged the services of Numis to act as corporate broker, co-ordinators, placement agents, arrangers and sponsors in connection with the issue of the Ordinary Shares ("the Issue") and the application for Admission.

The Company agreed to pay Numis:
- a corporate finance fee of £200,000, and
- a Placing commission equal to 2% of the gross proceeds of the Issue less (i) an amount equal to reasonably and properly incurred costs payable by the Company in respect of the Issue, Placing Programme and the Trading Applications and agreed in advance with Numis and (ii) an amount equal to the marketing fee payable to the Portfolio Manager. Total Issue fees amounted to £5,000,000 of which Nil (30 June 2016: £54,618) is due and payable at the year end. The Sponsor and Placing agreement is governed by the laws of England. The Company also agreed to pay Numis an annual retainer fee of £50,000 of which nil remained payable at the year end. The charge for the year was £50,131 (30 June 2016: £48,907).

## 18. Financial Risk Management

The Company's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Company's activities, but it is managed through an ongoing process of identification, measurement and monitoring.

The Company's financial instruments include financial assets or liabilities at fair value through profit and loss, loans and receivables, and cash and cash equivalents. The main risks arising from the Company's financial instruments are market risk, liquidity risk, and credit risk. The techniques and instruments utilised for the purposes of portfolio management are those which are reasonably believed by the Board to be economically appropriate to the efficient management of the Company.

### Market risk

Market risk embodies the potential for both losses and gains and includes interest rate risk, price risk and currency risk. The Company's strategy on the management of market risk is driven by the Company's investment objective. The Company's investment objective is to provide investors with access to stable income returns through the application of relatively conservative levels of leverage to portfolios of UK mortgage loans.

1.1 Interest rate risk: Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The current underlying mortgage portfolios are payable on fixed rates, meaning the current exposure to interest rate fluctuations on the portfolios are limited. However, floating rate interest is payable on loan notes. In order to hedge this differential, interest rate swaps were transacted by the Warehouse SPVs with a market counterparty to pay the fixed rate and receive the floating rate payments.

On 2 June 2016, the interest rate swap transacted by Cornhill No.1 Limited was novated to the Issuer SPV on securitisation of its mortgage portfolio.

On 1 July 2017 the Directors designated both derivatives as fair value hedges and began hedge accounting from that date.

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

## 18. Financial Risk Management (continued)

### Market risk (continued)

The below table shows exposure to interest rate risk.

| | Floating rate £ | Fixed rate £ | Non interest bearing £ | Total as at 30.06.2017 £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Mortgage loans | 585,541,265 | 256,334,908 | - | 841,876,173 |
| Reserve fund | 13,157,350 | - | - | 13,157,350 |
| Trade and other receivables | 1,343,479 | - | 2,178,844 | 3,522,323 |
| Cash and cash equivalents | 86,022,869 | - | - | 86,022,869 |
| **Total assets** | 686,064,963 | 256,334,908 | 2,178,844 | 944,578,715 |
| Financial liabilities at fair value through profit and loss | (1,808,049) | - | - | (1,808,049) |
| Trade and other payables | - | - | (3,648,060) | (3,648,060) |
| Loan notes | (715,734,468) | - | - | (715,734,468) |
| **Total liabilities** | (717,542,517) | - | (3,648,060) | (721,190,577) |
| **Total interest sensitivity gap** | (31,477,554) | 256,334,908 | (1,469,216) | 223,388,138 |

| | Floating rate £ | Fixed rate £ | Non interest bearing £ | Total as at 30.06.2016 £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Mortgage loans | - | 303,585,700 | - | 303,585,700 |
| Reserve fund | 4,739,400 | - | - | 4,739,400 |
| Trade and other receivables | 838,884 | - | 3,953,640 | 4,792,524 |
| Cash and cash equivalents | 194,218,249 | - | - | 194,218,249 |
| **Total assets** | 199,796,533 | 303,585,700 | 3,953,640 | 507,335,873 |
| Financial liabilities at fair value through profit and loss | (4,077,975) | - | - | (4,077,975) |
| Trade and other payables | - | - | (4,110,140) | (4,110,140) |
| Loan notes | (261,784,493) | - | - | (261,784,493) |
| **Total liabilities** | (265,862,468) | - | (4,110,140) | (269,972,608) |
| **Total interest sensitivity gap** | (66,065,935) | 303,585,700 | (156,500) | 237,363,265 |

**18. Financial Risk Management (continued)**

**Market risk (continued)**

If interest rates were to change by 50 basis points, with all other variables remaining constant, the effect on the net profit and equity would have been as shown on the table below. The movement has been calculated on the notional amounts of the swaps of £324m (30 June 2016: £301m) which is not shown in the table above. These percentages have been determined based on potential volatility and are deemed reasonable by the Directors.

| | 30.06.2017<br>£ | 30.06.2016<br>£ |
|---|---|---|
| Increase of 50 basis points | (1,473,965) | 1,175,104 |
| Decrease of 50 basis points | 1,473,965 | (1,175,104) |

1.2 Price risk: An active market does not exist in the underlying instruments based on the illiquidity of the mortgage loans, and for this reason the mortgage portfolios are valued on an amortised cost basis by an independent third party valuation provider. Any such valuation may therefore differ from the actual realisable market value of the relevant mortgage portfolio.

The interest rate swap hedge trades are valued on a fair value mark-to-market basis by the swap counterparty, using the observable information on swap rates. The difference in fair value of the interest rate swap and amortised cost valuation of the mortgage loans has led to volatility in the Company's NAV which the company intends to mitigate by the adoption of hedge accounting for future reporting periods.

1.3 Currency risk: As at 30 June 2017, the Company had no material exposure to foreign exchange fluctuations or changes in foreign currency interest rates. Consequently there is no material movement in assets and liabilities arising from foreign exchange fluctuations.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient resources available to meet its liabilities as they fall due. The Company makes its investments by purchasing Profit Participating Notes issued by the Acquiring Entity. The Acquiring Entity is bound by EU securities law and will be unable to fully liquidate, sell, hedge or otherwise mitigate its credit risk under or associated with the Retention Notes issued by the Warehouse SPVs or Issuer SPVs until such time as the securities of the relevant Issuer SPVs have been redeemed in full (whether at final maturity or early redemption). This places limitations on the Company's ability to redeem the Profit Participating Notes issued by the Acquiring Entity. It is not expected that any party will make a secondary market in relation to the Retention Notes, and that there will usually be a limited market for the Retention Notes. Any partial sales of Retention notes would need to be negotiated on a private counterparty to counterparty basis and could result in a liquidity discount being applied. There may be additional restrictions on divestment in the terms and conditions of the underlying investments. The illiquidity of the Retention Notes may therefore adversely affect the value of the Profit Participating Notes in the event of a forced sale which would, in turn, adversely affect the Company's business, business prospects, financial condition, returns to Shareholders including dividends, NAV and/or the market price of the shares.

During the warehousing phase, the Company's mortgage loans advanced are illiquid and may be difficult or impossible to realise for cash at short notice. At the year end, Cornhill Mortgages No. 2 was in the warehousing phase.

**18. Financial Risk Management (continued)**

**Liquidity Risk (continued)**

The Company manages its liquidity risk through short term and long term cash flow forecasts to ensure it is able to meet its obligations. In addition, the Company is permitted to borrow up to 10% of NAV for short term liquidity purposes, including financing share repurchases or redemptions, making investments or satisfying working capital requirements. This can be either through a loan facility or other types of collateralised borrowing instruments including stock lending or repurchase transactions.

| | Less than one year £ | More than one year £ | Total as at 30.06.2017 £ |
|---|---|---|---|
| **Assets** | | | |
| Mortgage loans | 12,674,700 | 829,201,473 | 841,876,173 |
| Reserve fund | - | 13,157,350 | 13,157,350 |
| Trade and other receivables | 3,522,323 | - | 3,522,323 |
| Cash and cash equivalents | 86,022,869 | - | 86,022,869 |
| **Total assets** | 102,219,892 | 842,358,823 | 944,578,715 |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit and loss | 1,808,049 | - | 1,808,049 |
| Trade and other payables | 3,648,060 | - | 3,648,060 |
| Loan notes | - | 715,734,468 | 715,734,468 |
| **Total liabilities** | 5,456,109 | 715,734,468 | 721,190,577 |

| | Less than one year £ | More than one year £ | Total as at 30.06.2016 £ |
|---|---|---|---|
| **Assets** | | | |
| Mortgage loans | 1,334,277 | 302,251,423 | 303,585,700 |
| Reserve fund | - | 4,739,400 | 4,739,400 |
| Trade and other receivables | 4,792,524 | - | 4,792,524 |
| Cash and cash equivalents | 194,218,249 | - | 194,218,249 |
| **Total assets** | 200,345,050 | 306,990,823 | 507,335,873 |
| **Liabilities** | | | |
| Financial liabilities at fair value through profit and loss | 4,077,975 | - | 4,077,975 |
| Trade and other payables | 4,110,140 | - | 4,110,140 |
| Loan notes | - | 261,784,493 | 261,784,493 |
| **Total liabilities** | 8,188,115 | 261,784,493 | 269,972,608 |

## 18. Financial Risk Management (continued)

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

The Company's primary fundamental credit risk exposure is to borrowers of the underlying mortgages, with the risk of borrowers defaulting on interest and principal payments. The Portfolio Manager manages the reduction of borrower credit risk with extensive due diligence on portfolios conducted by internal and external analysts and stress testing.

The Company also has credit risk to the counterparty with which the Warehouse or Issuer SPVs transact the derivative trades for hedging purposes, or to gain, increase or decrease exposure to mortgages. Default by any hedging counterparty in the performance of its obligations could subject the investments to unwanted credit risks. The Portfolio Manager manages the reduction of credit risk exposure to the derivative counterparty through ongoing credit analysis of the counterparty in addition to implementing clauses into derivative transactions whereby collateral is required to be posted upon a downgrade of the counterparty's credit rating. The current credit rating of the counterparty is A+.

The Company's exposure to the credit risk of cash and deposit holders defaulting is managed through the use of investments into money market funds, to diversify cash holdings away from single custodians. Money market fund vehicles are chosen after extensive due diligence focusing on manager performance, controls and track record. Currently the cash is held with Northern Trust London (credit rating A+ per Standards and Poor). The money market fund is held in a BlackRock-managed institutional money-market fund – "Institutional Cash Series Plc - Institutional Sterling Liquidity Fund" and their current rating is AAAm from Standards and Poor. The reserve fund is held with Citibank N.A. London Branch (credit rating A+ per Standards and Poor).

The Realisation of impairment provision at acquisition of the Oat Hill No.1 portfolio during the year amounted to £405,699. The current indexed loan to value ratio in order to give an indication of credit quality is as follows:

| Loan to value | As at 30.06.2017 £ | As at 30.06.2016 £ |
|---|---|---|
| 0-49% | 101,602,362 | 23,638,593 |
| 50-75% | 473,438,989 | 228,935,897 |
| 75-100%+ | 266,834,822 | 51,011,210 |
| | 841,876,173 | 303,585,700 |

The loans past due but not yet impaired at the year end are shown in the table below.

| | As at 30.06.2017 £ |
|---|---|
| >1 month but <2 months | 1,552,194 |
| >2 months but <3 months | 1,075,168 |
| >3 months but <6 months | 1,109,153 |
| >6 months | 1,186,031 |
| | 4,922,546 |

## 19. Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while following the Company's stated investment policy. The capital structure of the Company consists of Shareholders' equity, which comprises share capital and other reserves. To maintain or adjust the capital structure, the Company may return capital to Shareholders or issue new shares. There are no regulatory requirements to return capital to Shareholders.

(i) Share Buybacks

Under the articles of incorporation, the Company may purchase shares in the market at prices which represent a discount to the prevailing NAV per share of that class so as to enhance the NAV per share for the remaining holders of shares of the same class. Subject to satisfying a statutory solvency test, the Company is authorised to make market purchases of up to 14.99% of the aggregate number of issued shares immediately following admission. This authority is subject to approval by a shareholder vote at each Annual General Meeting.
The Directors will consider whether the Company should purchase shares where such shares are quoted in the market at a discount in excess of 5% to NAV per share of that class. The making and timing of any Share Buybacks is at the absolute discretion of the Directors and is expressly subject to the Directors determining that the Company has sufficient surplus cash resources available (excluding borrowed monies). The listing rules published by the UK Listing Authority prohibit the Company from conducting any Share Buybacks during close periods immediately preceding the publication of annual and interim results.

(ii) Continuation Vote

Shareholders will have the opportunity to vote on the continuation of the Company at the fifth Annual General Meeting ("AGM") following admission of the Ordinary Shares issued pursuant to the Issue, or every fifth AGM thereafter, and otherwise if: (i) a dividend trigger event (where the total dividend per Ordinary Share in respect of any financial year, commencing on or after 1 July 2016, being less than 6 pence) occurs, the articles of incorporation provide that if this events occur a general meeting will be convened at which the Directors will propose an ordinary resolution that the Company should continue as an investment company.

## 20. Analysis of Financial Assets and Liabilities by Measurement Basis

| | Financial Assets at fair value through profit and loss £ | Financial Assets at amortised cost £ | Total £ |
|---|---|---|---|
| **30 June 2017** | | | |
| **Financial Assets as per Audited Consolidated Statement of Financial Position** | | | |
| Mortgage loans | - | 841,876,173 | 841,876,173 |
| Reserve fund | - | 13,157,350 | 13,157,350 |
| Cash and cash equivalents | - | 86,022,869 | 86,022,869 |
| Trade and other receivables | - | 3,522,323 | 3,522,323 |
| | - | 944,578,715 | 944,578,715 |

### 20. Analysis of Financial Assets and Liabilities by Measurement Basis (continued)

| **Financial Liabilities as per Audited Consolidated Statement of Financial Position** | **Financial Liabilities at fair value through profit and loss £** | **Financial Liabilities at amortised cost £** | **Total £** |
|---|---|---|---|
| Financial liabilities at fair value through profit and loss | 1,808,049 | - | 1,808,049 |
| Trade and other payables | - | 3,648,060 | 3,648,060 |
| Loan notes | - | 715,734,468 | 715,734,468 |
| | 1,808,049 | 719,382,528 | 721,190,577 |

| **30 June 2016**<br>**Financial Assets as per Audited Consolidated Statement of Financial Position** | **Financial Assets at fair value through profit and loss £** | **Financial Assets at amortised cost £** | **Total £** |
|---|---|---|---|
| Mortgage loans | - | 303,585,700 | 303,585,700 |
| Reserve fund | - | 4,739,400 | 4,739,400 |
| Cash and cash equivalents | - | 194,218,249 | 194,218,249 |
| Trade and other receivables | - | 4,792,524 | 4,792,524 |
| | - | 507,335,873 | 507,335,873 |

| **Financial Liabilities as per Audited Consolidated Statement of Financial Position** | **Financial Liabilities at fair value through profit and loss £** | **Financial Liabilities at amortised cost £** | **Total £** |
|---|---|---|---|
| Financial liabilities at fair value through profit and loss | 4,077,975 | - | 4,077,975 |
| Trade and other payables | - | 4,110,140 | 4,110,140 |
| Loan notes | - | 261,784,493 | 261,784,493 |
| | 4,077,975 | 265,894,633 | 269,972,608 |

## 21. Fair Value Measurement

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices including interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates) or other market corroborated inputs (level 2).
(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following tables analyse within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value for the year ended 30 June 2017 and the period ended 30 June 2016.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | - | (1,808,049) | - | (1,808,049) |
| **Total liabilities as at 30 June 2017** | - | (1,808,049) | - | (1,808,049) |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | - | (4,077,975) | - | (4,077,975) |
| **Total liabilities as at 30 June 2016** | - | (4,077,975) | - | (4,077,975) |

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

## 21. Fair Value Measurement (continued)

The following table analyses within the fair value hierarchy the Company's assets and liabilities not measured at fair value at 30 June 2017 but for which fair value is disclosed.

| | Level 1 30.06.2017 £ | Level 2 30.06.2017 £ | Level 3 30.06.2017 £ | Total 30.06.2017 £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Mortgage loans | - | - | 881,512,233 | 881,512,233 |
| Reserve fund | - | 13,157,350 | - | 13,157,350 |
| Cash and cash equivalents | - | 86,022,869 | - | 86,022,869 |
| Trade and other receivables | - | 3,522,323 | - | 3,522,323 |
| **Total** | - | 102,702,542 | 881,512,233 | 984,214,775 |
| **Liabilities** | | | | |
| Trade and other payables | - | 3,648,060 | - | 3,648,060 |
| Loan notes | - | 715,734,468 | - | 715,734,468 |
| **Total** | - | 719,382,528 | - | 719,382,528 |

| | Level 1 30.06.2016 £ | Level 2 30.06.2016 £ | Level 3 30.06.2016 £ | Total 30.06.2016 £ |
|---|---|---|---|---|
| **Assets** | | | | |
| Mortgage loans | - | - | 303,314,760 | 303,314,760 |
| Reserve fund | - | 4,739,400 | - | 4,739,400 |
| Cash and cash equivalents | - | 194,218,249 | - | 194,218,249 |
| Trade and other receivables | - | 4,792,524 | - | 4,792,524 |
| **Total** | - | 203,750,173 | 303,314,760 | 507,064,933 |
| **Liabilities** | | | | |
| Trade and other payables | - | 4,110,140 | - | 4,110,140 |
| Loan notes | - | 261,784,493 | - | 261,784,493 |
| **Total** | - | 265,894,633 | - | 265,894,633 |

The value of the mortgage loans is calculated through a shadow securitisation structure based on existing deals with current and transparent pricing.

The other assets and liabilities included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value. Cash and cash equivalents include cash in hand and short-term deposits with original maturities of three months or less. During the year there were no transfers between the levels.

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

### 21. Fair Value Measurement (continued)

Trade and other receivables includes collateral due and interest receivable due within 3 months.

Trade and other payables represent the contractual amounts and obligations due by the Company for settlement of trades and expenses.

Reserve fund includes cash held as part of the securitisation structure and so can only be used in accordance with the Issue and Programme Documentation.

### 22. Dividend Policy

The Company declared the following interim dividends in relation to the year ended 30 June 2017:

| Period to | Dividend rate per Share (pence) | Net dividend payable (£) | Record date | Ex-dividend date | Pay date |
|---|---|---|---|---|---|
| 30 September 2016 | 1.5 | 3,750,000 | 21 October 2016 | 20 October 2016 | 31 October 2016 |
| 31 December 2016 | 1.5 | 3,750,000 | 20 January 2017 | 19 January 2017 | 31 January 2017 |
| 31 March 2017 | 1.5 | 3,750,000 | 21 April 2017 | 20 April 2017 | 30 April 2017 |
| 30 June 2017 | 1.5 | 3,750,000 | 21 July 2017 | 20 July 2017 | 31 July 2017 |

In each subsequent financial year, it is intended that dividends on the Ordinary Shares will be payable quarterly, all in the form of interim dividends (the Company does not intend to pay any final dividends). It is intended that the first three interim dividends of each financial year will be paid at a minimum of 1.5p per Ordinary Share with the fourth interim dividend of each financial year including an additional amount such that a significant majority of the Company's net income for that financial year is distributed to Shareholders.

The Board reserves the right to retain within a revenue reserve a proportion of the Company's net income in any financial year, such reserve then being available at the Board's absolute discretion for subsequent distribution to Shareholders. The Company may offer Shareholders the opportunity to elect to receive dividends in the form of further Ordinary Shares.

Under Guernsey law, companies can pay dividends in excess of accounting profit provided they satisfy the solvency test prescribed by The Companies (Guernsey) Law, 2008. The solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities. The Board confirms that the Company passed the solvency test for each dividend paid.

### 23. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Portfolio Manager. The Portfolio Manager makes the strategic resource allocations on behalf of the Company. The Company has determined the operating segments based on the reports reviewed by the Portfolio Manager that are used to make strategic decisions. The reports are measured in a manner consistent with IFRS for all operating segments.

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

**23. Segment reporting (continued)**

The Portfolio Manager considers the business as three portfolios, which are managed by separate specialist teams at the Portfolio Manager. These portfolios comprise of UK mortgages and consist of a loan portfolio bought at a premium (Malt Hill No.1 Plc), a loan portfolio bought at a discount (Oat Hill No.1 Plc) and commitment to originate loans up to a limit (Cornhill Mortgages No.2 Limited).

The reportable operating segments derive their income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within each portfolio. These returns consist of interest and the release of the discount/premium.

The segment information provided to the Portfolio Manager for the reportable segments is as follows:

| | Cornhill Mortgages No.2 Limited | Malt Hill No.1 Plc | Oat Hill No.1 Plc | Total as at 30.06.2017 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Interest income on mortgage loans | 576,350 | 8,732,206 | 6,285,698 | 15,594,254 |
| Net interest expense on financial liabilities at fair value through profit and loss | (28,648) | (2,458,538) | - | (2,487,186) |
| Unrealised gain/(loss) on financial liabilities at fair value through profit and loss | (73,755) | 2,343,681 | - | 2,269,926 |
| Interest expense on loan notes | - | (4,476,972) | (49,691) | (4,526,663) |
| Other expenses | (2,024,710) | (1,303,251) | (3,763,387) | (7,091,348) |
| **Total net segment income** | (1,550,763) | 2,837,126 | 2,472,620 | 3,758,983 |
| **Total segment assets** | 59,018,339 | 279,754,960 | 518,005,571 | 856,778,870 |
| **Total segment liabilities** | (193,876) | (245,453,251) | (473,889,675) | (719,536,802) |

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

## 23. Segment reporting (continued)

| | Cornhill Mortgages No.2 Limited | Malt Hill No.1 Plc | Oat Hill No.1 Plc | Total as at 30.06.2016 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Interest income on mortgage loans | - | 6,164,354 | - | 6,164,354 |
| Net interest expense on financial liabilities at fair value through profit and loss | - | (1,134,372) | - | (1,134,372) |
| Unrealised gain/(loss) on financial liabilities at fair value through profit and loss | - | (4,077,975) | - | (4,077,975) |
| Interest expense on loan notes | - | (390,507) | - | (390,507) |
| Other expenses | - | (1,690,339) | - | (1,690,339) |
| **Total net segment loss** | - | (1,128,839) | - | (1,128,839) |
| **Total segment assets** | - | 318,095,273 | - | 318,095,273 |
| **Total segment liabilities** | - | (269,123,368) | - | (269,123,368) |

A reconciliation of total net segmental income to total comprehensive gain/(loss) is provided as follows.

| | 30.06.2017 | 30.06.2016 |
|---|---|---|
| | £ | £ |
| Total net segment income/(loss) | 3,758,983 | (1,128,839) |
| Other fees and expenses | (2,734,110) | (2,757,896) |
| Total comprehensive gain/(loss) for the year/period | 1,024,873 | (3,886,735) |

There are no transactions between the reportable segments.

Total segment assets include:

| | Cornhill Mortgages No.2 Limited | Malt Hill No.1 Plc | Oat Hill No.1 Plc | Total as at 30.06.2017 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Mortgage loans | 57,494,863 | 274,567,106 | 509,814,204 | 841,876,173 |
| Reserve fund | 1,500,000 | 4,739,400 | 6,917,950 | 13,157,350 |
| Other | 23,476 | 448,454 | 1,273,417 | 1,745,347 |
| | 59,018,339 | 279,754,960 | 518,005,571 | 856,778,870 |

| | 30.06.2017 | 30.06.2016 |
|---|---|---|
| | £ | £ |
| Segment assets for reportable segments | 856,778,870 | 318,095,273 |
| Other | 87,799,845 | 189,240,600 |
| Total assets | 944,578,715 | 507,335,873 |

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS Continued

for the year ended 30 June 2017

## 23. Segment reporting (continued)

Total segment liabilities include:

| | Cornhill Mortgages No.2 Limited £ | Malt Hill No.1 Plc £ | Oat Hill No.1 Plc £ | Total as at 30.06.2017 £ |
|---|---|---|---|---|
| Loan notes | - | 242,914,405 | 472,820,063 | 715,734,468 |
| Financial liabilities at fair value through profit and loss | 73,755 | 1,734,294 | - | 1,808,049 |
| Other | 120,121 | 804,552 | 1,069,612 | 1,994,285 |
| | 193,876 | 245,453,251 | 473,889,675 | 719,536,802 |

| | 30.06.2017 £ | 30.06.2016 £ |
|---|---|---|
| Segment liabilities for reportable segments | 719,536,802 | 269,123,368 |
| Trade and other payables | 1,653,775 | 849,240 |
| Total liabilities | 721,190,577 | 269,972,608 |

## 24. Ultimate Controlling Party

In the opinion of the Directors on the basis of shareholdings advised to them, the Company has no ultimate controlling party.

## 25. Reconciliation of net assets reported to the London Stock Exchange to net assets per financial statements

| | 30.06.2017 NAV £ | 30.06.2017 NAV per share £ |
|---|---|---|
| Net assets reported to the London Stock Exchange | 222,754,160 | 0.8910 |
| Adjustment to interest income on mortgage loans | 633,978 | 0.0026 |
| Net assets per Financial Statements | 223,388,138 | 0.8936 |

**26. Subsequent Events**

On 1 July 2017, the Directors designated both derivatives as fair value hedges and began hedge accounting from that date.

With effect from 1 July 2017, the Portfolio Manager fee was reduced to 0.60% per annum.

The fourth interim dividend of 1.5p per Ordinary Share in respect of year ending 30 June 2017 was declared on 13 July 2017 and paid from the capital on 31 July 2017.

On 11 October 2017, the Company declared a dividend of 1.5p in relation to the 3 month period to 30 September 2017.

Cornhill Mortgage No.1 Limited and Cornhill Mortgage No.3 Limited are currently in liquidation as the mortgage portfolios held have been securitised. At the date of approval of the Audited Consolidated Financial Statements, these entities have not yet been fully liquidated.

These Audited Consolidated Financial Statements were approved for issuance by the Board on 18 October 2017. There were no other subsequent events until this date.

## GLOSSARY OF TERMS

| | |
|---|---|
| **Acquiring Entity** | means UK Mortgages Corporate Funding Designated Activity Company, a designated activity company incorporated in Ireland qualifying within the meaning of section 110 of the Taxes Consolidation Act 1997 to acquire mortgage portfolios for on-selling to Warehouse SPVs and issuing PPNs |
| **Administrator** | Northern Trust International Fund Administration Services (Guernsey) Limited (a non-cellular company limited by shares incorporated in the Island of Guernsey with registered number 15532) |
| **AIC** | Association of Investment Companies |
| **AIC Code** | the AIC Code of Corporate Governance for companies incorporated in Guernsey |
| **AIC Guide** | the AIC Guide to Corporate Governance |
| **AIFM or Maitland** | Maitland Institutional Services Limited, the Company's alternative investment fund manager for the purposes of regulation 4 of the AIFM Regulations |
| **Amortised Cost Accounting** | The process by which mortgages in the Company's portfolio are valued at cost less capital repayments and any provisions required for impairment. |
| **Audit Committee** | an operating committee of the Board of Directors charged with oversight of financial reporting and disclosure |
| **Audited Consolidated Financial Statements** | Audited Consolidated Financial Statements of the Company |
| **BoAML** | the Bank of America Merrill Lynch |
| **BTL** | Buy-to-let |
| **Board of Directors or Board or Directors** | the Directors of the Company |
| **CHL** | Capital Home Loans |
| **Class A Notes** | means the Class A Mortgage Backed Floating Rate Notes issued by the Issuer and admitted to trading on the Irish Stock Exchange |
| **Company** | means UKML, Acquiring Entity, Issuer SPV and Warehouse SPVs |
| **Company's Articles or Articles** | the articles of incorporation of the Company |
| **Continuation Vote** | An ordinary resolution that gives shareholders the ability to instruct the board to prepare a proposal to restructure or wind up a company by means of a simple majority vote. |
| **Corporate Broker** | Numis Securities Limited |
| **CRS** | The Common Reporting Standard, a global standard for the automatic exchange of financial account information developed by OECD |
| **Custodian and Depositary** | Northern Trust (Guernsey) Limited (a non-cellular company limited by shares incorporated in the Island of Guernsey with registered number 2651) |
| **Derivative Instruments** | means instruments used to gain leveraged exposure to mortgage portfolios, including but not limited to Credit Linked Notes and Credit Default Swaps |

## GLOSSARY OF TERMS Continued

| | |
|---|---|
| **DAC** | UK Mortgages Corporate Funding Designated Activity Company an independently managed, Dublin based, section 110 designated activity company that is responsible for the warehousing and securitisation of mortgage portfolios under the supervision of TFAM the investment adviser. DAC is wholly financed by the Company via Profit Participating Notes and distributes substantially all of its profits to the Company thereby qualifying for a reduced rate of taxation, commonly known as a Eurobond exemption. From a financial reporting perspective DAC is consolidated with the Company as it provides its services exclusively to the Company |
| **DSCR** | Debt Service Coverage Ratio |
| **FFI** | Foreign Financial Institution |
| **FRC** | the Financial Reporting Council |
| **GFSC Code** | Code of Corporate Governance issued by the Guernsey Financial Services Commission |
| **Government and Public Securities** | means per the FCA definition, the investment, specified in article 78 of the Regulated Activities Order (Government and public securities), which is in summary: a loan stock, bond government and public security FCA PRA or other instrument creating or acknowledging indebtedness, issued by or on behalf of:<br>(a) the government of the United Kingdom; or<br>(b) the Scottish Administration; or<br>(c) the Executive Committee of the Northern Ireland Assembly; or<br>(d) the National Assembly of Wales; or<br>(e) the government of any country or territory outside the United Kingdom; or<br>(f) a local authority in the United Kingdom or elsewhere; or<br>(g) a body the members of which comprise: (i) States including the United Kingdom or another EEA State; or<br>(ii) bodies whose members comprise States including the United Kingdom or another EEA State; but excluding: (A) the instruments specified in article 77(2)(a) to (d) of the Regulated Activities Order; (B) any instrument creating or acknowledging indebtedness in respect of: (I) money received by the Director of Savings as deposits or otherwise in connection with the business of the National Savings Bank; or (II) money raised under the National Loans Act 1968 under the auspices of the Director of Savings or treated as so raised under section 11(3) o |

## GLOSSARY OF TERMS Continued

| | |
|---|---|
| **Hedge Accounting** | This is the process by which the change in fair value of a hedging instrument is offset by a proportionate change in the fair value of the company's portfolio to neutralise the volatility of the company's net asset value. It requires initial proof and ongoing monitoring of the hedge effectiveness. |
| **IFRS** | International Financial Reporting Standards |
| **Investment Company** | a company whose main business is holding securities for investment purposes |
| **Internal Control** | a process for assuring achievement of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies |
| **IPO, Initial Public Offering** | means the initial public offering of shares in the Company on the specialist fund segment of the London Stock Exchange |
| **IPD** | Interest Payment Date |
| **IRR** | internal rate of return |
| **IRS** | the US Internal Revenue Service |
| **Issue** | means together the Placing and the Offer (or as the context requires both of them |
| **Issuer SPVs** | means special purpose vehicles established for the specific purpose of securitisation and issuing Retention Notes for purchase by the Acquiring Entity |
| **Junior Note** | These notes have the lowest priority claim on capital and income from the securitisation SPV and offer the highest potential returns in exchange for bearing the first loss experienced by the SPV. |
| **Loan Financing Facility** | means a facility in terms of which ongoing finance is provided by Bank of America Merrill Lynch International Limited for a period of up to two-years |
| **LSE** | London Stock Exchange plc (a company registered in England and Wales with registered number 2075721) |
| **LTV** | means Loan to Value |
| **Mortgage Pool/ Mortgage Portfolio** | The underlying mortgage loans that produce the income for the securitised portfolios. |
| **NAV** | means net asset value |
| **OECD** | the Organisation for Economic Co-operation and Development |
| **Offer** | means the offer for subscription of Ordinary Shares at 1 pence each to the public in the United Kingdom on the terms and conditions set out in Part 12 of the Prospectus and the Application Form |
| **Official List** | in reference to DAC and Issuer SPV refers to the official list of the Irish Stock Exchange p.l.c<br>In reference to the Company refers to the official list of the London Stock Exchange |
| **Ordinary Shares** | ordinary shares of 100p each in the capital of the Company |

## GLOSSARY OF TERMS Continued

| | |
|---|---|
| **Placing** | means the conditional placing by the Corporate Broker, as agent for the Company, of up to 250 million ordinary shares at 1 pence each on the terms and conditions set out or referred to in the placing documents, being the Prospectus, the Presentation, the P Proof, the flyer, the press announcements, the contract note, any other document prepared in connection with the pre-marketing of the issue or the placing programme |
| **Portfolio Manager** | TwentyFour Asset Management LLP (a limited liability partnership incorporated in England and Wales with registered number OC335015) |
| **Profit Participating Notes/PPN** | these are Eurobond notes issued by DAC to the Company. The capital paid by the Company to DAC to buy the notes is invested in mortgage pools and DAC in turn pays income to the Company via coupon payments on the notes |
| **QE** | Quantitative easing (QE), also known as Large Scale Assets Purchases, is an expansionary monetary policy whereby a central bank buys predetermined amounts of government bonds or other financial assets in order to stimulate the economy. |
| **Rating Agency** | companies that assess the creditworthiness of both debt securities and their issuers, for these purposes Standard and Poor's, Moody's and Fitch |
| **Retention Notes** | means a Subordinated tranche of securities which as part of the securitisation issuance structure are issued for purchase by the Acquiring Entity |
| **RMBS** | Residential Mortgage-Backed Security |
| **RNS** | Regulatory News Service |
| **Section 110** | Section 110 of the Irish Taxes Consolidation Act 1997 (as amended). A Section 110 company is an Irish resident special purpose vehicle ("SPV") which holds and/or manages "qualifying assets" and usually distributes substantially all of its income net of a fixed annual tax payment. |
| **Seasoning** | The weighted average age of a mortgage portfolio. |
| **Securitisation Vehicle** | special purpose vehicle incorporated in the UK established for the purpose of issuing notes collateralised by underlying mortgage pool |
| **Senior Note** | Senior note holders receive first priority with respect to income and capital distributions and effectively provide long term leverage finance to the Junior note holders. |
| **Servicer** | Means the entity that maintains the relationship with the underlying mortgage borrower to answer questions, collect payments and refinance existing loans if required. |
| **Share Buyback** | the Company purchases shares in the market |
| **Shareholders** | holders of Shares |
| **Specialist Fund Segment** | the Specialist Fund Segment of the London Stock Exchange |
| **SPV** | means a special purpose vehicle |
| **SVR** | Standard variable rate |
| **TFS** | Term Funding Scheme |
| **TML** | The Mortgage Lender |

## GLOSSARY OF TERMS Continued

| | |
|---|---|
| **UK Code** | The UK Corporate Governance Code 2016 |
| **UKML** | UK Mortgages Limited |
| **Valuation Agent** | Kinson Advisors LLP |
| **WA LTV** | Weighted average loan-to-value |
| **Warehousing** | the process by which mortgages are acquired in a portfolio prior to securitisation. The portfolio is typically leveraged by borrowing from a warehouse credit facility. Three warehouse SPVs; Cornhill Mortgages No. 1 Limited, Cornhill Mortgages No. 2 Limited and Cornhill Mortgages No. 3 Limited, have been established for the purpose of warehousing the first and second transactions of the company respectively |
| **Warehouse SPV** | a special purpose vehicle, incorporated in the UK, established for the purpose of warehousing the mortgage portfolio |

TwentyFour
ASSET MANAGEMENT

PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL