TwentyFour
ASSET MANAGEMENT

UK Mortgages Limited

Annual Report and Audited Consolidated Financial Statements

For the year from 1 July 2018 to 30 June 2019

CONTENTS

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Paul Le Page
Helen Green

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SUMMARY INFORMATION

The Company

UK Mortgages Limited ("UKML", 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 of the London Stock Exchange on 7 July 2015.

The company and its affiliate structure have 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.

The company established a Dublin domiciled Acquiring Entity, UK Mortgages Corporate Funding Designated Activity Company ("DAC") for the purpose of acquiring and securitising mortgages via Special Purpose Vehicles ("SPVs"). The company, the Acquiring Entity, the Issuer SPVs (Malt Hill No.1 Plc, Malt Hill No. 2 Plc, Oat Hill No.1 Plc, Barley Hill No.1 Plc (incorporated 18 February 2019)), and the Warehouse SPVs (Cornhill Mortgages No.2 Limited, Cornhill Mortgages No.3 Limited (until placed into liquidation on 9 February 2018), Cornhill Mortgages No. 4 Limited (incorporated 7 August 2018), Cornhill Mortgages No. 5 Limited (incorporated 24 May 2019) and Cornhill Mortgages No. 6 Limited (incorporated 18 March 2019)) (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. In accordance with the Listing Rules, the Company can only make a material change to its investment policy with the approval of its Shareholders by Ordinary Resolution. The Company's investment policy was revised to allow investment into third party AAA rated RMBS for cash management purposes and to allow additional leverage in the Company's securitisations via the issuance of mezzanine notes at an EGM held on 16 August 2019.

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

Maitland Institutional Services Limited ("Maitland") is responsible for calculating the Net Asset Value ("NAV") per share of the Company. Maitland has delegated this responsibility to Northern Trust International Fund Administration Services (Guernsey) Limited (the "Administrator"); however Maitland still performs an oversight function. The unaudited 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 approximately 2 weeks after the last business day of the following month.

Financial Highlights

	30.06.2019	30.06.2018
Total Net Assets at year end	£224,084,805	£233,990,428
Net Asset Value per ordinary share at year end	82.06p	85.69p
Share price at year end	73.50p	87.25p
(Discount)/premium to Net Asset Value at year end	(10.43%)	1.82%
Net Asset Value Total Return	1.56%	(0.81%)
Dividends declared and paid in the year	6.00p	6.00p
Total dividends declared in relation to the year	5.625p	6.00p
Ongoing Charges		
- UKML	0.93%	0.93%
- DAC and subsidiaries	2.01%	1.65%
Total ongoing charges for the Company	2.94%	2.58%

CHAIRMAN'S STATEMENT

for the year ended 30 June 2019

I am pleased to report the results of the Company for the year from 1 July 2018 to 30 June 2019, during which the Company's underlying mortgage assets continued to perform extremely well, with very low levels of arrears. In the period, our origination businesses have made good progress, with TML's first securitisation achieved in April 2019 and Keystone building steadily towards its inaugural securitisation, probably in the first half of 2021. In April, we also refinanced Malt Hill No. 1, our original Coventry Building Society portfolio and this pool is now held in a warehouse facility. A full breakdown of the Company's mortgage portfolios and their performance is detailed below in the Portfolio Manager's report.

However, this excellent credit performance must be set against the background of falling medium term interest rates in the second half of the period, as the broad economy slowed and Brexit uncertainty persisted. In particular, 2-year swaps fell from 1.157% to 0.835% between the end of 2018 and the end of June 2019 and 5-year swaps fell from 1.298% to 0.898%. By the end of July, this small term premium had inverted, with 5-year rates slightly lower than 2-year swaps at the time of writing.

As these lower forward rates were incorporated in our revenue models, along with the realised proceeds of the TML securitisation and the Malt Hill No. 1 refinancing, it was clear that full coverage of the 6p annual dividend would take longer than anticipated at the time of the interim report and that the consequent rate of erosion of NAV was no longer appropriate. As a result, the Board felt it prudent to reduce the annual dividend to 4.5p and at the same time put forward proposals to amend the investment policy to allow the Portfolio Manager greater flexibility when financing portfolios and managing free cash, but without compromising the credit quality of the underlying mortgage pools.

These proposals were overwhelmingly approved at the EGM in August and I believe that these actions leave the Company better positioned to translate its consistent credit performance into its original target returns.

In addition, following consultation with shareholders, the Board has committed to using future excess cash to buy back shares rather than sanctioning new investments, if the Company's shares are trading on a discount greater than 5%. The Board believes that buying back shares in these circumstances is attractive by being immediately accretive to NAV, but also in reflecting its desire to minimise the Company's discount. The refinancing of Oat Hill No.1 in May 2020 is likely to be the first point at which surplus cash will be released, but given that current estimates of this surplus are from £30m to £50m, there will clearly be a material sum available, should the current discount persist.

A cash release was always expected at this point and has been flagged in previous reports, but the probable extent of this is beginning to become clearer as the refinancing date approaches. It is generated by several factors, which in combination make up the "pull-to-par" effect resulting from the original purchase of this portfolio at a significant discount. Within the securitisation, prepayments of loans in the underlying pool are used first to pay down the senior notes, whilst the Company's junior holding remains unchanged, essentially deleveraging our holding. When the securitisation is called and refinanced, the portfolio can be relevered and the differential is released.

Furthermore, the recent change in investment policy allows us to use more leverage and therefore less capital in a future refinancing, releasing further cash. Finally, the flattening of the credit curve alongside the yield curve means that any mezzanine notes in a securitisation would have a lower cost of funding if we issued them at current rates. This would allow the capital structure of the securitisation to be more efficient, again using less capital and releasing more cash. The future shape of the UK yield and credit curves is, of course, hard to predict, which is why we have given such a broad range of surplus cash estimates and will update investors if there is any material change to these.

CHAIRMAN'S STATEMENT Continued

The fair market value of the Company's mortgage portfolios, as reported in Note 21 of these accounts, is higher than their carrying value, which is based on their amortised cost over the life of each pool in accordance with IFRS 9. Consequently, this difference does not form part of the Company's NAV and is only realised when underlying mortgage loans are repaid and whenever the portfolio is refinanced. In the case of Oat Hill No. 1, the combination of the unwinding of the purchase discount and lower refinancing rates mean that the fair market value of this pool represents a significant portion of the overall difference.

Following refinancing, the Oat Hill portfolio will continue to generate income, albeit a relatively modest one as the loans are low-yielding, but this will be higher relative to the capital employed than in the previous securitisation, given the greater leverage expected to be utilised.

Outlook

In my half year statement in March, close to the then deadline for exiting the EU, I wrote that it seemed incredible that we still had no idea of the shape of Brexit. Six months on and the same statement can be made. From the Company's perspective, this persistent uncertainty has had little effect to date, but as mentioned in previous reports, there is a clear risk that an unfavourable Brexit might lead to a sharp economic slowdown in the UK. This would lead the Bank of England to reduce base rates and could see the reintroduction of very cheap funding for banks, along the lines of the Term Funding Scheme of 2016. This reduced asset yields and the resultant dearth of sufficiently attractive portfolios was a significant factor in the Company's slower than anticipated pace of investment.

A similar scheme today would pose new issues for the Company, in particular if there is aggressive price competition in the origination businesses. However, by comparison with 2016, we are much better positioned. The Company is now fully invested so the potential for cash drag is removed and the new flexibility granted to the Portfolio Manager should allow much greater scope to finance portfolios efficiently. We are not complacent about the possibility for economic disruption over the next six months, but the Board believes that the combination of the investment policy changes and the buyback commitment give us sufficient flexibility to act in the best interests of shareholders.

Thank you for your continuing support.

Christopher Waldron
Chairman
17 October 2019

PORTFOLIO OF INVESTMENTS
as at 30 June 2019

Portfolio Summary	Buy-to-Let				Owner Occupied
	Purchased			Forward Flow Originated	
	Cornhill No.6	Malt Hill No.2	Oat Hill No.1	Cornhill No.4	Cornhill No.2/Barley Hill No.1*
Originator	Coventry Building Society		Capital Home Loans	Keystone Property Finance	The Mortgage Lender
Outstanding Balance	£194m	£345m	£514m	£145m**	£247m
Number Accounts	1,086	1,971	4,000	701	1,363
Average Mortgage Size	£179k	£175k	£128k	£207k	£181k
WA Indexed LTV	62.38%	60.49%	66.25%	71.17%	67.86%
WA Interest Rate	2.79%	2.71%	2.03%	3.62%	3.93%
WA Remaining Term (mth)	201	228	127	264	292
WA Seasoning (mth)	47	29	149	3	12
3mth + Arrears (% balance)	0.00%	0.00%	0.90%	0.00%	0.24%

** includes loans securitised into Barley Hill 1 and Cornhill 2 loans in transition*

*** includes completions and pipeline*

STRATEGIC REPORT

The Board has prepared this report on a voluntary basis as there is no requirement to comply with the UK regulations governing the Directors' duty to prepare a 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. The Company's investment policy was revised to allow investment into third party AAA rated RMBS for cash management purposes and to allow additional leverage in the Company's securitisations via the issuance of mezzanine notes at an EGM held on 16 August 2019.

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 ("NAV")

The Company's NAV has declined from 98p per share at launch to 82.06p at the year end. This decline in NAV is largely attributable to servicing and warehouse costs, and total dividend payments of 19.5p per share, which have been mostly funded from capital during the portfolio investment phase. The Directors and Portfolio Manager are confident that the current strategy incorporating the recent changes to the investment policy will restore the capital value of the Company and would expect the Company's NAV to grow over time.

- Discount/Premium

The Company has traded at an average premium of 0.69% for the year ended 30 June 2019 (3.8% for the prior three years) to NAV although the Directors note that the Company was trading at a discount of over 10% to NAV at year end and have since established a Company policy on share repurchases to help address this.

- Ongoing Charges

The Company's ongoing charges ratio has increased to 2.94% from 2.58% mainly due to costs associated with securitising Barley Hill No. 1 Plc. 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 static at 0.93% of NAV and were helped by the Portfolio Manager charging a reduced fee of 0.6% during the year. The costs of servicing the underlying mortgage portfolio have increased from 1.65% to 2.03% 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 three interim dividends of 1.5p in relation to the year in accordance with the prospectus target and the initial dividend payment policy of 6.000p per annum, and one interim dividend of 1.125p in line with the revised dividend payment policy of 4.500p per annum. 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 fully covered by income received.

- Investment Level

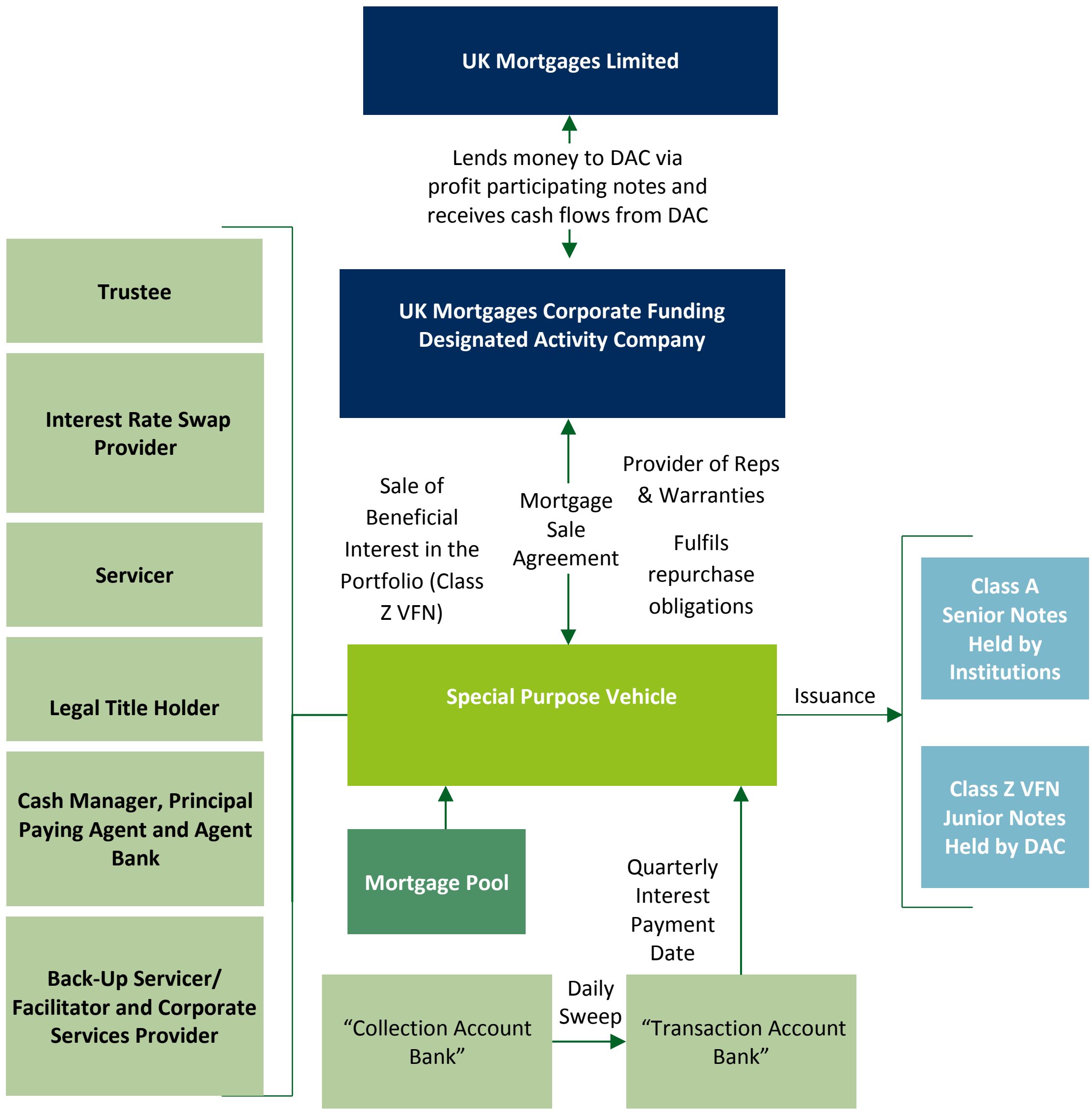
At 30 June 2019, the Company had approximately £52m of cash and near cash working capital compared with £44m at 30 June 2018. As the Company now has a substantially leveraged exposure to mortgage investments, the Directors monitor uncommitted cash levels and intend to keep average working capital balances to a minimum over the life of the Company. The year end working capital balance was elevated due to the refinancing of Malt Hill No. 1 and the need for working capital to fund loan origination commitments.

STRATEGIC REPORT Continued

Company Structure

The Company pursues its investment objective via UK Mortgages Corporate Funding Designated Activity Company ("DAC"). DAC is an 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 securitisations, the junior tranches of which are 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 enables DAC to attain leverage by a factor of up to twenty times, the directors of DAC have historically limited the size of any senior financing in order to meet the requirements for an AAA rating on issuance. Following a recent shareholder vote the company's investment policy was amended to allow DAC to issue additional tranches with a rating of BBB or higher with a view to increasing returns to shareholders by increasing leverage.

The structure of a typical securitisation issued by the Company is shown below. During the year, a new Issuer SPV, Barley Hill No.1 Plc, was incorporated to hold and securitise loans from the Warehouse SPV, Cornhill Mortgages No.2 Limited. In June 2019, the Company completed the exercising of the Portfolio Option on the loans underlying the Malt Hill No.1 Plc securitisation, and the loans have been refinanced into a new warehouse SPV with Lloyds Bank Corporate Markets plc, called Cornhill Mortgages No.6 Limited.



STRATEGIC REPORT Continued

Company Structure (continued)
This company structure, whilst complex, comprises a Guernsey domiciled company listed on the Specialist Fund Segment with a portfolio of UK 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 Irish tax relief on the income that it distributes which ensures that 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, Malt Hill No. 2 Plc, Oat Hill No. 1 Plc and Barley 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, MLTH2, OATH1, BARLH1), ABSNet (ticker: MALTH, MALTH2, OATH, No ticker on ABSnet for Barley Hill No.1 Plc) and Bloomberg (ticker: MALTH 1 Mtge, MALTH 2 Mtge, OATH 1 Mtge, BARLH 1 Mtge).
- Loan level data for the public securitisations are 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.

The funding process for each transaction is an integral part of the Company's investment proposition. The Portfolio Manager may establish a committed funding line with a third-party lender to allow for the purchase of each mortgage portfolio. The Company amended its leverage policy in July 2019 which increased its capacity to borrow from 10% to 20% of the Company's Net Asset Value at the time of drawdown. 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.

STRATEGIC REPORT Continued

Investment Process (continued)
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 regular 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 by the Management Engagement Committee.

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 0.60% per annum since 1 July 2017 of the lower of NAV, which is calculated monthly on the last business day of each month, or market capitalisation. Prior to this date, the portfolio management fee per annum was 0.75%. 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.

Principal Risks and Uncertainties
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 has carried out a robust assessment of the principal risks facing the Company and have looked at numerous risk factors, an overview of which is set out on page 28.

STRATEGIC REPORT Continued

Directors
The Directors of the Company during the year and at the date of this report are set out on page 2.

Directors' and Other Interests
As at 30 June 2019, Directors of the Company held the following Ordinary Shares beneficially:

	Number of Shares 30.06.2019	Number of Shares 30.06.2018
Christopher Waldron	20,000	20,000
Richard Burrows	5,000	5,000
Paul Le Page	20,000	20,000
Helen Green	10,000	10,000

On 26 July 2019, the Christopher Waldron purchased a further 20,000 shares in the Company.

Signed on behalf of the Board of Directors on 17 October 2019 by:

Christopher Waldron
Director

Paul Le Page
Director

PORTFOLIO MANAGER'S REPORT

for the year ended 30 June 2019

Housing, Mortgage and RMBS Market Commentary

Housing and mortgage market data continues to be mixed on an almost month-by-month basis. However, whilst most house price indicators have continued to show either flat or sluggish growth, mortgage market figures seem to be showing some more positive signs as we have moved into the second half of 2019. Transaction volumes, mortgage lending and mortgage approvals have all been growing, perhaps indicating that in some regions borrowers and house buyers have waited long enough, with house price figures indicating the north of England outperforming (or maybe still just catching up) the south, where weakness still generally prevails.

In general, this is borne out by our own experience, where we have seen an uptick in overall origination in both of our forward flow facilities since the first quarter of 2019. Furthermore, in The Mortgage Lender's ("TML"'s) owner occupied origination we have seen a 6% fall in the percentage of loans by value completing in London and the south and a corresponding rise in the midlands and the north, and we continue to see a high proportion of purchases (c.70%) rather than re-mortgages. Overall, whilst lending by value is relatively even across the country, fewer than 25% of loans are in the south. TML are also seeing an increase in first time buyers – further evidence that buyers have waited long enough.

However, one feature of TML's origination that differs from some broader market evidence is that lending is still concentrated almost 80% in 2 year loans. With a flat yield curve there is broader evidence that more and more borrowers are looking for longer dated loans, with the number of 10-year fixed rate mortgages on offer at a competitive high according to Moneyfacts. However, TML are not currently seeing this – perhaps this reflects the specialist nature of their lending where monthly affordability is more important to many borrowers than long term cost, and for those with weaker credit profiles, the medium term expectation will be for their credit profiles to improve over time as they continue to make payments thus leading to a likely reduced cost borrowing when they next refinance.

Keystone's origination by contrast is dominated by re-mortgages (c.70%) and 5 year loans (c.76%). The longer tenor possibly reflects the less onerous Interest Coverage Ratio ("ICR") stress test applied to longer dated loans but also the competitive pricing available to their 'professional' borrower base, which can be locked in for longer.

Loans with an initial fixed rate period of longer than 5 years are typically more expensive to hedge and to manage prepayments within a securitisation so they are not a product that is currently common in the mortgage market, but should the mainstream lenders start to offer longer loans, such as a 10 year product, then we would expect that the specialist lenders would start to follow.

In RMBS markets, primary issuance saw a hiatus during the first quarter of 2019 as new European securitisation regulations were introduced from the start of the year, but with some uncertainty over a number of key technical components. Once these were essentially clarified at the end of Q1 issuance slowly restarted and this included the first deals to carry the new Simple, Transparent and Standardised ("STS") designation, as well as the gradual transition of deals in the UK moving from issuance with a Libor-linked coupon to the use of a Sterling Overnight Interest Average rate ("SONIA")-linked reference rate. Challenges remain for originators around how to deal with historical transactions and also for underlying loans with a Libor-linked reversion rate but a positive momentum is now underway and issuers are slowly beginning to work on solutions.

The annual Global ABS conference in early June was bigger than ever with a post-crisis record number of attendees. The broad consensus from participants was positive for the market with confidence in structures and a view that in relative value terms, ABS markets are likely to outperform other comparable credit markets. Regulation continued to be a much discussed topic but overall there was a sense of more certainty with more STS labelled transactions coming to the market; a positive development for both issuers and investors into the future.

Subsequently, primary markets continued to grow at an increasing pace and overall the issuance volume in UK RMBS up to the summer break was very encouraging with 19 deals totalling almost £15bn from 17 issuers including 6 from debut originators (one of which was our own Barley Hill deal); 5 deals with recently originated collateral from established specialist lenders plus 3 prime UK bank deals; 3 refinancings of legacy collateral, and what is likely to be the last new deal of UK

PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2019

Housing, Mortgage and RMBS Market Commentary (continued)

government owned legacy mortgages. The only notable absentees were the building societies, not one of whom issued in the first eight months of the year, although two deals have subsequently appeared.

Most deals were successfully placed with good demand, albeit oversubscription levels varied, with particularly strong demand in the mezzanine area, and deals continue to price at the tighter end of guidance.

Market Outlook

As the market drew to a close for the summer break some fears of oversupply were beginning to emerge, particularly at the higher volume senior debt end of the market, and with a view to a potentially high pipeline for the last part of the year; albeit everything was ultimately placed. The latest expectation of an imminent Brexit and the expectation of further growth in issuance next year as the banks start to fund their TFS roll-off, also poses some questions as to whether the somewhat constrained size of the UK investor base can absorb further increases in issuance volumes, and this may weigh on spread levels during the final part of the year.

Portfolio Management Report

Having negotiated the new Keystone funding facility through the summer of 2018 and completed the transaction in early October, and covered in the half-year report, the portfolio managers set about meeting a number of signalled milestones in the first half of 2019. In April, the TML originated portfolio, which had been growing at a steady but far slower than initially expected rate, was finally able to be securitised into Barley Hill No.1 Plc, a £238.5m transaction.

Unlike previous UKML securitisations, this deal contained two tranches – a Class A note, rated Aaa/AAA by Moody's and DBRS, and a Class B note, rated Aa1/AA (high) – to more efficiently negate the effects of the deleveraging generated by pre-payments expected in the portfolio. The deal also included an element of pre-funding to allow up to £25m of further origination between launch and the first interest payment date in August 2019 to be included in the transaction, thus improving cost efficiency.

Notice was given at the end of April to exercise the Portfolio Option on the loans underlying Malt Hill No.1, leading in turn to the redemption of the transaction on the interest payment date at the end of May. The loans have been refinanced into a new warehouse SPV with Lloyds Bank Corporate Markets plc, called Cornhill Mortgages No.6 Limited.

This represents the completion of the first full cycle for UKML's inaugural investment, and was an important step in the cash flow management of the Company as it allowed the portfolio to be re-levered, given that the initial pool had reduced from around £310m upon acquisition to about £200m. With many of the remaining loans reaching the end of their fixed-rate period over the summer, further repayments are expected throughout the year. The terms of the warehouse allow capital to be withdrawn in line with the amortisation of the portfolio, providing a structure which allows for more efficient capital management for the Company.

The most significant event for the Company during the year was the decision to reduce the annual dividend from 6p to 4.5p along with a number of proposals for amendments to the Company's investment policy. In particular, these changes allow greater flexibility with regards to the leverage strategy with the ability to issue securitisation tranches through the entire investment grade rating spectrum (i.e. down to BBB rather than just AAA, although capped at 20x nominal leverage, in line with the 5% minimum risk retention requirement of the securitisation regulations). These proposals were driven by the need to increase the income from the asset side of the balance sheet particularly in light of the recent, but potentially prolonged, flattening in the yield curve. Neither the Board nor the investment manager was keen to take more credit risk by investing in higher yielding but lower quality assets. The preferred strategy is to maintain the high quality of the investment portfolio where losses are likely to be minimal, and then increase returns through higher levels of gearing. The ultimate aim being to rebuild the NAV over time whilst delivering a sustainable level of dividends.

PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2019

Portfolio Management Report (continued)
These changes were the subject of two resolutions put to an investor vote at an EGM in August, following an investor webinar and numerous one-to-one meetings with larger investors, including some between shareholders and members of the Board. Furthermore, as described in the Chairman's Statement, a share buyback mechanism was also included as part of the proposals to shareholders.

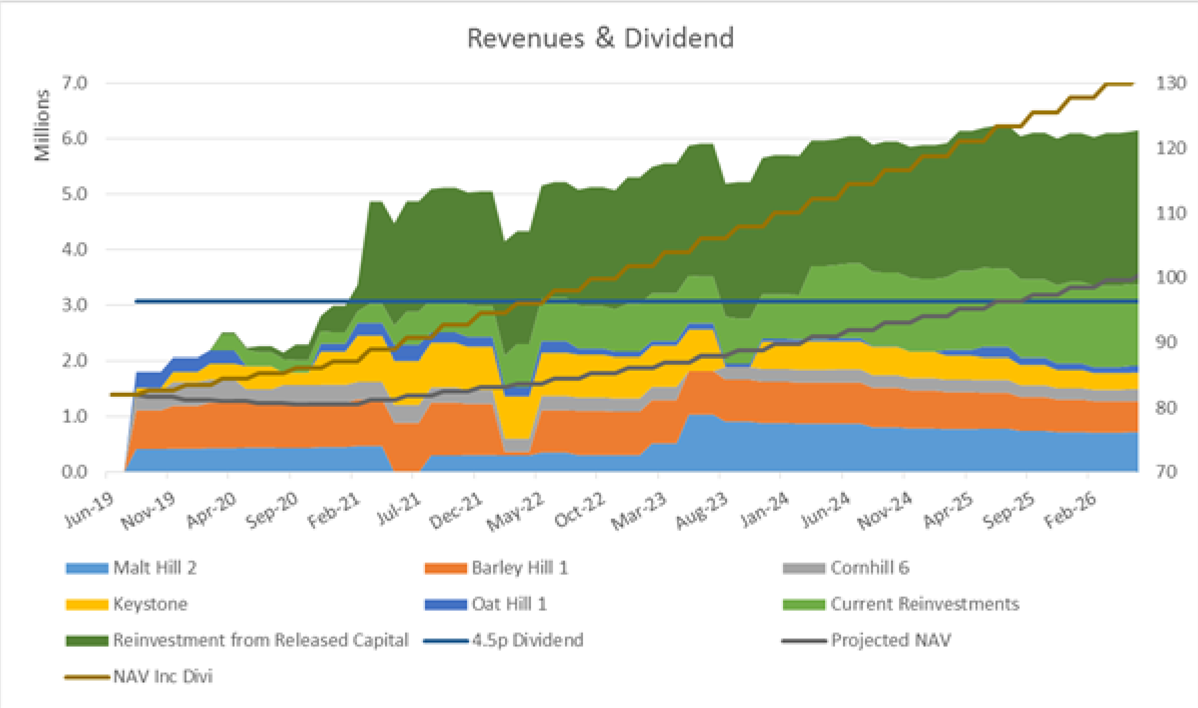
Both resolutions were passed.

The positive outcome means that work can now begin to implement the changes to the investment policy, albeit this is expected to be a gradual process, as whilst some adjustments can potentially be made to the ongoing forward flow warehouses, these facilities are currently relatively early in their growth stages and therefore the immediate impact will be minimal. More substantial changes will begin to occur when each of the term securitised portfolios is refinanced, commencing with the Company's largest investment, the Oat Hill No.1 Plc deal in May 2020.

Other changes were agreed, such as the clarification, that in order to enhance cash management, the Company may invest undrawn capital into tranches of AAA rated UK RMBS.

The graphs below show a variety of scenarios under different buyback scenarios.

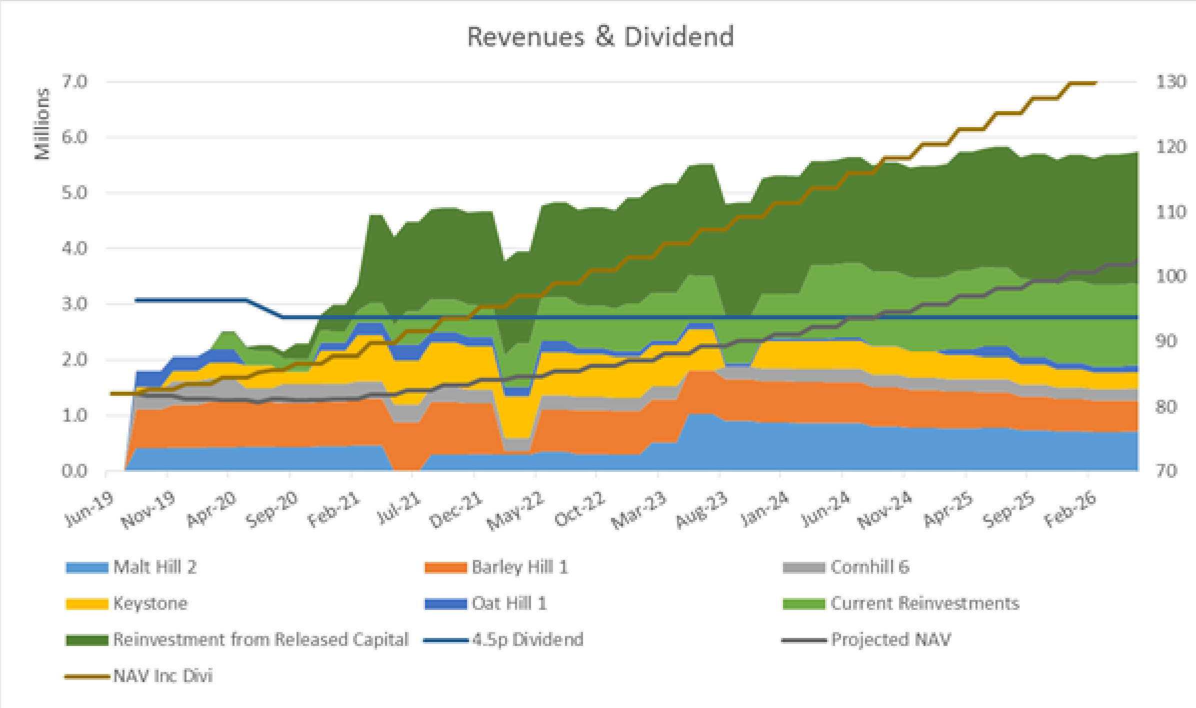
i. The first shows projected asset returns and NAV projection, with no buyback assumptions - essentially the same chart shown in the June 2018 webinar presentation but with an extra line showing NAV including future dividends.



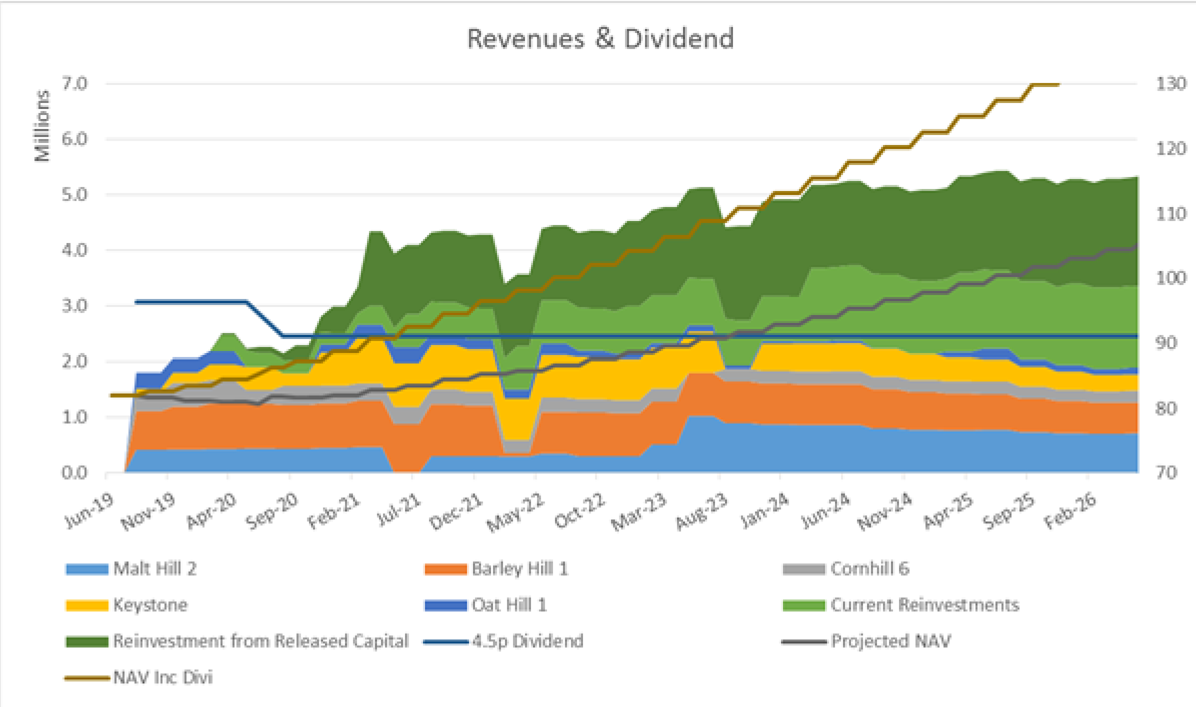
PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2019

Portfolio Management Report (continued)

ii. This graph assumes a share buyback of 10% (£27.3m shares) is made at a 5% discount to the projected NAV at that time (80.75%) following the refinancing of Oat Hill 1 in May 2020.



iii. This graph assumes a share buyback of 20% (£54.6m shares) is made at a 5% discount to the projected NAV at that time (80.75%) following the refinancing of Oat Hill 1 in May 2020.



As the graphs show, buybacks help to speed up the recovery of the NAV as the dividend payment amount is reduced. For example, a 15% buyback at an average discount of say 7.5% would add about 1.125% to NAV. As the Company only has authority to buyback up to 14.99% of NAV any buybacks in excess of this level would require shareholder approval at an EGM.

PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2019

Portfolio Management Report (continued)
The refinancing of Oat Hill No.1 Plc in May 2020 is expected to lead to a material uplift in the net asset value of the Company which cannot be quantified with any degree of certainty at this time and has therefore not been shown in the NAV illustrations.

Revolving Credit Facility ("RCF")
We continue to make progress with arranging an RCF, albeit the changes to investment policy detailed above have slowed the process as the structure now needs to be adjusted to reflect the impact that greater leverage will have upon the unsecured debt provider's position going forward.

Capital Position
Following the refinancing of Oat Hill No.1 Plc in May 2020, released capital will be available for buybacks if the discount is greater than 5%. Once the future commitments of TML & Keystone (assuming £300m each) have been taken into account it is currently estimated that between £30m and £50m could be available for potential buybacks at that time, depending on market conditions and the structure that can be achieved on a new securitisation.

Portfolio Performance
All portfolios continue to perform generally in line with expectations with low arrears and stable prepayments.

Forward Flow Owner Occupied
TML are now delivering consistently strong levels of origination, with a number of months of record application and completion volumes. The pre-funding pool for Barley Hill No.1 Plc was filled far quicker than was expected and this was combined with a surprisingly higher number of older loans moving to the reversion rate, rather than prepaying as might have been expected. The positive consequences of this being that firstly the margin (and therefore returns) in the Barley Hill portfolio will benefit from those borrowers now paying the higher reversion rate, secondly that should this behaviour continue the transaction will de-lever slower than we expected, thereby maintaining leverage and therefore higher returns, and thirdly that the lower level of prepayments means that the new TML warehouse has begun with a higher balance than initially expected and is growing quickly, which is also beneficial to income.

Negotiations for that new facility (Cornhill Mortgages No.5 Limited) were completed in August, shortly before the EGM, with a new 2 year warehouse with HSBC to create the collateral for what is expected to be the second Barley Hill transaction. Unlike the previous TML warehouse, arranged in 2016 with Natwest Markets, which was fully capitalised from the outset (as TML, whilst operated by a highly experienced lending and management team, was a new lender at that time, and furthermore UKML's capital position was then at a large surplus) this transaction employs a far more efficient incremental capitalisation structure, similar to that used with 2018's Cornhill No.4 transaction. This new structure will significantly increase the efficiency of capital deployment and therefore leverage, minimising the cost of undrawn commitment fees. Swaps hedging will also be with HSBC (rated Aa2(cr)/AA- by Moody's and S&P).

Whilst lending criteria are likely to evolve in response to changing trends and needs in mortgage markets, the risk profile of the new portfolio is expected to remain broadly similar to the previous one. At the end of August, completions had already reached almost £46m, with most metrics within portfolio test limits (which take effect after £50m of completions). Loans to borrowers with prior County Court Judgements ("CCJs") (which rose quite sharply in the early part of the year, due to some of the product changes made late last year) have been falling consistently since the introduction of a cap on the size of the CCJ allocation. High LTV (85%-90%) loans remain slightly above the limit, but pipeline origination is below the limit so further completions should bring this back in line. This high LTV exposure is primarily driven by the high level (34%) of loans to first time buyers. Whilst inside the portfolio limit of 35%, this has clearly been one of the few drivers of loan growth with various government initiatives to get First Time Buyers ("FTB's") on the housing ladder. As noted above, TML have experienced a much higher proportion of purchases (almost 70%) than the market average, particularly in this low interest rate environment. They are currently proposing some special offer products aimed at re-mortgage borrowers in order to redress this balance.

PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2019

Forward Flow BTL

Keystone's origination volumes have recovered somewhat from the drop-off experienced towards the end of Q1 2019, although with the typical lag from application date this is only just beginning to feed through to completions. At the end of August, these had reached almost £75m with over £125m in the pipeline, of which £40m are at the offer stage. Portfolio metrics remain within all limits, however as also noted above, in an entirely opposite experience to TML, Keystone's origination saw an exceedingly high proportion (greater than the 75% limit) of re-mortgages in their early origination, although this is more in accordance with general market experience, possibly driven by the additional 3% stamp duty that purchases of these properties attracts. In a similar move to TML's current proposal, they also introduced special offers (such as a cashback product) and this has redressed the balance with completions now at 69% and the pipeline in the low-to-mid-50% area.

Purchased BTL

The Oat Hill No.1 Plc portfolio continues to see relatively stable overall prepayments which are marginally slower than originally expected due to the flattening of the yield curve. Arrears levels are also stable, but with a fall in longer-term arrears, although this has been offset by a notable increase in realised losses in recent months, although many of these were expected as they came from loans purchased in arrears which were factored into the portfolio effective interest rate on purchase. We have noted similar behaviour in other CHL securitisations and have investigated this with them. For the most part these losses were generated by a confluence of property sales of long-term arrears cases in receivership, a number of these being part of a portfolio in the North. The biggest generator of losses has typically been legal costs to obtain possession, in particular where eviction was required to remove non-paying tenants and where the missed rental payments further increased the arrears. That said, typical receiver behaviour is to obtain vacant possession and then sell, which also means that in addition to any accrued arrears there are no rental collections during the sale period, which averages around 90 days but varies from case to case and will take longer where court proceedings are required. This clearing down of older problem loans should leave the portfolio with less arrears growth and whilst a number of possession or receiver properties remain in the portfolio, disposals of these are likely to be both more prolonged and evenly spaced in the intermediate future.

Finally, both Coventry portfolios continue to exhibit exceptionally strong performance, with no loans at all in arrears at the end of June and just one in Cornhill No.6 at the end of July. Prepayments remain stable, although we did see expected pick-up in prepayments, generally in line with our expectations, in Cornhill Mortgages No.6 Limited in August when a further batch of loans reached the end of their current fixed rate period.

TwentyFour Asset Management LLP
17 October 2019

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 Crystal Amber Fund Limited and a director of JZ Capital Partners Limited as well as a number of unlisted companies. 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 Treasurer of British Arab Commercial Bank plc in London. He has previously held senior Treasury related roles at Bank of China, London Branch (2015 – 2018), Co-operative Bank (2012 – 2015), Northern Rock (2009 – 2010) and Citi Alternative Investments (1994 – 2008). From 2010 to 2012, Mr Burrows worked in the Prudential Risk Division of the Financial Services Authority as the UK regulator rolled out its post-crisis requirements with specific focus on the liquidity regime. 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. 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. Mr Le Page was appointed to the Board of Directors 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 1998. 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, CQS Natural Resources Growth and Income plc and JPMorgan Global Core Real Assets Limited. Mrs Green was appointed to the Board of Directors on 16 June 2016.

The Directors named above were the directors of the Company, and held this office during the year and up to the date of signing the financial statements.

DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGES

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

Christopher Waldron (Chairman)	
Crystal Amber Fund Limited	AIM
JZ Capital Partners Limited	London
Richard Burrows	
None	
Paul Le Page	
Bluefield Solar Income Fund Limited	London
Highbridge Multi-Strategy Fund Limited	London
Helen Green	
Landore Resources Limited	AIM
Aberdeen Emerging Markets Investment Company Limited	London
City Natural Resources High Yield Trust PLC	London
JPMorgan Global Core Real Assets Limited	London

DIRECTORS' REPORT

The Directors present their Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2019.

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. On 27 June 2018, the Company completed an additional capital raise. On 16 August 2019, the Company resolved through an Extraordinary General Meeting ("EGM"), to amend the Articles of the Company;

(i) to enable the Company to implement the reduction in the annual dividend trigger from 6p to 4.5p;

(ii) to provide that the Continuation Resolution due to take place at the Annual General Meeting ("AGM") in 2020 will now take place at the date of the AGM in 2024 and every fifth AGM thereafter; and

(iii) the limit on borrowings be increased from 10 per cent. to 20 per cent. of the NAV of the Company as at the time of drawdown.

Further, the Share Buyback Policy was also amended at the EGM. The Board does not intend to reinvest further capital other than in the re-financing of the existing portfolios, whilst the Company is trading at a discount in excess of 5 per cent. to NAV per Ordinary Share. At this level of discount, subject to the Board determining that the Company has sufficient surplus cash resources available for the ongoing funding of the existing investments, repayment of any existing credit facilities and any other foreseeable commitments, the Company intends to buy back Ordinary Shares.

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 19.

Shareholders' Information
Shareholders' 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 disclosure requirements of Premium Listing rules and as such applies the Association of Investment Companies Code ("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 these 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 50. The Company declared dividends of £15,359,929 in respect of the year ended 30 June 2019, a breakdown of which can be found in note 22. Distributions declared and paid during the year amount to £16,383,924 as recognised in the Consolidated Statement of Changes in Equity.

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.

Signed on behalf of the Board of Directors on 17 October 2019 by:

Christopher Waldron
Director

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 Corporate Governance Code 2016 ("UK Code") issued by the Financial Reporting Council (the "FRC"). The Company is also required to comply with the Guernsey Financial Services Commission Code ("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. There is no information that is required to be disclosed under LR 9.8.4. 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 ("Association of Investment Companies") and by complying with the 2016 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 updated its Code on 5 February 2019 to reflect revised Principles and Provisions included in the UK Corporate Governance Code which was revised in 2018. These changes apply to financial years beginning on or after 1 January 2019 and the Directors intend to report on the Company's compliance with the changes in the Annual Report for the year ended 30 June 2020.

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 2019, the Company has complied with the recommendations of the 2016 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;
- Remuneration Committee; and
- Nomination Committee.

For the reasons set out in the AIC Guide and as explained in the UK Code, 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 delegates its day to day operations and does not have employees, hence no Chief Executive, Executive Directors' remuneration or internal audit function is required for the Company. The Board is satisfied that any relevant issues can be properly considered by the Board. The Board, as a whole, fulfils the function of a Nomination and Remuneration Committee as detailed in the Directors Remuneration Report.

Given the relatively small size of the board, it has been decided that it is unnecessary to have a separate Nomination Committee and relevant matters are considered by the whole 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 31 and 32.

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 Mr Christopher Waldron. The UK Code requires the Chairman of the Board be independent. Mr 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 fifteen 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 18.

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 Group'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 Financial Statements of the Company and its subsidiaries are subject to internal review by their respective administrator, a further review by the Portfolio Manager, and also their respective Directors. The final review is conducted by the Company's administrator which includes the subsidiaries' Financial Statements. Each administrator has a robust control environment in place, and in addition each company is subject to an annual external audit. Malt Hill no.1 Plc, Barley Hill No.1 Plc, Cornhill Mortgages No. 2 Limited, Cornhill Mortgages No. 5 Limited and Cornhill Mortgages No. 6 Limited were not subject to an annual audit at 30 June 2019 but they were reviewed by the independent auditor as part of the Company's annual audit.

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.

CORPORATE GOVERNANCE REPORT Continued

Directors' Attendance at Meetings
The Board holds quarterly Board meetings to discuss performance, asset allocation, risk management, corporate governance, compliance, gearing, structure, finance, marketing and general management.

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.

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	8	5
Richard Burrows	1	1	8	6
Paul Le Page	1	1	8	8
Helen Green	1	1	8	6

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.

CORPORATE GOVERNANCE REPORT Continued

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.

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.

Retirement by Rotation
Under the terms of their appointment, each Director is required to retire by rotation as detailed in the Director’s Remuneration Report on pages 33 to 34.

UK Criminal Finances Act 2017
In respect of the UK Criminal Finances Act 2017 which has introduced a new Corporate Criminal Offence of “failing to take reasonable steps to prevent the facilitation of tax evasion”, the Board confirms that it is committed to zero tolerance towards the criminal facilitation of tax evasion.

The Board also keeps under review developments involving other social and environmental issues, such as the General Data Protection Regulation ("GDPR"), which came into effect on 25 May 2018, and Modern Slavery, and will report on those to the extent they are considered relevant to the Company's operations.

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 20 March 2019, 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.

CORPORATE GOVERNANCE REPORT Continued

Audit Committee
An Audit Committee has been established consisting of all Directors with Paul Le Page appointed as Chairman. Given the relatively small size of the Board, it has been decided that the Audit Committee comprises the whole Board, under Paul le Page's chairmanship. The terms of reference of the Audit Committee provide that the committee shall be responsible, amongst other things, for reviewing the Consolidated Interim and Consolidated Annual Financial Statements, considering the appointment and independence of the 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 35.

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 33 to 34.

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 Common Reporting Standard ("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.

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.

CORPORATE GOVERNANCE REPORT Continued

Internal Controls (continued)
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.

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 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 hereafter.

CORPORATE GOVERNANCE REPORT Continued

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.

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 the Company being unable to pay target dividends to investors due to a shortfall in income received on the portfolio. The risk is monitored by the Board of Directors receiving quarterly reports from the Portfolio Manager, in conjunction with the Company's Administrator, which monitor the Company's current and projected 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 does pay dividends from capital with Board of Directors agreement, to the extent that Board is comfortable that future income flows will be sufficient to restore any distributed capital. In August 2019, a change to the Company's investment policy was approved by the Company's shareholders with a view to expediting progress to a fully covered dividend despite falling interest rates.

- 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 of Directors monitoring the portfolio pipeline in regular communication with the Portfolio Manager, and in quarterly and ad hoc Board of Directors' 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. The Board has formalised a share buyback policy with the intention of mitigating the risk of long-term share price discounts.

- 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 through warehouse funding arrangements are likely to increase over time 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. The Company may also use short term financing where needed to enable it to optimise the timing of its securitisation transactions.

- The risks associated with the UK's withdrawal from the European Union. Whilst they remain unclear, there is an increased likelihood of a period of macroeconomic uncertainty. The Company's mortgage portfolios are solely focused within the United Kingdom and as such will be impacted by any risks emerging from changes in the macroeconomic environment. In particular, any reintroduction of short term funding facilities by the Bank of England to support the UK banking system may depress the returns available from mortgage portfolios. Increased levels of unemployment may occur in the event of a hard Brexit with a corresponding negative impact on house prices, mortgages affordability and demand for mortgages to fund new purchases.

CORPORATE GOVERNANCE REPORT Continued

Other risks and uncertainties
The Board has identified the following other risks and uncertainties along with the steps taken to mitigate them:

Operational risks
The Company is exposed to the risk arising from any failures of systems and controls in the operations of the Portfolio Manager, Administrator, AIFM, Custodian and the Depositary amongst others. The Board and its Audit Committee regularly review reports from the Portfolio Manager, AIFM, the Administrator, Custodian and Depositary on their internal controls. The Administrator, Custodian and Depositary will report to the Portfolio Manager any operational issues which will be brought to the Board for final approval as required.

Accounting, legal and regulatory risks
The Company is exposed to the risk that it may fail to maintain accurate accounting records or fail to comply with requirements of its Admission document and fail to meet listing obligations. The accounting records prepared by the Administrator are reviewed by the Portfolio Manager. The Portfolio Manager, Administrator, AIFM, Custodian, Depositary and Corporate Broker provide regular updates to the Board on compliance with the Admission document and changes in regulation. Changes in the legal or the regulatory environment can have a major impact on some classes of debt. The Portfolio Manager monitors this and takes appropriate action.

Income recognition risks
The Board considers income recognition to be a principal risk and uncertainty of the Company as the Portfolio Manager estimates the remaining expected life of the security and its likely terminal value, which has an impact on the effective interest rate of the Asset Backed Securities which in turn impacts the calculation of interest income. The Board asked the Audit Committee to consider this risk with work undertaken by the Audit Committee as discussed on pages 35 to 38. As a result of the work undertaken by the Audit Committee, the Board is satisfied that income is appropriately stated in all material aspects in the Financial Statements.

Cyber security risks
The Company is exposed to risk arising from a successful cyber-attack through its service providers. The Company requests of its service providers that they have appropriate safeguards in place to mitigate the risk of cyber-attacks (including minimising the adverse consequences arising from any such attack), that they provide regular updates to the Board on cyber security, and conduct ongoing monitoring of industry developments in this area. The Board is satisfied that the Company's service providers have the relevant controls in place to mitigate this risk.

Viability Statement
The UK Code requires the Board to explain how they have assessed the prospects of the Company, taking account of its current position, principal risks, the period of this assessment and why the period is considered appropriate. 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 2022. 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 with the five year continuation vote not now due until the AGM to be held in 2024, the Board is of the opinion that the Company is viable until at least May 2022 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 17 October 2019, the Company has been notified of the following interests in the share capital of the Company exceeding 3% of the issued share capital:

		17.10.2019		17.10.2018
	Number of shares	Percentage of issued share capital	Number of shares	Percentage of issued share capital
Twentyfour Asset Management*	46,759,800	17.12%	46,759,800	17.12%
Premier Fund Managers Limited	32,208,653	11.80%	15,607,017	5.72%
Seven Investment Management	20,707,325	7.58%	19,496,689	7.14%
Vidacos Nominees Limited	13,564,532	4.97%	N/a	N/a
Brooks Macdonald Nominees Limited	12,764,149	4.67%	12,515,172	4.58%
Fidelity International	11,852,153	4.34%	13,209,817	4.84%
HSBC Global Custody Nominee (UK) Limited	9,374,583	3.43%	N/a	N/a
Coutts & Co	N/a	N/a	26,430,811	9.68%
Investec Wealth & Investment	N/a	N/a	20,630,279	7.56%
Old Mutual Global Investors	N/a	N/a	14,855,777	5.44%
City Financial Investment Company	N/a	N/a	11,304,984	4.14%
*Twentyfour Asset Management acting as investment manager of:				
St. James's Place Strategic Income Unit Trust	38,059,151	13.93%	38,059,151	13.93%
MI TwentyFour Investment Funds - Asset Backed Income Fund	8,700,649	3.19%	8,700,649	3.19%

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 appointment of Deloitte LLP to replace 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 applicable law.

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 and its subsidiaries included in the consolidation taken as a whole, as at and for the year ended 30 June 2019.

(b) The Annual Report which includes information detailed in the Summary Information, 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 development and performance of the Company business during the year and the position at year end 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 the Annual Report provides the information necessary to assess the Company's position and performance, business model and strategy.

Signed on behalf of the Board of Directors on 17 October 2019 by:

Christopher Waldron
Director

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 2 December 2019.

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. No Directors have been paid additional remuneration by the Company outside their normal Director's fees and expenses. The Management Engagement 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 Chairman of the Audit Committee.

In the year ended 30 June 2019, the Directors received the following remuneration in the form of Director's fees:

	30.06.2019	**30.06.2018**
	£	£
Christopher Waldron	40,000	40,000
Richard Burrows	30,000	30,000
Paul Le Page	35,000	35,000
Helen Green*	30,000	30,000
Total	135,000	135,000

*Fees are paid to Saffery Champness Management International Limited.

The remuneration policy set out above is the one applied for the year ended 30 June 2019 and is not expected to change in the coming year.

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 17 October 2019 by:

Christopher Waldron
Director

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 2019.

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 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. The Board receives confirmation from all service providers that they comply with the requirements of the UK Bribery Act. As the Company does not have any employees, it does not have a "whistle blowing" policy in place, however, the Board has reviewed the whistleblowing procedures of the Portfolio Manager and Administrator with no issues noted. The Company delegates its main administrative functions to third-party providers who report on their policies and procedures to the Board. A review of the service provider policies took place at the Management Engagement Committee Meeting on 20 March 2019.

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 £1,323,721,509 (fair value of £1,373,078,652) as at 30 June 2019 and represent a substantial portion of net assets of the Group. 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 Group as at 30 June 2019 to be reasonable from information provided by the Portfolio Manager, AIFM, Administrator, Custodian, Depositary and Valuation Agent 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 2019. 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 Company's securitisations have been fully recognised and apportioned. The Audit Committee concluded that the apportionment and expense recognition policy had been followed correctly.

(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 tax structure legal opinion from Eversheds, and a subsequent review by PwC Dublin, the committee was satisfied that the Acquiring Entity was being managed in accordance with Section 110 rules.

(v) Mortgage loan impairment provision:

The Audit Committee reviewed the staging of the loans and the assignment of the expected credit loss provision against each stage. The Audit Committee was satisfied that the mortgage loan impairment provision is appropriate in light of appropriate past trends and patterns.

(vi) Hedge accounting:

The Audit Committee reviewed the appropriateness of the designation of derivatives held by the Company as fair value hedges. The Audit Committee was satisfied that it is appropriate for the Company to apply hedge accounting to all of the hedges in these circumstances.

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 and provide information necessary for Shareholders to assess the Company's position.

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 20.

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. The Audit Committee also undertook an audit tender process which is described later in the report. 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.

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

The implementation of IFRS 9 Financial Instruments ("IFRS 9") was the biggest issues that the Audit Committee had to oversee during the financial year. The Company commenced reporting under this standard from 1 July 2018. The implementation process concluded with our auditors PwC reviewing our impairment models and resulting provisions as requested by the standard.

AUDIT COMMITTEE REPORT Continued

Summary of activity during the year (continued)

Another topic of critical importance to the Audit Committee and the Company as a whole is to ensure that the Company will pay fully covered dividends as soon as possible. The Audit Committee worked with Northern Trust to design and implement an independent dividend coverage projection model to monitor the transition process. Based on this work, which indicated that the Company was paying dividends from capital since its launch, and the consequential decrease in the NAV of the Company on an ongoing basis, the Company made the decision that in order to rebuild the NAV, improve the Company's cash flow and reconstitute capital to generate returns in excess of the required divided, the annual dividend was reduced from 6.000p per annum to 4.500p per annum.

During the course of the year, PwC, provided non-audit services in respect of IFRS 9 to the Company which the Committee reviewed (and subsequently approved) as required by our non-audit service policy.

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 2019.

	30.06.2019	30.06.2018
PricewaterhouseCoopers CI LLP - Assurance work	£	£
- Annual audit of the Company	37,000	46,000
- Annual audit of the Company's subsidiaries	-	12,500
- Interim review	27,535	26,250
Other PwC member firms - Assurance work		
- Annual audit of the Company	15,000	-
- Annual audit of the Company's subsidiaries	172,812	159,593
Other PwC member firms - Non-assurance work		
- Accounting advice	22,000	60,000
- Securitisation procedures	55,000	48,000
- Taxation	4,474	12,431
Ratio of assurance to non-assurance work	76% / 24%	67% / 33%

The Company and the DAC do not qualify as an EU Public Interest Entity ("PIE") and are therefore not subject to the restrictions on non-audit services provided by its auditor under this regime. The SPVs however do qualify as EU PIEs, and accordingly the Board has considered the impact of this on the evaluation and approval of non-audit services performed to the Company.

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 Issuer SPVs.

Under EU PIE regulations, audit partners are required to rotate every five years. June 2019 marked the completion of the Company's fourth year so the Audit Committee decided to tender the audit of all the Group companies for the financial year beginning July 2019. As a result of the tender process, the committee is recommending that Deloitte LLP is appointed as the Company's auditors as they offer potential cost and efficiency benefits in the Group audit.

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 17 October 2019 and signed on behalf by:

Paul Le Page
Chairman, Audit Committee

ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT

Maitland Institutional Services Ltd 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;
- to be responsible for the proper valuation of the Company's assets, the calculation of the Company's NAV and the publication of the Company's NAV;
- 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; and,
- to 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
The AIFM is subject to a staff remuneration policy which meets the requirements of the AIFMD as set out in SYSC 19B of the FCA Handbook.

The policy is designed to ensure remuneration practices are consistent with, and promote, sound and effective risk management. It does not encourage risk-taking which is inconsistent with the risk profiles, rules or instrument of incorporation of the funds managed, and does not impair the AIFM's compliance with its duty to act in the best interests of the funds it manages.

The AIFM has reviewed the Remuneration Policy and its application in the last year which has resulted in no material changes to the policy or irregularities to process.

This disclosure does not include staff undertaking portfolio management activities as these are undertaken by TwentyFour Asset Management LLP. The investment manager is required to make separate public disclosure as part of their obligations under the Capital Requirements Directive.

The AIFM also acts as Authorised Corporate Director (ACD) for non-AIFs. It is required to disclose the total remuneration it pays to its staff during the financial year of the fund, split into fixed and variable remuneration, with separate aggregate disclosure for staff whose actions may have a material impact to the risk profile of a fund or the AIFM itself. This includes executives, senior risk and compliance staff and certain senior managers.

ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT Continued

June 2019	Number of Beneficiaries	Fixed remuneration	Variable remuneration	Total remuneration paid
Total remuneration paid by the AIFM during the year	88	£5,091,696	£67,544	£5,159,240
Remuneration paid to employees of the AIFM who have a material impact on the risk profile of the AIF	5	£830,279	£32,694	£862,973

Further information is available in the AIFM's Remuneration Policy Statement which can be obtained from www.maitlandgroup.com or, on request free of charge, by writing to the registered office of the AIFM.

In so far as the AIFM is aware:

- there is no relevant audit information of which the Company's auditors 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 auditors are aware of that information.

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

D. Jones
P.F. Brickley
Directors
Maitland Institutional Services Ltd
17 October 2019

DEPOSITARY STATEMENT
for the year ended 30 June 2019

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 2019, 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.

The Depositary and its affiliates are or may be involved in other financial and professional activities which may on occasion cause a conflict of interest with its roles with respect to the Company. The Depositary will take reasonable care to ensure that the performance of its duties will not be impaired by any such involvement and that any conflicts which may arise will be resolved fairly and any transactions between the Depositary and its affiliates and the Company shall be carried out as if effected on normal commercial terms negotiated at arm's length and in the best interests of Shareholders.

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
17 October 2019

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 2019, 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 2019;
- 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.

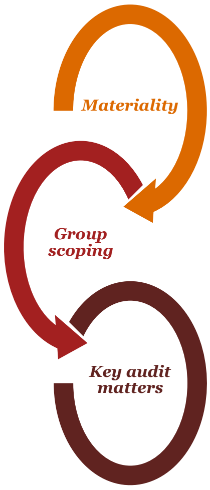
Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements of the Group, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK MORTGAGES LIMITED (Continued)

Our audit approach

Overview



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

Group scoping:

- The Company is incorporated and based in Guernsey.
- The Group has a number of subsidiaries, which are based in 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 mortgage portfolios.
- As the Group auditor, we are responsible for the Group audit opinion. 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 supporting audit firm (a separate PwC network firm) performed their audit work on the consolidated financial statements of UK Mortgages Limited, including the audit work on the relevant subsidiaries in the UK and Ireland, under our direction and supervision.
- We included in scope all active subsidiaries within the Group.
- We tailored the scope of our audit taking into account the types of activity within the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters:

- Valuation of mortgage loans (carried at amortised cost).
- Impairment charge on the carrying value of mortgage loans due to a decline in property values and the sensitivity of the provision level to the assumptions used in the model.
- Risk of fraud in revenue recognition – Unwinding of Oat Hill's effective interest rate ("EIR") adjustment.

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.

Audit scope (continued)

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. In establishing the overall approach of the audit, we determined both the scope and the extent of the work that needed to be performed by us as the lead engagement team and that to be performed by the auditors from another PwC Network firm. Where the auditors from another PwC Network firm performed the work, we determined the level of involvement that we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained, to form a basis for our opinion on the consolidated financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated 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 consolidated financial statements as a whole.

Overall Group materiality	£5.6 million (2018: £5.8 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 £0.28 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UK MORTGAGES LIMITED (Continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Key audit matter	How our audit addressed the Key audit matter
Valuation of mortgage loans (carried at amortised cost) As set out in Note 7 to the consolidated financial statements, mortgage loans, carried at £1.3 billion at year end, are measured at amortised cost and comprise five distinct portfolios of UK mortgages including buy-to-let and owner occupied mortgages. We note that the mortgage loans represent the most significant balance on the consolidated statement of financial position and are supported by portfolio level loan-by-loan data tapes (detailing key attributes for each loan), overlaid by effective interest rate ("EIR") calculations, impairment calculations and hedging adjustments. Due to the extent of the procedures performed over the impairment of mortgage loans' carrying value, this has been detailed in a separate key audit matter below.	We assessed the accounting policy for mortgage loans, as set out in Note 2, for compliance with International Financial Reporting Standards to determine whether the mortgage loans have been measured in accordance with the stated accounting policy. We understood and evaluated the internal control environment of the Group in relation to mortgage loans, including understanding of the various service providers forming part of the control environment. We tested the mortgage loan data of each portfolio, on a sample basis, by performing the following substantive audit procedures: • Agreed the portfolio gross loan balances at year end to the underlying loan-by-loan data tapes. • Tested, on a sample basis, key items of standing data within the loan-by-loan data tapes, such as interest rates, principal and maturity dates, to relevant supporting documentation. • Agreed cash collections/advances /redemptions to supporting documentation and bank statements. • Recalculated the split of interest and principal repayments during the year and confirmed they were correctly captured in the accounting records. • Inspected title deeds and post year end cash payments to validate the existence of the underlying properties and the loan. • Updated our understanding of the EIR and hedging methodologies and the key assumptions used by the Group and recalculated the EIR and hedging adjustments. • Checked customer complaints raised during the year to identify complaints in respect of

	incorrect interest, fees or balances. No significant issues or concerns were noted which required reporting to those charged with corporate governance.
Impairment charge on the carrying value of mortgage loans due to a decline in property values and the sensitivity of the provision level to the assumptions used in the model Please refer to Notes 2c) and 7 to the consolidated financial statements. Mortgage loans make up the most significant part of the consolidated statement of financial position and their carrying value is critical to the net asset value of the Group. The Group has adopted IFRS 9 in the reporting period. There is a risk that the carrying value could be misstated as a result of an understatement of expected credit losses ("ECL"), particularly as there is limited experience available to back-test the Group's charge for ECL with actual results. The credit environment in the UK has remained relatively benign for an extended period of time, in part due to low interest rates, relative strength of the economy and low unemployment. However, there are a number of headwinds to the regional economy, as well as certain country specific risks (including potential impact of Brexit and the status of the UK housing market). As a result, whilst the current levels of credit defaults on the mortgage loans remains low, the risk of impairment due to future property declines and borrower defaults remains.	We updated our understanding and evaluation of the controls in place surrounding the investment process, including deal sourcing, investment analysis, due diligence and continued monitoring. We performed the following procedures: • Confirmed our understanding of the Group's expected credit loss impairment model. • Updated our understanding of the key assumptions in the model and benchmarked them against the historical performance of comparable mortgage pools, which is the key driver to predicted future loan performance. • Tested the IFRS 9 disclosures in the consolidated financial statements. • Tested the data feeds into the Group's impairment model and the operation of the model. • Benchmarked the impairment coverage percentage. • Developed an independent provision expectation and compared this to the Group's provision level. • Tested, on a sample basis, property valuations at origination and the indexing of those to the year-end date. • Tested the sensitivity of movements in key impairment assumptions, including a decline in property values. No significant issues or concerns were noted which required reporting to those charged with corporate governance.
Risk of fraud in revenue recognition - unwinding of Oat Hill's effective interest rate ("EIR") adjustment Please refer to Note 2l) to the consolidated financial statements. Revenue from interest income on mortgage loans comprises various EIR calculations on different loan portfolios. The EIR calculation is subject to a number of management judgements. All of these judgements with the exception of the unwinding of the discount in Oat Hill are immaterial. We therefore have identified this particular element of revenue as a significant	We updated our understanding and evaluated the controls in place surrounding the Oat Hill EIR model – in particular the modelling of the unwinding of the discount on acquisition, based upon management's expectations of prepayment timing. We performed the following procedures: • Updated our understanding of the key assumptions within the model and management's basis for these – the key one being the prepayment assumption. • Agreed the key inputs into the year end EIR model and the output of the model to the consolidated financial statements. • Performed back testing on the historical accuracy of the repayment assumptions used

risk.	since acquisition. • Calculated the day 1 discount as being the difference between portfolio's notional value and the consideration paid and independently modelled the unwind of this discount, calculating the expected current year and cumulative credit to interest income. • Performed sensitivity testing over the expected current year and cumulative credit to interest income by modelling the unwinding of the discount, assuming 0% prepayments (i.e. that all loans are repaid on contractual final maturity date). No significant issues or concerns were noted which required reporting to those charged with corporate governance.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report and Audited Consolidated Financial Statements but does not include the consolidated financial statements and our auditor's report thereon.

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.

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 consolidated 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 directors' 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group and the wider economy.
- 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.

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.

We have nothing to report in respect of the following matters which we have reviewed:

- the directors' statement 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 consolidated 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 consolidated 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 parent company's compliance with the ten further provisions of the UK Corporate Governance Code specified for our review.

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
17 October 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	For the year from 1.07.2018 to 30.06.2019 £	For the year from 1.07.2017 to 30.06.2018 £
Income			
Interest income on mortgage loans		39,647,510	26,806,700
Interest income on cash and cash equivalents		22,535	8,176
Net gain/(loss) from derivative financial instruments	9	828,934	(856,186)
Total income		40,498,979	25,958,690
Interest expense on loan notes	13	15,845,380	8,715,238
Issue fees, borrowing costs and acquisition costs amortised		3,153,789	1,759,868
Mortgage loans servicing fees		2,989,859	2,181,286
Interest expense on borrowings	14	2,353,540	1,165,171
Net interest expense on financial liabilities at fair value through profit and loss		2,335,629	1,809,444
Amortisation of discount on loan notes		1,686,544	-
Portfolio management fees	16	1,337,090	1,313,002
Expected credit loss provision	7	776,994	-
Legal & professional fees		579,600	720,394
General expenses		537,150	324,218
Swap costs amortisation		471,835	265,239
Financing costs		412,257	380,862
Audit fees		333,821	333,886
Administration & secretarial fees	17	221,654	243,847
Directors' fees	16	135,000	135,000
AIFM fees	17	97,755	95,033
Borrowings facility fees	14	75,338	496,370
Depositary fees	17	67,916	71,337
Corporate broker fees		48,000	48,038
Custody fees		23,355	23,799
Mortgage loans write offs		-	24,367
Total expenses		33,482,506	20,106,399
Total comprehensive gain for the year		7,016,473	5,852,291
Earnings per ordinary share - basic & diluted	4	0.026	0.023

All items in the above statement derive from continuing operations.

The notes on pages 54 to 90 form an integral part of these Audited Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2019

		30.06.2019	30.06.2018
Assets	**Note**	**£**	**£**
Non-current assets			
Mortgage loans	7	1,309,858,044	1,205,151,843
Reserve fund	8	17,704,519	17,761,100
Total non-current assets		1,327,562,563	1,222,912,943
Current assets			
Mortgage loans	7	13,863,465	10,652,022
Trade and other receivables	10	4,831,262	3,722,809
Cash and cash equivalents	11	51,521,524	43,784,286
Total current assets		70,216,251	58,159,117
Total assets		1,397,778,814	1,281,072,060
Liabilities			
Non-current liabilities			
Borrowings	14	49,288,735	104,445,310
Loan notes	13	1,111,978,039	937,924,240
Total non-current liabilities		1,161,266,774	1,042,369,550
Current liabilities			
Financial liabilities at fair value through profit and loss	9	7,775,666	1,371,362
Trade and other payables	12	4,651,569	3,340,720
Total current liabilities		12,427,235	4,712,082
Total liabilities		1,173,694,009	1,047,081,632
Net assets		224,084,805	233,990,428
Equity			
Share capital account	15	264,749,999	264,749,999
Other reserves		(40,665,194)	(30,759,571)
Total equity		224,084,805	233,990,428
Ordinary shares in issue	15	273,065,390	273,065,390
Net Asset Value per ordinary share	5	0.8206	0.8569

UK Mortgages Limited is a closed-ended investment company incorporated in Guernsey with registration number 60440.

The Audited Consolidated Financial Statements on pages 50 to 90 were approved and authorised for issue by the Board of Directors on 17 October 2019 and signed on its behalf by:

Christopher Waldron
Director

Paul Le Page
Director

The notes on pages 54 to 90 form an integral part of these Audited Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2019

	Share capital account £	Other reserves £	Total equity £
Balance at 30 June 2018	264,749,999	(30,759,571)	233,990,428
Effect of adoption of IFRS 9 (note 2)	-	(538,172)	(538,172)
Balance at 1 July 2018	264,749,999	(31,297,743)	233,452,256
Dividends paid	-	(16,383,924)	(16,383,924)
Total comprehensive gain for the year	-	7,016,473	7,016,473
Balance at 30 June 2019	264,749,999	(40,665,194)	224,084,805

	Share capital account £	Other reserves £	Total equity £
Balance at 1 July 2017	245,000,000	(21,611,862)	223,388,138
Issue of shares	20,000,000	-	20,000,000
Share issue costs	(250,001)	-	(250,001)
Dividends paid	-	(15,000,000)	(15,000,000)
Total comprehensive gain for the year	-	5,852,291	5,852,291
Balance at 30 June 2018	264,749,999	(30,759,571)	233,990,428

The notes on pages 54 to 90 form an integral part of these Audited Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2019

	Note	For the year from 1.07.2018 to 30.06.2019 £	For the year from 1.07.2017 to 30.06.2018 £
Cash flows from operating activities			
Total comprehensive gain for the year		7,016,473	5,852,291
Adjustments for:			
Mortgages acquisition fees amortised	7	(10,621)	-
Amortised mortgage acquisition fees released	7	134,776	159,658
Expected credit loss provision	7	776,994	-
Net (gain)/loss from derivative financial instruments		(828,934)	856,186
Mortgage loans written off		-	24,367
Amortisation adjustment under effective interest rate method	7	(4,366,433)	(5,845,006)
Borrowing charges amortised		928,937	-
Loan note issue fees amortised	13	2,008,812	1,150,615
Increase in discount on loan notes to be amortised		1,651,747	-
Increase in trade and other payables	12	1,629,581	211,622
Increase in trade and other receivables	10	(1,108,453)	(755,176)
Net cash inflow from operating activities		7,832,879	1,654,557
Cash flows from investment activities			
Purchase of mortgage loans	7	(184,085,141)	(465,950,403)
Mortgage loans repaid	7	86,327,847	96,390,819
Net cash outflow from investment activities		(97,757,294)	(369,559,584)
Cash flows from financing activities			
Issuance of profit participating notes	15	-	20,000,000
Share issue costs	15	-	(250,001)
Proceeds from borrowings	14	118,500,000	105,000,000
Repayment of borrowings	14	(173,500,000)	-
Proceeds from issue of loan notes	13	393,133,354	317,500,000
Repayments of loan notes	13	(219,269,027)	(95,431,974)
Increase in loan note issue fees capitalised	13	(3,471,087)	(1,028,869)
Increase in borrowings fees capitalised		(1,085,512)	(554,690)
(Decrease)/increase in payables related to issue costs	12	(318,732)	35,728
Decrease/(increase) in reserve fund	8	56,581	(4,603,750)
Dividends paid		(16,383,924)	(15,000,000)
Net cash inflow from financing activities		97,661,653	325,666,444
Increase/(decrease) in cash and cash equivalents		7,737,238	(42,238,583)
Cash and cash equivalents at beginning of year		43,784,286	86,022,869
Cash and cash equivalents at end of year	11	51,521,524	43,784,286

The notes on pages 54 to 90 form an integral part of these Audited Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2019

1. General Information

UK Mortgages Limited (the "company") was incorporated with limited liability in Guernsey, as a closed-ended investment company on 10 June 2015. The company'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.

These Consolidated Financial Statements comprise the financial statements of UK Mortgages Limited, UK Mortgages Corporate Funding Designated Activity Company, Malt Hill No.1 Plc, Malt Hill No. 2 Plc, Oat Hill No.1 Plc, Barley Hill No.1 Plc (incorporated 18 February 2019), and the Warehouse SPVs; Cornhill Mortgages No.2 Limited, Cornhill Mortgages No.3 Limited (until placed into liquidation on 9 February 2018), Cornhill Mortgages No. 4 Limited (incorporated 7 August 2018), Cornhill Mortgages No. 5 Limited (incorporated 24 May 2019) and Cornhill Mortgages No. 6 Limited (incorporated 18 March 2019) as at 30 June 2019, together referred to as the "Company". The Warehousing SPVs are placed into liquidation on the transfer of the mortgage loans to the Issuer SPVs. Malt Hill No.1 Plc will be liquidated as the Company exercised the Portfolio Option on the loans underlying the Malt Hill No.1 Plc securitisation. This entailed the deal being fully redeemed and the loans being refinanced by Lloyds Bank Corporate Markets Plc. into a new warehouse SPV, Cornhill Mortgages No. 6 Limited.

Cornhill Mortgages No.3 Limited was fully dissolved on 15 August 2018. The Company had previously included the financial statements for Cornhill Mortgages No.1 Limited in its Audited Consolidated Financial Statements. Cornhill Mortgages No.1 Limited was fully dissolved 19 January 2018. Malt Hill No.1 Plc and Cornhill Mortgages No.2 Limited are expected to be dissolved in the year ended 30 June 2020.

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

a) Statement of compliance

The Audited Consolidated Financial Statements have been prepared in accordance 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.

b) Presentation of information

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 Group 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 Consolidated Financial Statements.

2. Accounting Policies (continued)

c) Standards, amendments and interpretations effective during the year

At the reporting date of these Consolidated Financial Statements, the following standards, interpretations and amendments, were adopted for the year ended 30 June 2019:

IFRS 9 Financial Instruments

IFRS 9 'Financial Instruments', brings together the classification and measurement, impairment and hedge accounting phases of the IASB project to replace IAS 39, and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The key elements of IFRS 9 are as follows:

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 introduces a principal based approach and applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured: (a) the entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and (b) the contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest).

IFRS 9 includes three principal classification categories for financial assets which must be designated at initial recognition. Financial assets are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortised cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of fair value through profit and loss, available for sale ("AFS"), loans and receivables, and held-to-maturity.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL: (a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

i. it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. Accounting Policies (continued)

c) Standards, amendments and interpretations effective during the year (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement (continued)

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

Business model assessment

The Company has made an assessment of the objective of the business model in which a financial asset is held at a mortgage portfolio level because this best reflects the way the business is managed and information is provided to the Portfolio Manager.

The information that was considered included:

- The stated policies and objectives for each portfolio and the operation of those policies in practice, including whether the strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Portfolio Manager; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the contractual terms of the instrument will be considered. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment the following features will be considered:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

Impairment

The "incurred loss model" under IAS 39 is replaced with a new forward looking "expected loss model". Impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition. Risk of default and expected credit losses must incorporate forward-looking and macroeconomic information.

Under IFRS 9, no impairment loss is recognised on equity investments. IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 month expected credit loss ("ECL"), or lifetime ECL.

2. Accounting Policies (continued)

c) Standards, amendments and interpretations effective during the year (continued)

IFRS 9 Financial Instruments (continued)

Impairment (continued)

Credit loss allowances will be measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the 12 month ECL.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the lifetime ECL.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses will be recognised. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Stage 1 and Stage 2 in effect replace the collectively-assessed allowance for loans not yet identified as impaired recorded under IAS 39, while Stage 3 in effect replaces the individually and collectively assessed allowances for impaired loans. Consistent with IAS 39, loans are written off when there is no realistic probability of recovery.

Given all financial assets within the scope of the IFRS 9 impairment model will be assessed for at least 12-months of expected credit losses, and the population of financial assets to which full lifetime ECL applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with IAS 39, loss allowances may be higher under IFRS 9 relative to IAS 39.

Changes in the required credit loss allowance, including the impact of movements between Stage 1 and Stage 2, will be recorded in profit or loss. The impact of moving between 12 month and lifetime expected credit losses and the application of forward looking information, means provisions are expected to be more volatile under IFRS 9 than IAS 39.

The measurement of expected credit losses will primarily be based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), discounted to the reporting date. The main difference between Stage 1 and Stage 2 is the respective PD horizon. Stage 1 estimates will use a maximum of a 12 month PD while Stage 2 estimates will use a lifetime PD. Stage 3 estimates will continue to leverage existing processes for estimating losses on impaired loans, however, these processes will be updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39. Assets can move in both directions through the stages of the impairment model.

2. Accounting Policies (continued)

c) Standards, amendments and interpretations effective during the year (continued)

IFRS 9 Financial Instruments (continued)

Impairment (continued)

Under IFRS 9, when determining whether the credit risk (i.e. the risk of default – a default occurs when a financial asset is 90 days past due) on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information is used to complete an analysis based on historical experience, credit assessment and forward looking information.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In assessing whether a borrower is credit impaired the following indicators will be considered:

- Qualitative; e.g. breaches of covenant;
- Quantitative; e.g. overdue status; and
- Based on data developed internally and obtained from external sources.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forward looking information. A 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios are developed by the Portfolio Manager and considered by the Directors. The process then involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case will represent a most likely outcome and be aligned with information used for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes.

The estimation and application of forward-looking information requires significant judgement. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. The Bank of England macroeconomic scenarios as well as baseline upside and downside economic scenarios have been used in the expected credit loss calculation by the Company.

Hedge accounting

The Company adopted hedge accounting from 1 July 2017 to reduce volatility in the Consolidated Statement of Comprehensive Income. The hedge accounting requirements of IFRS 9 have been simplified compared to IAS 39 and are more closely aligned to an entity's risk management strategy. Under IFRS 9 all existing hedging relationships will qualify as continuing hedging relationships.

Transition

To manage the transition to IFRS 9, the Portfolio Manager implemented a program that focused on the key areas of impact, including financial reporting, data, systems and processes. Throughout the project the Audit Committee has been provided with updates, to ensure escalation of key issues and risks. As part of the implementation of IFRS 9 the Portfolio Manager has:

- reviewed the classification and measurement of financial instruments under the requirements of IFRS 9;
- developed and validated a set of IFRS 9 models for calculating expected credit losses on the Company's mortgage portfolios; and
- implement internal governance processes which are appropriate for IFRS 9.

2. Accounting Policies (continued)

c) Standards, amendments and interpretations effective during the year (continued)

IFRS 9 Financial Instruments (continued)

Impact of adoption

The adoption of IFRS 9 from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts in these Consolidated Financial Statements. The new accounting policies are set out within this note. In accordance with the transitional provisions of IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognised in other reserves in the Consolidated Statement of Changes in Equity as at 1 July 2018.

I. Classification

Loans and advances that were categorised as loans and receivables and measured at amortised cost under IAS 39 are now categorised as financial assets measured at amortised cost under IFRS 9. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL: (a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

II. Hedge accounting

On 1 July 2017, the Directors designated the Malt Hill No.1 Plc and Cornhill Mortgages No.2 Limited derivatives as fair value hedges and began hedge accounting from that date. Hedge accounting in relation to Malt Hill No.2 Plc derivative commenced on 1 July 2018. At 30 June 2018, Malt Hill No.2 Plc and Cornhill Mortgages No.2 Limited did not qualify for hedge accounting due to the retrospective testing being ineffective. As such the movement in Cornhill Mortgages No.2 Limited's fair value swap since December 2017, which was the date previously tested and proved to be effective, and all of the movement in Malt Hill No.2 Plc's fair values were charged directly to the Statement of Comprehensive Income for the year ended 30 June 2018. As at 30 June 2018, prospective testing showed all of the swaps to which the Company is a counterparty as being effective and, therefore qualify for hedge accounting under IFRS 9 from 1 July 2018. Accordingly there was no impact on adoption of IFRS 9.

Expected credit losses

The key impact of adoption of IFRS 9 for the Company is the requirement to record impairment charges at the inception of a mortgage loan based on the future losses that are expected to be incurred and this could result in a negative movement on the mortgage portfolio at the commencement of a mortgage loan relationship. Implementation of IFRS 9 results in changes in the recognition of impairment, as a consequence, the accounting value of the Company's mortgage loan portfolio has changed. The impact of adopting the new accounting standard on 1 July 2018 has been charged to equity in accordance with the transition rules of IFRS 9. The ongoing impact on profit varies according to the stage of development of the mortgage loan portfolio, the LTVs and credit quality of the portfolios.

The implementation resulted in a reduction to retained earnings of £538,172 (0.20 per cent of NAV as at 30 June 2018). The impact of 0.20% is relatively minimal in the context of the entire portfolio and reflects the high credit quality of the loans as demonstrated by the low LTVs and prudent lending criteria on the underlying mortgages. The expected credit losses provision as at 30 June 2019 is £1,315,166, a movement of £776,994 in the period to 30 June 2019, and is included in the Consolidated Statement of Comprehensive Income.

2. Accounting Policies (continued)

c) Standards, amendments and interpretations effective during the year (continued)

IFRS 9 Financial Instruments (continued)

Expected credit losses (continued)

	£
Closing other reserves 30 June 2018 – IAS 39	(30,759,571)
Effect of adopting IFRS 9 on expected credit loss provision on mortgage loans on 1 July 2018	(538,172)
Effect of adopting IFRS 9 on hedge accounting on 1 July 2018	-
Opening other reserves 1 July 2018 – IFRS 9	(31,297,743)

The Company has assessed the impact of adopting IFRS 9 on its other financial assets held at amortised cost, and has confirmed no impact on adoption.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' was published in May 2016 and specifies how and when to recognise revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. There is no material impact on the Company's Consolidated Financial Statements as a result of this new standard.

d) Standards, amendments and interpretations issued but not yet effective

At the reporting date of these Consolidated Financial Statements, the following standards, interpretations and amendments, which have not been applied in these Consolidated Financial Statements, were in issue but not yet effective:

- IFRS 16 Leases (Effective 1 January 2019)

The Company expects that the adoption of IFRS 16 in the future period will not have an impact on the Company's Consolidated Financial Statements, as it does not hold any leases.

e) Consolidation

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

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)

e) Consolidation (continued)

The following table outlines the consolidated entities. All subsidiaries are 100% held.

Subsidiaries	Date of Control	Country of Incorporation	Principal Place of Business	Originator
UK Mortgages Corporate Funding Designated Activity Company	19/11/2015	Ireland	Ireland	
Cornhill Mortgages No.1 Limited*	19/11/2015	UK	UK	Coventry Building Society
Cornhill Mortgages No.2 Limited	02/03/2016	UK	UK	The Mortgage Lender
Malt Hill No.1 Plc	02/06/2016	UK	UK	Coventry Building Society
Cornhill Mortgages No.3 Limited*	21/02/2017	UK	UK	Capital Home Loans
Oat Hill No.1 Plc	23/06/2017	UK	UK	Capital Home Loans
Malt Hill No. 2 Plc	28/06/2018	UK	UK	Coventry Building Society
Cornhill Mortgages No.4 Limited	07/08/2018	UK	UK	Keystone Property Finance
Barley Hill No.1 Plc	18/02/2019	UK	UK	The Mortgage Lender
Cornhill Mortgages No.5 Limited	24/05/2019	UK	UK	The Mortgage Lender
Cornhill Mortgages No.6 Limited	18/03/2019	UK	UK	Coventry Building Society

*Cornhill Mortgages No. 1 Limited and Cornhill Mortgages No. 3 Limited were placed into liquidation on 4 May 2017 and 9 February 2018, and dissolved on 19 January 2018 and 15 August 2018 respectively.

Based on control, the results of the Acquiring Entity, the Issuer SPVs (Malt Hill No.1 Plc, Oat Hill No.1 Plc, Malt Hill No.2 Plc, Barley Hill No.1 Plc (incorporated 18 February 2019)) and the Warehouse SPVs (Cornhill Mortgages No.2 Limited, Cornhill Mortgages No.3 Limited (until placed into liquidation on 9 February 2018), Cornhill Mortgages No. 4 Limited (incorporated 7 August 2018), Cornhill Mortgages No. 5 Limited (incorporated 24 May 2019) and Cornhill Mortgages No. 6 Limited (incorporated 18 March 2019)) are consolidated into the Consolidated Financial Statements.

Inter-company transactions, notes, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation. 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.

2. Accounting Policies (continued)

f) Financial assets

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

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

In the prior year, mortgage loans (the Company's main financial assets) were 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 were initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method, other than where an adjustment was made as part of a fair value hedging arrangement.

In the current year, mortgage loans are classified under IFRS 9 (see note 2c).

Financial assets 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.

g) Mortgage loan impairment provision

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.

In the prior year, under IAS 39, incurred loss impairment provisions were recorded on mortgage loans in arrears where the value of the loan in arrears was 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 were required of the likely forced sale discount on the property and likelihood of the loan going into repossession based on the limited historical loss experience of the Company. In the prior year, the accounting policy for expected loss provisions under IFRS 9 is set out in note 2c. Impairment provisions made during the year are charged to the Consolidated Statement of Comprehensive Income in the current year.

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.

h) 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 IFRS 9 and previously, IAS 39.

2. Accounting Policies (continued)

i) 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.

j) 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.

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 the derivatives as a fair value hedge and began hedge accounting from that date.

Hedge accounting

The Company uses derivatives only for interest rate risk management purposes. It does not use derivatives for trading purposes. All derivatives entered into by the Company are to provide an economic hedge of the exposure to changes in fair value of a recognised asset or liability (such as fixed rate mortgages) or an unrecognised firm commitment that is attributable to a particular risk (changes in benchmark interest rates impacting the fair value of fixed coupons) and could affect profit or loss. All hedge relationships designated by the Company are therefore classified as fair value hedges.

When transactions meet the criteria specified in IFRS 9 (and previously IAS 39), the Company applies fair value hedge accounting so that changes in the fair value of the underlying mortgage loan cash flows (the “hedged item”) that are attributable to the hedged risk are recorded in the Consolidated Statement of Comprehensive Income to offset the fair value movement of the related derivative (the “hedging instrument”).

To qualify for hedge accounting, the hedge relationship must be formally designated and documented. Additionally, there must be an expectation that the hedging instrument will be highly effective in offsetting the changes in the fair value of the hedged item. Effectiveness must then be assessed on an ongoing basis over the life of the hedge relationship.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values of derivative financial instruments are calculated by discounted cash flow models using yield curves and counterparty credit risk assumptions that are based on observable market data. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the Consolidated Statement of Comprehensive Income together with changes in the fair value of the hedged item that are attributable to the hedged risk within net gain from derivative financial instruments.

All derivatives entered into by the Company are for the purposes of providing an economic hedge. Hedge accounting is an optional treatment but the specific rules and conditions in IFRS9 (and previously IAS 39) have to be complied with before it can be applied.

2. Accounting Policies (continued)

j) Financial assets or liabilities held at fair value through the profit and loss (continued)

Hedge Accounting (continued)

If a hedging relationship is designated at a point where the fair value of the hedged item is not nil, an additional adjustment (known as a “pull to par” adjustment) is typically required to ensure that the fair value hedge adjustment fully reverses over the remaining life of the hedged item.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. If the underlying instrument is sold or repaid, the unamortised fair value adjustment is immediately recognised in the Consolidated Statement of Comprehensive Income. A summary of the effects of hedging and the associated fair value adjustments can be found in note 9.

k) 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.

l) Interest income and interest expense

Interest income on 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.

m) 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.

n) Reserve funds

Reserve funds 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.

2. Accounting Policies (continued)

o) 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.

p) 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.

q) Foreign currency translation

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.

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.

r) 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 amortised over the expected life of the warehousing phase or securitisation, as appropriate.

s) Expenses

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

2. Accounting Policies (continued)

t) 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 Portfolio Manager. The Directors are of the opinion that the Company is engaged in two segments of business, being Buy to Let and Owner Occupied Mortgage portfolios, secured against UK residential property. This has been subdivided into Forward Flow and Purchased. The Directors manage the business in this way.

u) Taxation

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

v) 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.

w) 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.

x) 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.

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 are made are as follows:

Mortgage loan impairment provision

In the prior year under IAS 39, mortgage loans were considered impaired when it was considered probable that the Company would be unable to collect all amounts due according to the contractual terms of the agreement. In the current year, all mortgage loans are assigned an expected credit loss provision, with the quantum being based on the staging of the loan.

In applying these policies, the Directors consider how appropriate past trends and patterns could impact the economic climate and may make any adjustments they believe are necessary to reflect the current, and in the current year, under IFRS 9, future economic and market conditions.

3. Critical accounting judgements and estimates and assumptions (continued)

Mortgage loan impairment provision (continued)

The accuracy of impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumption which differ from the actual outcomes.

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 loans 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.

The key areas where judgements are made are follows:

IFRS 9

IFRS 9 requires the classification of financial assets to be determined on both the business model used for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The assessment of the business model requires judgement based on facts and circumstances at the date of assessment, and is only changed if the underlying business model changes. In determining the most appropriate business model for each of the Company's portfolios, the Directors have considered quantitative factors and qualitative factors (as summarised in note 2c)). As a result, they have concluded that it most appropriate to adopt the "hold to collect" business model, reflecting the Company's objective that cash flows will be realised and value created by holding the loans to maturity.

Hedging accounting

The projected effectiveness of the Company's hedges represents an area of judgement and the degree of ineffectiveness in each period represents an area of estimation.

3. Critical accounting judgements and estimates and assumptions (continued)

Determining operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses.

In the Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2019, the Directors reported the Company is engaged in two segments of business, being Buy-to-Let and Owner Occupied mortgage portfolios, and their sub-segments Flow-forward and Purchased, secured against UK residential property.

In order to determine the operating segments, the following factors have been considered by the Directors:

- The information sent to the Board of Directors; and
- Whether the level of the organisation viewed makes sense as operating segments in the context of the core principles/business activities.

The Directors will continue to monitor financial information for each segment and will ensure this financial information is considered when decisions of how to allocate the resources of the Company are being made.

4. Gain per Ordinary Share - basic and diluted

The gain per Ordinary Share of £0.026 (30 June 2018: £0.023) - basic and diluted has been calculated based on the weighted average number of Ordinary Shares of 273,065,390 (30 June 2018: 250,252,771) and a net gain of £7,016,473 (30 June 2018: £5,852,291).

5. Net Asset Value per Ordinary Share

The Net Asset Value of each share of £0.8206 (30 June 2018: £0.8569) is determined by dividing the net assets of the Company £224,084,805 (30 June 2018: £233,990,428) by the number of shares in issue at 30 June 2019 of 273,065,390 (30 June 2018: 273,065,390).

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.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.

UK based companies (Malt Hill No.1 Plc, Malt Hill No.2 Plc, Cornhill Mortgages No.1 Limited (until its liquidation),Cornhill Mortgages No.2 Limited, Cornhill Mortgages No.3 Limited (until its liquidation), Oat Hill No.1 Plc, Barley Hill No.1 Plc, Cornhill Mortgages No.4 Limited, Cornhill Mortgages No.5 Limited and Cornhill Mortgages No. 6 Limited) 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 '(SI2006/3296)'. Therefore these companies are not required to pay corporation tax on their accounting profit or loss and should only be liable for UK corporation tax on amounts that form part of their "retained profit" as specified in the transaction documentation. UK based companies Cornhill Mortgages No.1 Limited and Cornhill Mortgages No.3 Limited should not be liable for corporation tax in respect of the year as no business was carried on.

7. Mortgage loans

	For the year from 1.07.2018 to 30.06.2019	For the year from 1.07.2017 to 30.06.2018
	£	£
Mortgage loans at start of the year*	1,215,265,693	841,876,173
Mortgage loans purchased	184,085,141	465,950,403
Effective interest rate adjustment	4,366,433	5,845,006
Mortgage loans repaid	(86,327,847)	(96,390,819)
Mortgages acquisition fees released	10,621	-
Amortised mortgage acquisition fees released	(134,776)	(159,658)
Fair value adjustment for hedged risk**	7,233,238	(1,292,873)
Mortgage loans written off	-	(24,367)
Expected credit loss provision	(776,994)	-
Mortgage loans at end of the year	1,323,721,509	1,215,803,865
Amounts falling due within one year	13,863,465	10,652,022
Amounts falling due after more than one year	1,309,858,044	1,205,151,843
	1,323,721,509	1,215,803,865

*The mortgage loans balance at the start of the current financial year has been adjusted to reflect the impact of the adoption of IFRS 9, being the recognition of an expected loss impairment provision of £538,172 (see note 2c)).
** Please refer to note 9 which explains how the fair value adjustment is calculated and note 18 sets out the liquidity and credit risk profile of the mortgage loans.

	For the year from 1.07.2018 to 30.06.2019	For the year from 1.07.2017 to 30.06.2018
	£	£
Non-current mortgage loans		
Mortgage loans	1,310,425,769	1,205,151,843
Impairment allowance	(567,725)	(180,329)
	1,309,858,044	1,204,971,514
Current mortgage loans		
Mortgage loans	14,610,906	10,652,022
Impairment allowance	(747,441)	(357,843)
	13,863,465	10,294,179

Mortgage loans at 30 June 2019 comprise of three securitised mortgage portfolios legally held in Malt Hill No.2 Plc, Oat Hill No.1 Plc and Barley Hill No. 1 Plc (securitised vehicle for part of the Cornhill Mortgages No. 2 Limited's portfolio) and three mortgage portfolio held with Cornhill Mortgages No.2 Limited, Cornhill Mortgages No. 4 Limited and Cornhill Mortgages No. 6 Limited (portfolio for this entity was previously held by Malt Hill No. 1 Plc). Please refer to the Portfolio of Investments for breakdown of portfolios.

8. Reserve funds

The reserve funds are held with Citibank N.A. London Branch. The Company is required to maintain this reserve for both the securitised entities, for which these funds may only be used in accordance with the Issue and Programme Documentation, and for the unsecuritised entities, as a contractual requirement for the senior debt facility. These funds are therefore not readily available to the Company.

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

Derivative instruments

Malt Hill No.1 Plc / Cornhill Mortgages No. 6 Limited

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. In May 2019, the Interest Rate Swap was novated to Cornhill Mortgages No. 6 Limited on the refinancing of Malt Hill No. 1 Plc.

Cornhill Mortgages No.2 Limited / Barley Hill No. 1 Plc

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. In April 2019, the Interest Rate Swap was novated to Barley Hill No. 1 Plc on the securitisation of the Cornhill Mortgages No. 2 Limited portfolio.

Malt Hill No.2 Plc

On 29 June 2018, 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.

Cornhill Mortgages No. 4 Limited

The Company has entered into a series of vanilla Interest Rate Swaps (under an ISDA agreement) to convert the fixed rate loan exposure into 3 Month Libor. Swaps are added on a regular basis, at varying maturities, in order to align with the fixed rate reset profile of new originations.

Notional and fair value balances:

	Cornhill Mortgages No. 6 Limited	Barley Hill No. 1 Plc	Malthill No. 2 Plc	Cornhill Mortgages No. 4 Limited	30.06.2019 Total
	£	£	£	£	£
Notional amount of Interest Rate Swap	177.4m	175.2m	350.8m	55.2m	758.6m
Fair value of Interest Rate Swap	(620,045)	(1,761,513)	(4,790,127)	(603,981)	(7,775,666)

	Malthill No. 1 Plc	Cornhill Mortgages No. 2 Limited	Malthill No. 2 Plc	Cornhill Mortgages No. 4 Limited	30.06.2018 Total
	£	£	£	£	£
Notional amount of Interest Rate Swap	182.1m	116.7m	351.1m	-	649.9m
Fair value of Interest Rate Swap	(415,880)	(225,982)	(729,500)	-	(1,371,362)

9. Financial liabilities held at fair value through profit and loss (continued)
Notional and fair value balances (continued)
On 1 July 2017, the Directors designated the Malt Hill No.1 Plc and Cornhill No.2 Limited derivatives as fair value hedges and began hedge accounting from that date. Hedge accounting in relation to Malt Hill No.2 Plc derivative commenced on 1 July 2018. At 30 June 2018, Malt Hill No. 2 Plc and Cornhill Mortgages No.2 Limited did not qualify for hedge accounting due to the retrospective testing being ineffective. As such, the movement in Cornhill Mortgage No.2 Limited's fair value swap since December 2017, which was the date previously tested and proved to be effective, and all of the movement in Malt Hill No.2 Plc's fair values have been charged directly to the Statement of Comprehensive Income.

Net gain/(loss) from derivative financial instruments

	Cornhill Mortgages No. 6 Limited	Barley Hill No. 1 Plc	Malthill No. 2 Plc	Cornhill Mortgages No. 4 Limited	30.06.2019 Total
	£	£	£	£	£
Movement on derivatives in designated fair value hedge relationships	(204,165)	(1,535,531)	(4,060,627)	(603,981)	(6,404,304)
Adjustment to mortgage loans in fair value hedge relationship	537,929	1,905,655	4,321,654	468,000	7,233,238
Net ineffectiveness	333,764	370,124	261,027	(135,981)	828,934

	Malthill No. 1 Plc	Cornhill Mortgages No. 2 Limited	Malthill No. 2 Plc	Cornhill Mortgages No. 4 Limited	30.06.2018 Total
	£	£	£	£	£
Movement on derivatives in designated fair value hedge relationships	1,318,414	(152,227)	(729,500)	-	436,687
Adjustment to mortgage loans in fair value hedge relationship	(1,363,359)	70,486	-	-	(1,292,873)
Net ineffectiveness	(44,945)	(81,741)	(729,500)	-	(856,186)

The net gain/(loss) from derivative financial instruments represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges.

The net ineffectiveness is primarily due to timing differences in income recognition between derivative instruments and the hedged assets. This gain or loss will trend to zero over time and this is taken into account by the Board when considering the Company's underlying performance.

10. Trade and other receivables

	As at 30.06.2019	As at 30.06.2018
	£	£
Other receivables and prepayments	2,230,279	1,448,181
Interest receivable on mortgage loans	1,699,530	1,627,428
Capitalised formation expenses	901,453	647,200
	4,831,262	3,722,809

Capitalised formation expenses are the set up costs of Cornhill Mortgages No.2 Limited, Malt Hill No.2 plc, and Barley Hill No. 1 Plc which are being amortised over 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2019

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 30.06.2019 £	As at 30.06.2018 £
Cash at bank	51,521,524	43,784,286
	51,521,524	43,784,286

12. Trade and other payables

	As at 30.06.2019 £	As at 30.06.2018 £
Interest due on loan notes	1,989,635	848,058
Loan notes and borrowings issue fees payable	984,381	1,303,113
Mortgage loans servicing fees payable	646,035	301,552
Portfolio management fees payable	316,964	329,854
Audit fees payable	303,441	252,446
Legal & professional fees payable	143,795	109,818
General expenses payable	133,542	120,939
Administration & secretarial fees payable	53,978	2,714
Directors' fees payable	33,750	33,750
AIFM fees payable	24,024	23,469
Depositary fees payable	16,606	11,223
Custody fees payable	5,418	3,784
	4,651,569	3,340,720

13. Loan notes

The Malt Hill No.1 Plc, Oat Hill No.1 Plc, Malt Hill No. 2 Plc, Barley Hill No. 1 Plc and Cornhill Mortgages No. 6 Limited 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.

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 was payable quarterly and were listed on the Irish Stock Exchange. The issue fees on loan notes were amortised over the expected life of the loan notes, which is 3 years, being the period up to the call date. On 7 June 2019, the Company announced the redemption of the Portfolio Option on the loans underlying the Malt Hill No.1 plc securitisation, and the loans have been refinanced into a new warehouse SPV with Lloyds Bank Corporate Markets plc, called Cornhill Mortgages No.6. Limited. The refinanced amount was £183,983,354, which has been included within Loan Notes, to match the previous presentation of the Malt Hill No 1 Plc funding.

13. Loan notes (continued)

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 period up to the call date.

Malt Hill No. 2 Plc completed the public sale of £317.5m of AAA-rated bonds on 27 June 2018. The AAA notes were issued with a coupon of 3 month LIBOR plus 0.75% 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 period up to the call date. Loan notes have been classified as current based on their contractual obligations.

On 8 April 2019, the Company announced that Barley Hill No.1 PLC had successfully completed the public sale of £209.15mm of senior notes. The securitisation is backed by a pool of owner-occupied mortgages originated by The Mortgage Lender ("TML") completed between October 2016 and 8 April 2019 and purchased on a forward flow basis. The transaction also contained a "Prefunding" feature which allowed for further purchases of future completions by TML up until the securitisation's first Interest Payment Date in August 2019. Due to the nature of the origination of the pool, which took place on highly consistent basis over more than two years, the loans that were originated with a two-year fixed rate term are expected to pre-pay relatively quickly and therefore the notes were split into two tranches - £202.2mm of Class A notes, rated Aaa/AAA by Moody's and DBRS, and £6.95mm of Class B notes rated Aa1/AA (high) respectively. The Class A notes were issued with a coupon of 3m GBP LIBOR plus 1.10%, with a 2.24yr Weighted Average Life ("WAL") to the refinancing date in February 2022, and the Class B noted carry a coupon of 3m GBP LIBOR plus 1.60% with a 2.89yr WAL.

	As at 30.06.2019 £	As at 30.06.2018 £
Loan notes at start of the year	937,924,240	715,734,468
Loan notes issued	393,133,354	317,500,000
Loan notes repaid	(219,269,027)	(95,431,974)
Discount on loan notes to be amortised	1,651,747	-
Loan note issue fees incurred	(3,471,087)	(1,028,869)
Loan note issue fees amortised	2,008,812	1,150,615
Loan notes at end of the year	1,111,978,039	937,924,240

Interest expense on loan notes for the year amounted to £15,845,380 (30 June 2018: £8,715,238).

14. Borrowings

At the start of the year, Cornhill Mortgages No.2 Limited had a facility with NatWest Markets of £250m. On 8 April 2019, the Company announced that Cornhill Mortgages No.2 Limited had securitised its portfolio into Barley Hill No.1 Plc, which saw a completed the public sale of £209.15mm of senior notes and the repayment of this facility.

Cornhill Mortgages No.4 Limited agreed a borrowing facility of £200m from September 2018, with National Australia Bank Limited. Cornhill Mortgages No. 4 Limited is only required to pay a commitment fee if the drawn amount is less than 75% of the total facility amount. National Australia Bank Limited has permitted Cornhill Mortgages No.4 Limited to dynamically change the facility amount, which has resulted in no commitment fees being incurred to date on the facility. This facility has a repayment date of October 2022 and is classified as a non-current liability.

14. Borrowings (continued)

The Group is subject to covenants, representations and warranties commonly associated with corporate bank debt and credit facilities. The Group was compliant with all covenants at the year end.

At the year end, the Company had a liability of £49,288,735 consisting of £50,000,000 of the utilised borrowing facilities in respect of Cornhill Mortgages No. 4 Limited and £711,265 of borrowing costs (30 June 2018: a liability of £104,445,310 consisting of £105,000,000 of the utilised Cornhill Mortgages No. 2 Limited borrowing facility and £554,690 of borrowing costs which are being amortised over the life of the borrowing facility).

The facility fees of £75,338 (2018: £496,370) were expensed in the year. The interest expense charged on borrowings of £2,353,540 (2018: £1,165,171) were expensed in the year. Borrowing costs of £928,937 were amortised during the year.

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 as 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 2019, 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 30.06.2019	As at 30.06.2018
Ordinary shares	£	£
Share capital at the beginning of the year	264,749,999	245,000,000
Issued share capital	-	20,000,000
Share issue costs	-	(250,001)
Total share capital at the end of the year	264,749,999	264,749,999

	As at 30.06.2019	As at 30.06.2018
Ordinary shares	shares	shares
Shares at the beginning of the year	273,065,390	250,000,000
Issue of shares	-	23,065,390
Total shares in issue at the end of the year	273,065,390	273,065,390

During June 2018, the Company raised £20,000,000 (before costs and expenses) through the issue of 23,065,390 new Ordinary Shares at a price of 86.71 pence per share.

16. Related Parties

a) Directors' Remuneration and 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 £40,000 (30 June 2018: £40,000) payable to Mr Waldron, the Chairman, £35,000 (30 June 2018: £35,000) to Mr Le Page as Chairman of the Audit Committee, and £30,000 (30 June 2018: £30,000) each to Mrs Green and Mr Burrows. During the year ended 30 June 2019, Directors' fees of £135,000 were charged to the Company (30 June 2018: £135,000), of which £33,750 remained payable at the end of the year (30 June 2018: £33,750).

b) Shares held by related parties

As at 30 June 2019, Directors of the Company held the following shares in the Company beneficially:-

	Number of Shares 30.06.2019	Number of Shares 30.06.2018
Christopher Waldron	20,000	20,000
Richard Burrows	5,000	5,000
Paul Le Page	20,000	20,000
Helen Green	10,000	10,000

On 26 July 2019, the Christopher Waldron purchased a further 20,000 shares in the Company.

As at 30 June 2019, the Portfolio Manager held Nil shares (30 June 2018: Nil) and partners and employees of the Portfolio Manager held 5,864,783 shares (30 June 2018: 7,048,299), which is 2.148 % of the issued share capital (30 June 2018: 2.581%).

c) Portfolio Manager

With effect from 1 July 2017, the portfolio management fee payable to the Portfolio Manager quarterly on the last business day of the quarter was at a rate of 0.60% per annum of the lower of NAV, or market capitalisation of each class of shares. Prior to this date, the portfolio management fee per annum was 0.75%.

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 £1,337,090 (30 June 2018: £1,313,002) of which £316,964 (30 June 2018: £329,854) 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 is entitled to immediately terminate the agreement in writing.

d) Group entities

The Company's subsidiaries are as disclosed under note 2.

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 2019, AIFM fees of £97,755 (30 June 2018: £95,033) were charged to the Company, of which £24,024 (30 June 2018: £23,469) remained payable at the end of the year.

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 the Company acquired its initial investment.

In addition, an annual fee of £60,500 will be charged for corporate governance and company secretarial services and accounting services. Total administration and secretarial fees for the year amounted to £221,654 (30 June 2018: £243,847) of which £53,978 (30 June 2018: £2,714) 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 £67,916 (30 June 2018: £71,337) of which £16,606 (30 June 2018: £11,223) 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 £23,355 (30 June 2018: £23,798) of which £5,418 (30 June 2018: £3,784) remained payable at the year end.

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.

18. Financial Risk Management (continued)

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 securitisation, these swaps were novated to the relevant Issuer SPV.

On 1 July 2017, the Directors designated the derivatives as a fair value hedge and began hedge accounting from that date therefore hedging the interest risk exposure on the fixed rate mortgages shown in the table below. Refer to Note 9 for further details.

The below table shows exposure to interest rate risk if the portfolio was unhedged.

	Floating rate	Fixed rate	Non interest bearing	Total as at 30.06.2019
	£	£	£	£
Assets				
Mortgage loans	575,393,092	780,738,352	(32,409,935)	1,323,721,509
Reserve fund	17,704,519	-	-	17,704,519
Trade and other receivables	-	-	4,831,262	4,831,262
Cash and cash equivalents	51,521,524	-	-	51,521,524
Total assets	644,619,135	780,738,352	(27,578,673)	1,397,778,814
Liabilities				
Financial liabilities at fair value through profit and loss	(7,775,666)	-	-	(7,775,666)
Trade and other payables	-	-	(4,651,569)	(4,651,569)
Borrowings	(49,288,735)	-	-	(49,288,735)
Loan notes (Note 13)	(1,111,978,039)	-	-	(1,111,978,039)
Total liabilities	(1,169,042,440)	-	(4,651,569)	(1,173,694,009)
Total interest sensitivity gap	(524,423,305)	780,738,352	(32,230,242)	224,084,805

18. Financial Risk Management (continued)

Market risk (continued)

	Floating rate	Fixed rate	Non interest bearing	Total as at 30.06.2018
	£	£	£	£
Assets				
Mortgage loans	604,295,653	656,990,009	(45,481,797)	1,215,803,865
Reserve fund	17,761,100	-	-	17,761,100
Trade and other receivables	-	-	3,722,809	3,722,809
Cash and cash equivalents	43,784,286	-	-	43,784,286
Total assets	665,841,039	656,990,009	(41,758,988)	1,281,072,060
Liabilities				
Financial liabilities at fair value through profit and loss	(1,371,362)	-	-	(1,371,362)
Trade and other payables	-	-	(3,340,720)	(3,340,720)
Borrowings	(104,445,310)	-	-	(104,445,310)
Loan notes (note 13)	(943,043,748)	-	5,119,508	(937,924,240)
Total liabilities	(1,048,860,420)	-	1,778,788	(1,047,081,632)
Total interest sensitivity gap	(383,019,381)	656,990,009	(39,980,200)	233,990,428

The Company is protected against interest rate risk by virtue of the fact that there are balance guarantee swaps in place to limit the exposure on the fixed rate interest rates.

With the adoption of hedge accounting, the Company has reduced its exposure to interest rate risk as changes in the fair value of the interest rate swaps are offset by adjustments to the fair value of the mortgage loans. Consequently there is no material movement in net assets of the Company arising from interest rate fluctuations.

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 could lead to volatility in the Company's NAV, had hedge accounting not been adopted.

1.3 Currency risk: As at 30 June 2019, 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.

18. Financial Risk Management (continued)

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, using the funds raised from equity issuances. 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 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.4 Limited and Cornhill Mortgages No.6 Limited were in the warehousing phase.

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 20% 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.

The Company's funding providers are entitled to receive repayment of principal from principal funds generated by the mortgage loans, but their right to the repayment of principal is limited to the cash available in the relevant SPV. Similarly, payment of accrued interest to the funding providers is limited to cash generated within the relevant SPV. There is no requirement for any Group company other than the issuing SPV to make principal or interest payments in respect of the Loan notes or borrowings. This matching of the maturities of the assets and the related funding substantially reduces the Group's exposure to liquidity risk. Due to the contractual nature of the funding, the Directors do not consider there to be any difference between the Group's discounted and the undiscounted liquidity position in relation to the Loan Notes and Borrowings.

The following liquidity analysis is based on contractual payment terms and maturity dates (consistent with the disclosure in the Consolidated Statement of Financial Position). Expected cash flows are expected to be different to these contractual cash flows.

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

	Less than one year £	One to five years £	More than five years £	Total as at 30.06.2019 £
Assets				
Mortgage loans	13,863,465	77,434,308	1,232,423,736	1,323,721,509
Reserve fund	17,704,519	-	-	17,704,519
Trade and other receivables	4,831,262	-	-	4,831,262
Cash and cash equivalents	51,521,524	-	-	51,521,524
Total assets	87,920,770	77,434,308	1,232,423,736	1,397,778,814
Liabilities				
Financial liabilities at fair value through profit and loss	7,775,666	-	-	7,775,666
Trade and other payables	4,651,569	-	-	4,651,569
Borrowings	-	49,288,735	-	49,288,735
Loan notes	-	-	1,111,978,039	1,111,978,039
Total liabilities	12,427,235	49,288,735	1,111,978,039	1,173,694,009

	Less than one year £	One to five years £	More than five years £	Total as at 30.06.2018 £
Assets				
Mortgage loans	10,652,022	64,199,541	1,140,952,302	1,215,803,865
Reserve fund	17,761,100	-	-	17,761,100
Trade and other receivables	3,722,809	-	-	3,722,809
Cash and cash equivalents	43,784,286	-	-	43,784,286
Total assets	75,920,217	64,199,541	1,140,952,302	1,281,072,060
Liabilities				
Financial liabilities at fair value through profit and loss	1,371,362	-	-	1,371,362
Trade and other payables	3,340,720	-	-	3,340,720
Borrowings	-	104,445,310	-	104,445,310
Loan notes	-	-	937,924,240	937,924,240
Total liabilities	4,712,082	104,445,310	937,924,240	1,047,081,632

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 reserve fund is held with Citibank N.A. London Branch (credit rating A+ per Standards and Poor).

Mortgage loans written off during the year amounted to £711,394 (although in the current year these write offs have not impacted the Consolidated Statement of Comprehensive Income, as these loans were deemed to be credit impaired on acquisition and therefore the effective interest rate for these loans was based on expected cash flows) (2018: £888,671, only £24,367 of which was charged to the Consolidated Statement of Comprehensive Income), with an expected credit loss provision of £776,994 (2018 IFRS9 adjustment: £538,172). In order to give an indication of credit quality the below table, shown as book value, is the current indexed loan to value ratio:

	As at 30.06.2019	As at 30.06.2018
Loan to value	£	£
0-49%	192,843,426	185,723,429
50-75%	802,636,559	753,485,955
75-100%+	328,241,524	276,594,481
	1,323,721,509	1,215,803,865

The value of the loans past due but not yet impaired and their respective collateral value at the year-end are shown in the table below.

	Book value		Collateral value	
	As at 30.06.2019	As at 30.06.2018	As at 30.06.2019	As at 30.06.2018
	£	£	£	£
>1 month but <2 months	4,782,851	8,552,587	4,782,851	8,548,958
>2 months but <3 months	430,127	1,118,202	430,127	1,118,202
>3 months but <6 months	2,071,973	853,657	2,071,973	853,657
>6 months	3,131,200	1,018,857	3,131,200	799,089
	10,416,151	11,543,303	10,416,151	11,319,906

18. Financial Risk Management (continued)

Credit risk (continued)

The table below discloses the maximum exposure to credit risk at 30 June 2019 of mortgage loans with exposure to credit risk, the transfers between ECL levels in the year ended 30 June 2019, and the allowance for ECL allowance for each stage at 30 June 2019.

	Principal balance Mortgage Loans ECL Stage 1	Principal balance Mortgage Loans ECL Stage 2	Principal balance Mortgage Loans ECL Stage 3	Other amortised cost adjustments	Principal balance Total
	£	£	£	£	£
Principal balance at 1 July 2018	1,252,941,683	2,643,162	5,700,817	(46,019,969)	1,215,265,693
Transfers between stages	(6,279,855)	2,719,227	3,560,628	-	-
Increase in mortgage loans/mortgages repaid during the year	98,323,363	(447,964)	(118,105)	-	97,757,294
Mortgage loans written off during the year	(191,282)	(50,267)	(469,845)	-	(711,394)
Other adjustments through the portfolio	(724,600)	-	(1,475,519)	13,610,035	11,409,916
Principal balance at 30 June 2019	1,344,069,309	4,864,158	7,197,976	(32,409,934)	1,323,721,509
Allowance for impairment losses	(747,441)	(104,298)	(463,427)	-	(1,315,166)

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.

Following the EGM on 16 August 2019, the Company has adopted the changes to its Articles, changes to the Company's investment policy and to the Company's share buyback policy, to reflect asset yield reductions and the compression of the margin between 5 year and 2 year rates from around 1 per cent. to approximately 25 bps. The changes have resulted in the following:

(i) Share Buybacks

The Board will not reinvest further capital other than in the re-financing of the existing portfolio, whilst the Company is trading at a discount in excess of 5 per cent. to Net Asset Value per Ordinary Share. At this level of discount, subject to the Board determining that the Company has sufficient surplus cash resources available for the ongoing funding of the existing TML and Keystone investments, repayment of any existing credit facilities and any other foreseeable commitments, the Company intends to buy back Ordinary Shares. The making and timing of any share buybacks is at the absolute direction of the Board. 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. 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. There have been no share buybacks during the current year.

(ii) Continuation Vote

The Continuation Resolution which was scheduled for the AGM of the Company to be held in 2020 will now be proposed at the AGM held in 2024 and every fifth AGM thereafter.

19. Capital risk management (continued)

(iii) Dividend Reduction

The Company was paying dividends from capital since its launch, and this had a consequential decrease in the NAV of the Company on an ongoing basis. The Company has made the decision to rebuild the NAV, improve the Company's cash flow and reconstitute capital to generate returns in excess of the required dividend, to reduce the annual dividend from 6.0p per annum to 4.5p per annum.

(iv) Cash Management Policy

The Company will have the ability to invest uninvested cash into AAA rated UK RMBS. This should allow the Portfolio Manager to more effectively manage cash and improve returns as AAA rated UK RMBS ordinarily provide a real return over cash equivalent instruments, as they typically have stable pricing and deep liquidity.

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 2019			
Financial Assets as per Audited Consolidated Statement of Financial Position			
Mortgage loans	-	1,323,721,509	1,323,721,509
Reserve fund	-	17,704,519	17,704,519
Cash and cash equivalents	-	51,521,524	51,521,524
Trade and other receivables	-	4,831,262	4,831,262
	-	1,397,778,814	1,397,778,814

	Financial Liabilities at fair value through profit and loss	Financial Liabilities at amortised cost	Total
	£	£	£
Financial Liabilities as per Audited Consolidated Statement of Financial Position			
Financial liabilities at fair value through profit and loss	7,775,666	-	7,775,666
Trade and other payables	-	4,651,569	4,651,569
Borrowings	-	49,288,735	49,288,735
Loan notes	-	1,111,978,039	1,111,978,039
	7,775,666	1,165,918,343	1,173,694,009

	Financial Assets at fair fair value through profit and loss	Financial Assets at amortised cost	Total
	£	£	£
30 June 2018			
Financial Assets as per Audited Consolidated Statement of Financial Position			
Mortgage loans	-	1,215,803,865	1,215,803,865
Reserve fund	-	17,761,100	17,761,100
Cash and cash equivalents	-	43,784,286	43,784,286
Trade and other receivables	-	3,722,809	3,722,809
	-	1,281,072,060	1,281,072,060

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	1,371,362	-	1,371,362
Trade and other payables	-	3,340,720	3,340,720
Borrowings	-	104,445,310	104,445,310
Loan notes	-	937,924,240	937,924,240
	1,371,362	1,045,710,270	1,047,081,632

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 years ended 30 June 2019 and 30 June 2018.

	Level 1 £	Level 2 £	Level 3 £	Total £
Liabilities				
Financial liabilities at fair value through profit and loss	-	-	(7,775,666)	(7,775,666)
Total liabilities as at 30 June 2019	-	-	(7,775,666)	(7,775,666)

	Level 1 £	Level 2 £	Level 3 £	Total £
Liabilities				
Financial liabilities at fair value through profit and loss	-	-	(1,371,362)	(1,371,362)
Total liabilities as at 30 June 2018	-	-	(1,371,362)	(1,371,362)

Due to the balance guarantee nature of the swap, they have been classified as Level 3. Please see note 9 for details of the movement for the year on the interest rate swaps.

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 2019 but for which fair value is disclosed.

	Level 1 30.06.2019 £	Level 2 30.06.2019 £	Level 3 30.06.2019 £	Total 30.06.2019 £
Assets				
Mortgage loans	-	-	1,373,078,652	1,373,078,652
Reserve fund	17,704,519	-	-	17,704,519
Cash and cash equivalents	51,521,524	-	-	51,521,524
Trade and other receivables	4,831,262	-	-	4,831,262
Total	74,057,305	-	1,373,078,652	1,447,135,957
Liabilities				
Trade and other payables	4,651,569	-	-	4,651,569
Borrowings	-	49,288,735	-	49,288,735
Loan notes	-	1,111,978,039	-	1,111,978,039
Total	4,651,569	1,161,266,774	-	1,165,918,343

	Level 1 30.06.2018 £	Level 2 30.06.2018 £	Level 3 30.06.2018 £	Total 30.06.2018 £
Assets				
Mortgage loans	-	-	1,274,277,755	1,274,277,755
Reserve fund	17,761,100	-	-	17,761,100
Cash and cash equivalents	43,784,286	-	-	43,784,286
Trade and other receivables	3,722,809	-	-	3,722,809
Total	65,268,195	-	1,274,277,755	1,339,545,950
Liabilities				
Trade and other payables	3,340,720	-	-	3,340,720
Borrowings	-	104,445,310	-	104,445,310
Loan notes	-	937,924,240	-	937,924,240
Total	3,340,720	1,042,369,550	-	1,045,710,270

The Directors identified during the year that the Reserve Fund, the Cash and cash equivalents, Trade and other receivables and Trade and other payables had been incorrectly deemed as Level 2 items in the prior year consolidated financial statements. This error has therefore been corrected in the 2018 table above, which now shows these items as Level 1.

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

The fair value of borrowings and loan notes is deemed to equate to their notional amounts, as they are entirely variable rate based and have been secured within the last three years on an arm's length basis.

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. Loan notes approximate fair value as the underlying interest rates are linked to the market rates. During the year there were no transfers between the levels. Cash and cash equivalents include cash in hand and short-term deposits with original maturities of three months or less.

21. Fair Value Measurement (continued)

Trade and other receivables includes collateral due and interest receivable due within 3 months. Their fair value is deemed to approximate their book value, due to their short duration.

Trade and other payables represent the contractual amounts and obligations due by the Company for settlement of trades and expenses. Their fair value is deemed to approximate their book value, due to their short duration.

Reserve funds 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 2019:

Period to	Dividend rate per Share (pence)	Net dividend payable (£)	Record date	Ex-dividend date	Pay date
30 September 2018	1.500	4,095,981	19 October 2018	18 October 2018	31 October 2018
31 December 2018	1.500	4,095,981	18 January 2019	17 January 2019	31 January 2019
31 March 2019	1.500	4,095,981	23 April 2019	18 April 2019	30 April 2019
30 June 2019	1.125	3,071,986	19 July 2019	18 July 2019	31 July 2019

The original dividend policy for the Company was that in each subsequent financial year, it was intended that dividends on the Ordinary Shares would be payable quarterly, all in the form of interim dividends (the Company does not intend to pay any final dividends). It was intended that the first three interim dividends of each financial year was to be paid at a minimum of 1.500p 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. Following the EGM on the 16 August 2019, the Company made the decision that in order rebuild the NAV, improve the Company's cash flow and reconstitute capital to generate returns in excess of the required divided, to reduce the annual dividend from 6.000p per annum to 4.500p per annum ("the new dividend policy"). The dividend paid on 31 July 2019 reflected this new dividend policy. The Company envisages continuing to make quarterly dividend payments of 1.125p for the foreseeable future.

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.

The Portfolio Manager considers the business as two segments which are categorised as Buy-to-Let and Owner Occupied. These are further sub-divided into Forward Flow and Purchased with each being managed by separate specialist teams at the Portfolio Manager. The Buy to Let Purchased contains Malt Hill No.1, Malt Hill No.2 and Oat Hill No.1. Owner Occupied Forward Flow contains Cornhill No.2.

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:

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2019
	£	£	£	£	£
Interest income on mortgage loans	1,148,640	31,042,817	7,456,053	-	39,647,510
Net gain from derivative financial instruments	(135,981)	261,027	703,888	-	828,934
Net interest expense on financial liabilities at fair value through profit and loss	(34,689)	(1,947,908)	(353,032)	-	(2,335,629)
Interest expense on borrowings	(240,683)	-	(2,112,857)	-	(2,353,540)
Interest expense on loan notes	-	(14,927,566)	(917,814)	-	(15,845,380)
Servicer fees	(112,279)	(2,234,347)	(643,233)	-	(2,989,859)
Other expenses	(549,676)	(3,735,910)	(1,116,179)	-	(5,401,765)
Total net segment income	75,332	8,458,113	3,016,826	-	11,550,271

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2018
	£	£	£	£	£
Interest income on mortgage loans	-	23,126,534	3,680,166	-	26,806,700
Net loss from derivative financial instruments	-	(703,959)	(152,227)	-	(856,186)
Net interest expense on financial liabilities at fair value through profit and loss	-	(1,548,358)	(261,086)	-	(1,809,444)
Interest expense on borrowings	-	-	(1,165,171)	-	(1,165,171)
Interest expense on loan notes	-	(8,715,238)	-	-	(8,715,238)
Servicer fees	-	(1,860,444)	(320,842)	-	(2,181,286)
Other expenses	-	(2,720,324)	(1,242,410)	-	(3,962,734)
Total net segment income	-	7,578,211	538,430	-	8,116,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2019

23. Segment reporting (continued)

A reconciliation of total net segmental income to total comprehensive gain is provided as follows.

	30.06.2019	30.06.2018
	£	£
Total net segment income	11,550,271	8,116,641
Other fees and expenses	(4,533,798)	(2,264,350)
	7,016,473	5,852,291

There are no transactions between the reportable segments.

Total segment assets include:

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2019
	£	£	£	£	£
Mortgage loans	57,282,891	1,013,805,539	252,633,079	-	1,323,721,509
Reserve fund	-	13,521,519	4,183,000	-	17,704,519
Other	1,466,140	14,025,730	14,250,480	-	29,742,350
	58,749,031	1,041,352,788	271,066,559	-	1,371,168,378

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2018
	£	£	£	£	£
Mortgage loans	-	1,061,021,766	154,782,099	-	1,215,803,865
Reserve fund	-	16,261,100	1,500,000	-	17,761,100
Other	-	17,131,723	3,148,927	-	20,280,650
	-	1,094,414,589	159,431,026	-	1,253,845,615

	30.06.2019	30.06.2018
	£	£
Segment assets for reportable segments	1,371,168,378	1,253,845,615
Other	26,610,436	27,226,445
Total assets	1,397,778,814	1,281,072,060

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2019

23. Segment reporting (continued)
Total segment liabilities include:

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2019
	£	£	£	£	£
Borrowings	49,288,735	-	-	-	49,288,735
Loan notes	-	905,152,238	206,825,801	-	1,111,978,039
Financial liabilities at fair value through profit and loss	603,981	5,410,172	1,761,513	-	7,775,666
Other	403,586	2,256,199	1,245,396	-	3,905,181
	50,296,302	912,818,609	209,832,710	-	1,172,947,621

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2018
	£	£	£	£	£
Borrowings	-	-	104,445,310	-	104,445,310
Loan notes	-	937,924,240	-	-	937,924,240
Financial liabilities at fair value through profit and loss	-	1,145,380	225,982	-	1,371,362
Other	-	2,598,009	71,128	-	2,669,137
	-	941,667,629	104,742,420	-	1,046,410,049

	30.06.2019	30.06.2018
	£	£
Segment liabilities for reportable segments	1,172,947,621	1,046,410,049
Trade and other payables	746,388	671,583
Total liabilities	1,173,694,009	1,047,081,632

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2019

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. Subsequent Events

The fourth interim dividend of 1.125p per Ordinary Share in respect of year ending 30 June 2019 was declared on 11 July 2019 and paid from the capital on 31 July 2019.

On 26 July 2019, the Christopher Waldron purchased a further 20,000 shares in the Company.

On 6 August 2019, the Company announced completed the arrangement and signing of a new warehouse SPV arranged by HSBC Bank plc, called Cornhill Mortgages No.5 Limited. This will fund the forward flow purchases of newly originated owner-occupied residential mortgage loans from the Company's ongoing arrangement with TML following the completion of the pre-funding phase of the Barley Hill No.1 securitisation from earlier this year, which concludes in August. The transaction is intended to fund portfolio growth to a size suitable for a further public securitisation into what will then be expected to be the second Barley Hill transaction.

On 16 August 2019, the Company resolved through an EGM, to amend the Articles of the Company;

(i) to enable the Company to implement the reduction in the annual dividend trigger from 6.000p to 4.500p;

(ii) to provide that the Continuation Resolution due to take place at the AGM in 2020 will now take place at the date of the AGM in 2024 and every fifth AGM thereafter; and

(iii) the limit on borrowings be increased from 10 per cent. to 20 per cent. of the NAV of the Company as at the time of drawdown.

Further, the Share Buy Back Policy was also amended at the EGM. The Board does not intend to reinvest further capital other than in the re-financing of the existing portfolio, whilst the Company is trading at a discount in excess of 5 per cent. to NAV per Ordinary Share. At this level of discount, subject to the Board determining that the Company has sufficient surplus cash resources available for the ongoing funding of the existing investments, repayment of any existing credit facilities and any other foreseeable commitments, the Company intends to buy back Ordinary Shares.

On 10 October 2019, the Company declared a dividend of 1.125p in relation to the 3 month period to 30 September 2019. The ex-dividend date for this distribution was 17 October 2019, with a record date of 18 October 2019, and a payment date of 31 October 2019.

These Audited Consolidated Financial Statements were approved for issuance by the Board on 17 October 2019. There were no other subsequent events until this date.

SUBSIDIARY DETAILS

Company	Registered Office
UK Corporate Funding Designated Activity Company	5 George’s Dock, IFSC, Dublin 1, Ireland.
Cornhill Mortgages No.1 Limited *(Dissolved 19 January 2018)*	40a Station Road, Upminster, Essex, RM14 2TR, United Kingdom
Cornhill Mortgages No.2 Limited	35 Great St. Helen's, London, EC3A 6AP, United Kingdom
Cornhill Mortgages No.3 Limited *(Dissolved 15 August 2018)*	40a Station Road, Upminster, Essex, RM14 2TR, United Kingdom
Cornhill Mortgages No.4 Limited	35 Great St. Helen's, London, EC3A 6AP, United Kingdom
Cornhill Mortgages No.5 Limited	35 Great St. Helen's, London, EC3A 6AP, United Kingdom
Cornhill Mortgages No.6 Limited	35 Great St. Helen's, London, EC3A 6AP, United Kingdom
Malt Hill No.1 Plc	35 Great St. Helen's, London, EC3A 6AP, United Kingdom
Malt Hill No.2 Plc	35 Great St. Helen's, London, EC3A 6AP, United Kingdom
Oat Hill No.1 Plc	35 Great St. Helen's, London, EC3A 6AP, United Kingdom
Barley Hill No.1 Plc	35 Great St. Helen's, London, EC3A 6AP, United Kingdom

GLOSSARY OF TERMS

ABS	Asset-backed security whose income payments and hence value are derived from and collateralised (or "backed") by a specified pool of underlying assets
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 Directive	Alternative Investment Fund Managers Directive 2011, 61/EU
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
BoE	Bank of England
Board of Directors or Board or Directors	the Directors of the Company
CCJs	County Court Judgements
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	UK Mortgages Limited
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
EGM	Extraordinary general meeting. An extraordinary general meeting (EGM) is a meeting other than a company's annual general meeting (AGM).
FFI	Foreign Financial Institution
FLS	Funding for Lending Scheme
Forward Flow transaction	Forward flow transactions involve the appointment of a third party to originate mortgages that meet criteria defined by the investment manager with the intention of securitising these mortgages at a future date. These transactions have the advantage that they can be customised with a view to meeting desired levels of risk and return. The disadvantage of this type of transaction is that the timing of loan origination is a function of the market demand for the mortgages and the size and quality of the originator's sales infrastructure.
FRC	the Financial Reporting Council
FTBs	First Time Buyers
GFSC Code	Code of Corporate Governance issued by the Guernsey Financial Services Commission

GLOSSARY OF TERMS Continued

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: (a) the government of the United Kingdom; or (b) the Scottish Administration; or (c) the Executive Committee of the Northern Ireland Assembly; or (d) the National Assembly of Wales; or (e) the government of any country or territory outside the United Kingdom; or (f) a local authority in the United Kingdom or elsewhere; or (g) a body the members of which comprise: (i) States including the United Kingdom or another EEA State; or (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)
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.
ICR	Interest Coverage Ratio, a debt ratio and profitability ratio used to determine how easily a company can pay interest on its outstanding debt.
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

GLOSSARY OF TERMS Continued

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 Issuer 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 1.000p 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 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
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
Purchased portfolio	A purchased portfolio is the purchase of a large group of related financial assets in a single transaction.
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

GLOSSARY OF TERMS Continued

Retention Notes	means a Subordinated tranche of securities which as part of the warehouse or 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
SONIA	the Sterling Overnight Interest Average rate which is replacing LIBOR as a cost of interbank funding.
SPV	means a special purpose vehicle
SVR	Standard variable rate
TFS	Term Funding Scheme
TML	The Mortgage Lender
UK Code	The UK Corporate Governance Code 2018 (published in July 2018) applies to accounting periods beginning on or after 1 January 2019. It places greater emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity. All companies with a Premium Listing of equity shares in the UK are required under the Listing Rules to report in their annual report and accounts on how they have applied the 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. Five warehouse SPVs; Cornhill Mortgages No. 1 Limited, Cornhill Mortgages No. 2 Limited, Cornhill Mortgages No. 3 Limited, Cornhill Mortgages No. 4 Limited, Cornhill Mortgages No. 5 Limited have been established for the purpose of warehousing
Warehouse SPV	a special purpose vehicle, incorporated in the UK, established for the purpose of warehousing the mortgage portfolio

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