TwentyFour
ASSET MANAGEMENT

UK Mortgages Limited

Annual Report and Audited Consolidated Financial Statements

For the year from 1 July 2017 to 30 June 2018

UK Mortgages Limited

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SUMMARY INFORMATION

The Company

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

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

UKML established 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"). UKML, the Acquiring Entity, the Issuer SPVs and the Warehouse SPVs (collectively, the "Company") are treated on a consolidated basis for the purpose of the Audited Consolidated Financial Statements.

Investment Objective

The Company's investment objective is to provide Shareholders with access to stable income returns through the application of relatively conservative levels of leverage to portfolios of UK mortgages. 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 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 on, or within 2 weeks following, the last business day of the following month.

Financial Highlights

	30.06.2018	**30.06.2017**
Total Net Assets at year end	£233,990,428	£223,388,138
Net Asset Value per ordinary share at year end	85.69p	89.36p
Share price at year end	87.25p	96.40p
Premium to Net Asset Value at year end	1.82%	7.88%
Net Asset Value Total Return	(0.81%)	(3.14%)
Dividends declared and paid in the year	6.00p	6.00p
Total dividends declared in relation to the year	4.50p	4.50p
Ongoing Charges		
- UKML	0.93%	1.07%
- DAC and subsidiaries	1.65%	1.11%
Total ongoing charges for the Company	2.58%	2.18%

CHAIRMAN'S STATEMENT
for the year ended 30 June 2018

I am pleased to present the results of the Company for the year from 1 July 2017 to 30 June 2018. This was a busy period which closed amid a flurry of activity that saw the Portfolio Manager working on the terms of the new Keystone forward flow transaction as well as completing our second Coventry portfolio acquisition and subsequent Malt Hill No.2 securitisation in short order. To fund these transactions, £20m was raised in June through the issue of new shares in a placing that was significantly oversubscribed. This placing was an important milestone for the Company, as it not only demonstrated the continuing attraction of UKML's investment strategy, but in going beyond the original capital raised at IPO, it marked the beginning of what is planned to be a new phase of targeted financing for specific acquisitions, minimising any future cash drag.

Whilst these recent transactions have commanded much attention, it is also important to note that the performance of the rest of the portfolio remains very satisfactory, with arrears well below the Portfolio Manager's projections. In the case of Malt Hill No.1, the Company's first portfolio purchase, none of the 1241 loans was in arrears at the end of June, a remarkable performance. After the expected round of resetting and switching in 2017, prepayments in Malt Hill No.1 have stabilised and projected returns are in line with our original expectations as we approach May 2019, when the original 2016 securitisation can be refinanced.

The Company's second securitisation was Oat Hill No. 1, a portfolio of well-seasoned loans from the 2004-2008 period, securitised in May 2017. This portfolio is significantly larger than Malt Hill No.1 with over 4500 loans outstanding, yet only 74 of these are one month or more in arrears. The mortgages in Oat Hill No. 1 are floating rate loans and consequently the recent base rate rise should improve returns to the Company.

A similar pattern of minimal arrears can be seen in Cornhill No.2, the mortgage origination business of The Mortgage Lender ("TML"), although as has been noted in previous reports, the growth of this business has been slower than originally anticipated. Nevertheless, TML has now passed £150m in completed loans with £35m in the pipeline, sufficient for the Portfolio Manager to begin initial work on securitising this portfolio. Currently we hope to be in a position to bring this to market in the first quarter of 2019.

Outlook

With the completion of the Malt Hill No.2 securitisation in June, the immediate task has been to complete the Keystone transaction. This forward flow agreement will see the Company funding Buy-to-Let ("BTL") loans to professional landlords. The Portfolio Manager has finalised discussions with Keystone about how its offering should best be structured. Moreover, given Keystone is an existing originator and therefore able to switch over from its current funding stream almost immediately, the pace of origination should be much more predictable than with TML and target volumes should be able to be reached quickly. This should then generate a return for the Company well in excess of 7%.

Beyond this, the terms of the refinancing of Malt Hill No. 1 next year and the securitisation of Cornhill No.2 will be important drivers of future returns. Here, the portfolio management team's established recognition in the securitisation market will be an asset. It's worth noting that Malt Hill No.2 was securitised within a month of agreeing the final portfolio purchase terms and without the need for a warehouse facility, whereas for Malt Hill No. 1 the process took almost six months, albeit difficult market conditions drove some of that original timing. The Malt Hill No.2 deal was also executed at a highly competitive level, with wide investor participation and sizeable oversubscription, despite being completed in the midst of a heavy expected new issue pipeline, which has latterly weighed on spreads in the RMBS market.

We are also in discussions to secure a revolving credit facility that would allow greater flexibility in the financing of future acquisitions and hope to give more details on this later this year.

CHAIRMAN'S STATEMENT Continued

for the year ended 30 June 2018

Dividend and NAV

As I have stated in previous reports, the Board has approved the payment of uncovered dividends only after extensive discussion with the Portfolio Manager, having consulted shareholders and carefully considered the projected cash flows. No topic takes up more of the Board's time and therefore it is pleasing to see that meaningful progress has been made this year towards covering the dividend. Increased cash flows from the new Coventry transaction are expected to be immediately additive, once transaction costs have been absorbed and further growth and increasing leverage at TML, together with the addition of the Keystone forward flow agreement will all add to returns.

The detailed projections are regularly updated on UKML's website and we produced this graphical representation of our estimated future dividend coverage pattern in April which the Portfolio Manager shared with investors in their webinar. The chart is based on a number of assumptions about our ability to originate and securitise/re-securitise loans and only includes our current portfolio and the pending Keystone transaction, so no benefit is assumed for additional acquisitions. The positions of the red triangles in the chart below are intended to provide a relatively simple visualisation of how we estimate our transition to a fully covered dividend will be achieved. Where the triangles are below the orange line our income will be below our dividend target and vice versa.

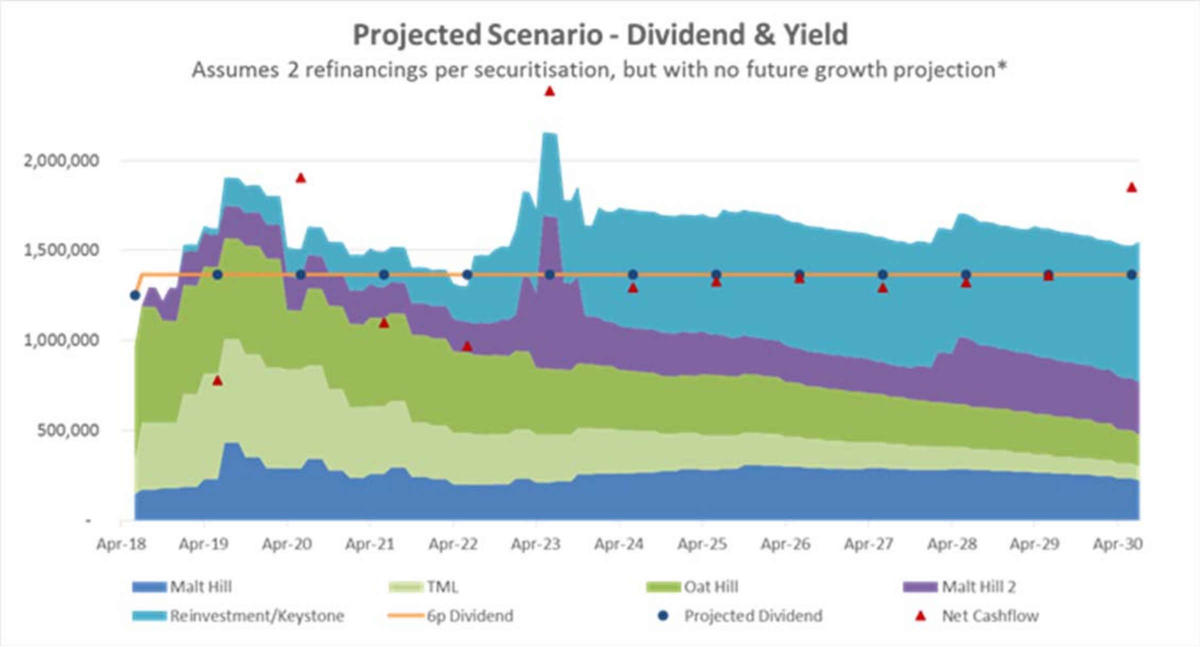
Similar modelling is used to give an indication of how the NAV will change. Over the year to June 2019 we estimate that in excess of £9m in income will be generated from the current portfolio, but with costs in the region of £2m and an anticipated dividend of £16.4m this implies a decline in NAV of approximately 3p per share. However, this rate of decline will slow in the first half of 2019. In this period, we expect to securitise the TML portfolio and by mid-year, the terms of the Malt Hill No. 1 refinancing will be known.

A further milestone will be the refinancing of Oat Hill No.1 in the first half of 2020. This portfolio was bought at a significant discount to par and over the three years since its initial securitisation, it is expected that that the portfolio value will have accrued towards par as the discount reduces.

All three events will release capital and contribute to a re-leveraging of returns, which should improve the NAV outlook. At each milestone, we will update our projections with the new cash flows to give shareholders as much detail as possible on progress to rebuilding the NAV.

We also expect our loan origination business segment to produce more stable and predictable cash-flows as capital will be raised and applied incrementally, therefore avoiding cash drag, maintaining leverage and benefitting returns.

CHAIRMAN'S STATEMENT Continued
for the year ended 30 June 2018



Thank you for your continuing support.

Christopher Waldron
Chairman
17 October 2018

PORTFOLIO MANAGER'S REPORT
for the year ended 30 June 2018

Market Commentary
Central bank policy changes, political uncertainty and technical drivers have been and will continue to be the major influences on macro market behaviour through 2017/2018 and beyond. The unwinding of QE and the pace of interest rate normalisation remain key to global central bank activity. The US continued on its path of raising rates in a targeted manner with three interest rate rises in the period, broadly in line with expectations as the Fed also welcomed a new chairman, and for the most part US Treasury yields rose steadily, particularly from last autumn to early Summer this year. Meanwhile, the Trump presidency continued its rollercoaster ride, lurching from controversy to scandal to political friction to international incident whilst hardly pausing for breath. That said, the tax reform package was finally passed in late 2017, and the on-off-on-again summit with North Korea's Kim Jong Un led to a cessation of the war of words on the face of it, even if doubts remain as to the actual sincerity of the promised denuclearisation in the region. However, rising tensions with China over trade tariffs and speculation over the possible evolution of a full-blown trade war, once again show that Trump's bombastic approach will ensure anything but a smooth ride.

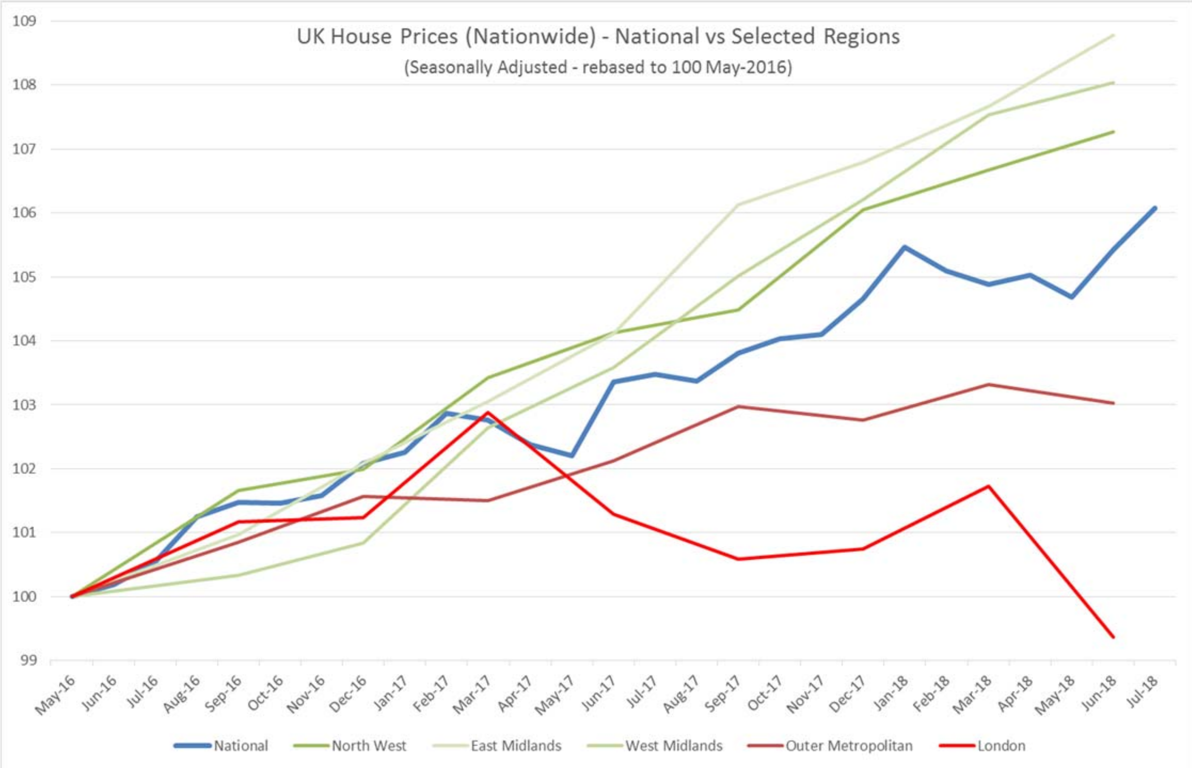
In Europe, yields were more volatile, with fears of a European taper tantrum gradually receding as QE reduction was well flagged, with dovish guidance of a prolonged withdrawal and no prospect of interest rate hikes until at least the summer of next year. Political volatility was high across the board with Angela Merkel suffering in the German elections in late 2017 and still struggling to keep her coalition government together into the summer of this year. Political unrest in Spain following the Catalonian independence referendum ultimately cost Prime Minister Rajoy his job, ousted by socialist Pedro Sanchez. Furthermore in Italy, the two main, but opposing, populist parties, Five Star and the League struggled to form a coalition with presidential opposition to ministerial positions driving up the tension. Once this was finally resolved, attention has moved to whether the government can now deliver a workable budget.

In the UK, the ever fluctuating Brexit debate drove political sentiment with a pro-Remain revolt forcing the government to accept that a parliamentary vote will be required to agree the final terms of the UK/EU separation – an event likely to cause significant consternation and uncertainty, given the huge divide not just within the government but across parliament as a whole. This was exemplified by the fallout from the so-called "Chequers agreement" which ultimately led to the high-profile resignations of David Davis and Boris Johnson along with two Tory party vice-chairs in protest over the plan. Meanwhile Brexit hardliners, such as Jacob Rees-Mogg continue to undermine Mrs May's plans whilst the European camp show few signs of conciliation, and the Labour party have broadly stayed out of the front-line argument, instead distracted by bickering over claims of anti-Semitism in the party and in particular its leadership.

Meanwhile, UK interest rate policy began to normalise although not without hiccups. The eventual reversal in late 2017 of the Brexit-induced emergency 25bp rate cut over a year previously (along with confirmation that the end of the Term Funding Scheme ("TFS") would take place on schedule in early 2018), was followed by rhetoric that further rate increases would follow in mid-2018, reinforced by comments from Governor Carney in early 2018. However, the governor backtracked just a couple of months later and ultimately the rise didn't come through until August.

This political and Brexit-driven uncertainty continues to feed through to the broader UK mortgage and housing markets, where house price inflation at a national level exhibits some volatility but generally continues to limp slowly higher. However regionally, London in particular continues to decline relative to areas such as the Midlands and the North which have out-performed. This performance since the Brexit vote can clearly be seen in the graph below.

PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2018



Estate agents and surveyors continue to report lower levels of activity with a lack of new instructions for sales of particular note, albeit a moderate increase has been detected towards the end of the period ahead of the traditionally quieter summer period.

Meanwhile, mortgage markets were dominated by re-mortgaging. This has been driven mostly by borrowers refinancing existing loans, either because they have reached the end of their current fixed rate period, but also in response to the spectre of rising interest rates with an emerging trend towards 5 year loans (rather than 2 year or 3 year loans which have hitherto been more popular) becoming noticeable, to lock in current lower rates, or in the case of BTL markets to benefit from the lower stress test threshold afforded to loans with longer fixed rate periods. In the owner-occupied sector many homeowners are also choosing to re-mortgage in order to finance home improvements rather than choosing to move property. This has been partially driven by the ongoing uncertainty in housing markets due to the unknown outcome of the Brexit negotiations, but also as an ongoing reaction to the increased level of stamp duty, especially for higher value properties, prompting many home owners to 'extend and improve rather than move'.

This has been partially offset by an increase in the number of first-time buyers, particularly prompted by the stamp duty incentives introduced in the November budget (albeit less so in London where the high cost barrier to entry still eludes many capped by loan-to-income lending ratios). It has also perhaps prompted something of a compression in house prices with the lower end of the market buoyed by first-time buyer interest but the upper end, particularly in the South, depressed by higher taxes and uncertainty.

PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2018

In the BTL market, the 2-year anniversary of the increase in stamp-duty for second properties also prompted a surge in re-mortgage activity as many of those hastily arranged purchases from 2016 were re-financed. However, uncertainty remains here also as new rules for professional landlords come into effect, pushing up the cost of borrowing, and the full effect of the tax relief tapering still being phased in. However, most lenders continue to report strong business interest, although again re-mortgaging has dominated. Fears of a wholesale sell-off by landlords in the face of new regulations appears to have been unfounded, at least in the near-term, but for those who do convert to limited company status the market currently appears to be robust, with many increased costs being passed on to tenants in higher rents.

On the rate side, the two base rate rises both seem to have been fully passed on to loan rates, if not savings rates, by the vast majority of lenders – particularly those in the prime/high street space. If anything, one or two may have even taken the opportunity to partially rebuild their margins following intense competition during 2016/2017. In addition, the end of the extraordinary funding measures provided by the BoE in the form of the TFS and Funding for Lending Scheme ("FLS") has also prompted banks to be less competitive. The specialist lenders and challenger banks, with more margin to play with, have been less reactive but for the most part rates have crept up.

Overall, despite the sluggishness, the housing and mortgage markets remain somewhat insulated from many other parts of the economy and the macro events affecting stock and bond markets, as most activity is domestic, and as such remain an effective uncorrelated haven from broader fixed income.

Meanwhile, securitisation and funding markets have generally been positive. European ABS supply posted a new post-crisis record in 2017, albeit marginally, and 2018 has seen a record first half. Despite this, for the most part demand was also heavy as supply often came in spurts, and therefore spread performance was strong throughout the period, especially with two UK base rate hikes supporting demand for floating rate paper which makes up the entirety of the UK RMBS market. This position persisted throughout almost the entire period until the summer of 2018 when a perception of oversupply, coupled with volatility in broader financial markets brought some spread weakness. In particular, GBP market weakness was also driven by a marked return to issuance by high street banks and building societies following the end of the BoE TFS and FLS programmes.

Looking forward, the long-awaited new regulation, much of it designed specifically to help further revive the use of securitisation as a funding tool for banks and financial assets, will come into effect from 2019 once the final technical details have been completed. Much of this new framework is centred on promoting exactly the type of high quality product that is at the heart of the Company's investments. It's likely that initial issuance under the new flagship Simple, Transparent and Standardised ("STS") label will take some time to be assumed and early issuance will be led by the largest issuers but in time the new standard will likely be embraced by investors and issuers alike and become the norm for all issuers that can meet its requirements.

Portfolio Review
Despite completing no new transactions during the first half of the period, a number of opportunities of different types were assessed, some of which progressed further than others. We were disappointed not to win one particularly suitable opportunity, which was very sensitive to assumptive inputs and where subsequently it so far appears that our more conservative assumptions (than those that won the bid) were indeed justified. In other matters however, the portfolio management team undertook a considerable amount of work in order to maximise the efficiency of the existing transactions, specifically relating to those loans in the Malt Hill No.1 (Coventry Building Society) securitisation that were coming to the end of their initial fixed rate period, and separately finessing the drawing process under the Cornhill Mortgages No.2 (The Mortgage Lender) warehouse facility in order to achieve a number of cost savings.

PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2018

The reduction in investment management fees announced in June 2017 was implemented from the beginning of the Company's new financial year and this, along with the improved income from the Capital Home Loans ("CHL") portfolio following the Oat Hill No.1 securitisation, saw improved cash flow, although the dividend remained uncovered.

The second half of the period proved to be much busier than the first. Following the confirmation from the BoE that the TFS would end on schedule, important in itself as the previous FLS had been extended a number of times, traditional lenders quickly began reviewing their funding and capital management plans. For some this meant a direct return to securitisation markets, as described above, but for others it also meant reviewing mortgage portfolios, following the approx. £126.5bn extended to banks during the 18 month life of the scheme.

Since the first transaction in 2015, it was always expected that the Company would have an ongoing relationship with Coventry Building Society ("CBS" or "Coventry"). The TFS and other unforeseen regulatory changes in the BTL mortgage market meant that CBS took more time to contemplate a second transaction than originally envisaged. Despite this, we maintained an open dialogue with them, and following preliminary discussions in the late part of 2017 more detailed negotiations began in early 2018 and in late April we were able to announce that heads of terms had been agreed for a new portfolio purchase of recently originated mortgages that was expected to deploy the Company's remaining investable capital, albeit the seller's identity remained confidential at that stage. Work began immediately on documentation, agreeing and finalising the transaction details, but unlike the previous transaction, work also began on the securitisation, with the intention that, rather than
using a warehouse to finance the transition period from purchase to securitisation, the purchase and term funding parts of the transaction would evolve alongside each other leading to considerable cost savings as well as speeding up the time required to achieve the most efficient funding process.

On 1 June 2018, it was announced that final terms had been agreed and signed for the acquisition, a pool of 2,077 BTL mortgages with a value of approximately £350m, with CBS disclosed as the seller. The pool had an average Loan-to-Value ("LTV") ratio of 60.8% and unlike the previous pool, where a large percentage of the loans had an initial fixed rate period of two years, all the loans in this pool had approximately five years until the end of their current fixed rate period, with the vast majority falling between November 2022 and May 2023. The lower level of prepayments typically experienced during the fixed rate period will therefore help the term securitisation to maintain leverage for longer, thereby maintaining the investment return for longer. This was particularly relevant as with mortgage margins at tighter levels than they were at the time of the previous purchase, the overall yield of the transaction would likely be lower than before.

As the first week of June comprised the annual Global ABS Conference (which sees most of the market absent) marketing of the securitisation, Malt Hill No.2 plc, began the following week with a 3-day deal-marketing roadshow, followed by a book-building process and finally the launch and pricing on 21 June 2018. The senior AAA-rated notes were priced at 3-month Libor+0.75% to the 3-year optional redemption date when the deal is expected to be refinanced. Based on the assumption of two further refinancing securitisations this transaction will generate an expected IRR of 6.41%.

In parallel with our second CBS acquisition we were working on a further transaction. Almost simultaneously with the launch of Malt Hill No. 2, UKML was able to announce that following a competitive process, terms had been agreed on a forward flow purchase arrangement with Keystone Property Finance ("Keystone"), an existing specialist lender to portfolio landlords, to originate an initial £350m book of BTL mortgages, the Company's fifth transaction.

PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2018

At the same time it was also announced that in order to complete the new CBS transaction and to provide initial funding for the Keystone transaction, the Company would seek to raise £20 million additional equity capital through the issue of new ordinary shares. The share offer was launched on 21 June and concluded on 25 June 2018 through the issue of 23,065,390 new ordinary shares of 1p each in the capital of the UKML at a price of 86.71 pence per share representing a premium of 1.5% to the ex-dividend unaudited NAV of 85.43 pence per share as at 30 April 2018. The issue was significantly over-subscribed, however the Board decided to cap the issue at the £20 million proposed.

Going forward, further capital to fund the growth of the Keystone portfolio (and similarly for other future forward-flow arrangements, such as a follow-on portfolio with TML) can be raised and allocated incrementally as the portfolio grows, therefore minimising cash drag. In addition, the Company is seeking to put in place a revolving credit facility as a further option for the most efficient funding of future capital investments, and this project is ongoing.

The Portfolio Manager has subsequently spent the summer finalising the Keystone transaction, carrying out significant pre-acquisition due diligence, appointing National Australia Bank (rated Aa3/AA-/AA- by Moody's, Standard & Poor's and Fitch) as warehouse provider, arranger and swap counterparty, and Pepper UK, one of the most experienced and respected third party servicers to service the loans, as well as negotiating the suite of asset acquisition, management and financing documentation and other associated arrangements. In addition, various ancillary roles such as the cash manager, SPV directors and administrator have also been put in place, mostly using tried and tested counterparties already engaged in the same roles for existing Company transactions, to ensure consistency and benefits of scale.

Keystone began lending for the Company with a soft launch in the first week of September and a full roll-out the following week. Early applications have been strong, as was expected given that Keystone are an existing originator who have been actively originating mortgages for various third parties since 2012 and so able to switch origination from their existing previous provider to UKML almost immediately, meaning lending scale could be achieved quickly from the outset. Whilst it will be difficult to accurately assess the return until the portfolio is fully assembled, the expectation is that this transaction will generate a gross IRR for the Company significantly in excess of 7% (from the date of purchase).

The deal adds a complementary growth channel to the Company's existing investments, which now comprise almost the full complement of high quality mortgages in the UK, with two Coventry transactions largely to individual landlords, and the Keystone transaction to portfolio borrowers, plus the legacy BTL loans from CHL and finally an owner-occupied transaction with TML.

Buy-to-Let Investments

Three of the Company's current investments along with the new Keystone transaction are comprised of BTL mortgages. Whilst macro housing market and credit drivers are similar to those in the Owner-Occupied sector, BTL lending and property transactions are differentiated by regulatory specifics in the mortgage market, the RMBS market and the housing market, such as rental value tests, rating agency weightings and property tax, and therefore the two sectors should be considered separately. Many of these issues have been introduced in the last few years, including the ongoing phasing out of tax relief, new rules for professional landlords, a 3% stamp-duty surcharge for BTL properties and increases in minimum interest coverage ratios and stressed-payment thresholds.

PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2018

Despite these changes, the sector has continued to perform extremely well albeit there has been, and will likely continue to be some reshaping of the property ownership mix between professionals and individuals. However, mainstream press speculation of wholesale offloading of properties by landlords seem to be overly doom-laden, and there is some evidence that private landlords who are affected by the tax relief changes will in the most part gradually covert to limited companies, should they decide to change lenders, rather than choose to sell. Longer-term borrowers from before the crisis typically benefit from low-margin floating rate loans, typically linked to the base rate, and have broadly profited from a significant house price recovery over the last 8-10 years, reducing LTVs. Newer loans must meet the revised prudent lending standards.

Whilst all the following portfolios are of BTL loans, each has slightly different characteristics and so a further breakdown of each portfolio is given below rather than a simple aggregation.

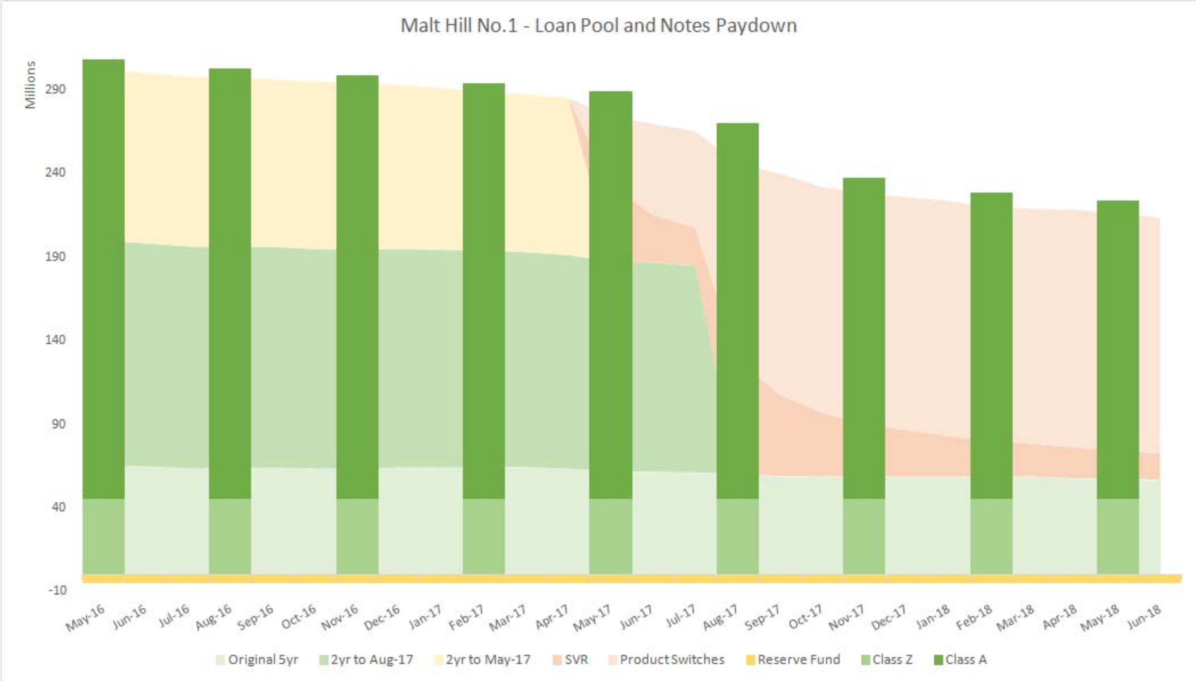
Malt Hill No.1 Portfolio (Coventry Building Society)

The loan portfolio continues to exhibit extremely strong performance, with the increased principal prepayment activity experienced in 2017 during the first round of loan resets having now returned to a normalised level, as can be seen in the graph below, along with the paydown profile of the Malt Hill No.1 notes.

In terms of credit performance, in the 3-year lifetime of the loans, just three have missed a monthly payment and all of these were cured by the following month, meaning the portfolio is performing at 100%.

Given that the loans were predominantly originated between May and July of 2015, those with an initial two-year fixed rate period reached the end of that term in either May 2017 or August 2017. Approximately 25% of these loans, a relatively low percentage compared to the level of re-mortgaging typically seen in the market, prepaid as the borrowers most likely moved to another lender. The balance either reset to a new fixed rate with CBS or reverted to the SVR. Most of the loans that reset with CBS for a new 2-year period will reach their next reset date in May or August 2019. May 2019 is also the refinancing date for the current securitisation so it is likely that at this time we will seek a short term financing solution ahead of a further term securitisation to allow those loans that prepay during that period to do so, whilst being able to manage the capital efficiently by withdrawing any that becomes unnecessary and putting it to work elsewhere (e.g. Keystone, or possibly purchasing further Coventry loans).

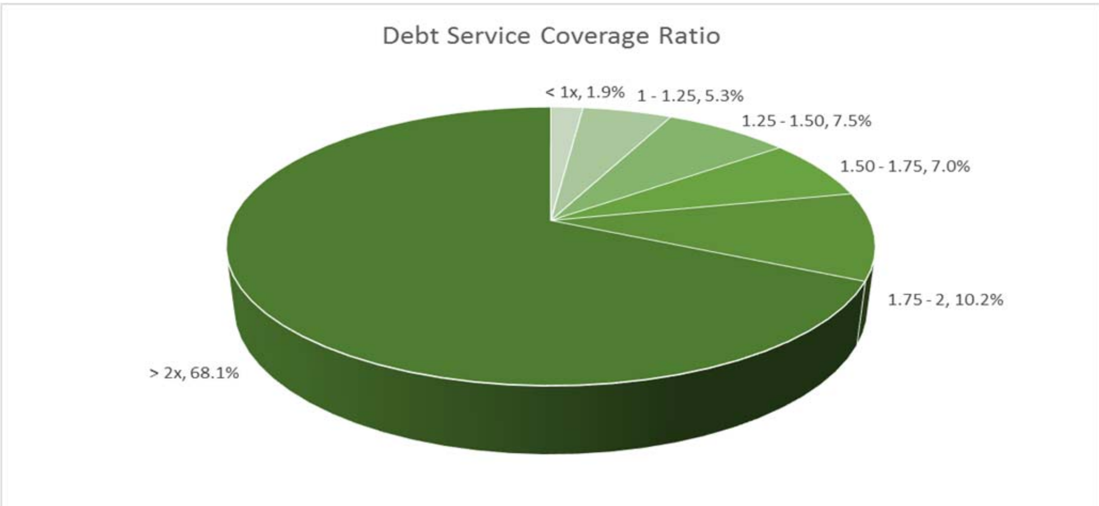
PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2018



Key Performance Indicators
The Malt Hill No.1 portfolio is an exceptionally high quality pool of loans. The pool is well diversified with low (and therefore lower-risk) LTV ratios, loan balances and, importantly for BTL properties, generally high Debt Service Coverage Ratios ("DSCR" – being the level of rental income versus the contractual monthly payment on the loan).

As the end of the period, 1,241 loans with a value of approximately £214m (down from 1,561 loans worth £270m in June 2017) remain outstanding. The Weighted Average Indexed LTV fell slightly from 63.8% to 63.1%, and there are no loans >80% LTV.

The vast majority of the pool has a very healthy DSCR with 68% of the loans having more than 2 times coverage, up from 52% in June 2017; a benefit of the lower rate re-fixes whilst interest rates were low in 2017.



PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2018

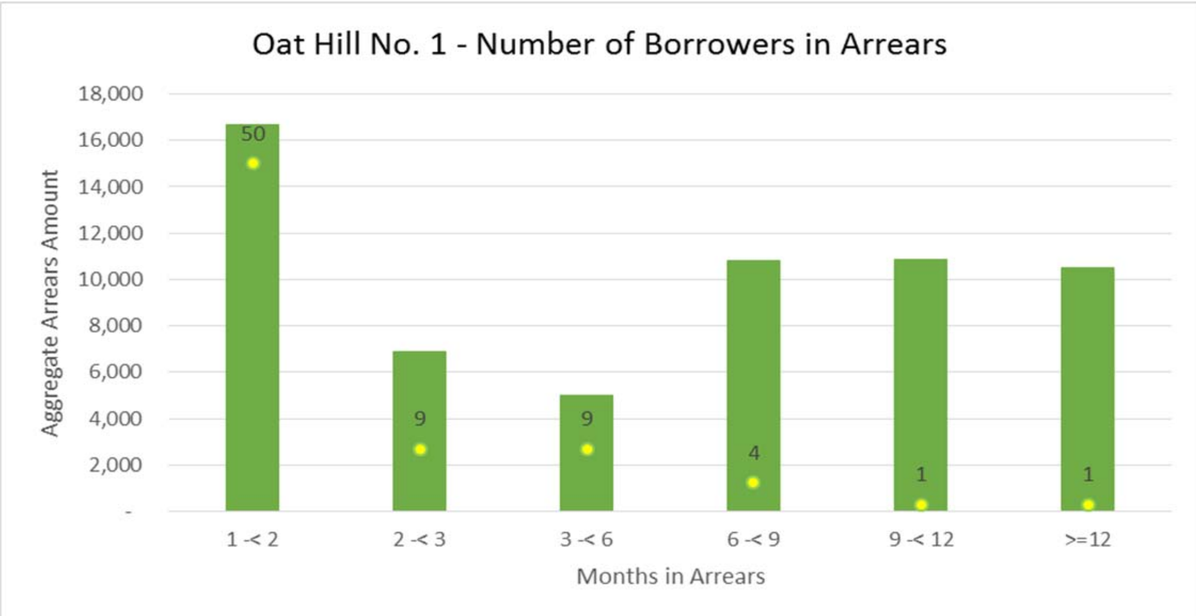
Malt Hill No.2 Portfolio (Coventry Building Society)
Given that the pool was purchased in the last month of the Company's financial year, the pool has not changed since the purchase. As described above it is a very high quality pool with a lower weighted average LTV than even Malt Hill No.1 at 60.7%. The DSCR is also higher with 92.6% of the pool having a DSCR greater than 2 times.

Oat Hill No.1 Portfolio (Capital Home Loans - CHL)
This investment remains very much in line with expectations, and therefore set to deliver the strongest returns of all the Company's current investments.

It comprises a pool of vintage loans (mostly originated between 2004 and 2008). Therefore any initial short term fixed-rate periods have long since expired and all the loans now pay a floating rate of interest, with almost all of them linked to the Bank of England base rate, and thereby also benefit from the two UK base rate rises during the period and any further increases although these are currently not expected until the middle of 2019.

However, this characteristic also means that most loans are paying a relatively low rate of interest, with the weighted average interest rate expected to have risen to 2.04% when the effects of the recent base rate hike are fully passed on to customers, up from 1.54% when the pool was purchased. As a result of the low rate, the pool was purchased at a significant discount, and much of the return from this portfolio will be derived from that. The realisation of this discount will be in steps, as firstly the current securitisation and then subsequent ones are refinanced, typically every three years, with the leverage essentially locked-in during the interim periods and then re-levered, and therefore revalued, at each refinancing. The age of the pool means the weighted average life of the loans is currently only 11 years.

Key Performance Indicators
Given the age of this pool, it's not surprising that the portfolio contains some loans in arrears, especially given that the financial crisis reached its peak shortly after many of the loans were originated. However, data from the June loan-by-loan report shows just 74 loans are one month or more in arrears, from a current pool of 4,589 loans and with an average arrears amount of only £820.



Notably most of these loans are in the lowest 1-2 month category, and many are actually historic, dating from the time of the financial crisis. Typically, borrowers who fell into arrears, perhaps due to a period of unemployment, but who are subsequently able to resume making payments, will put a plan in place to reduce the balance of arrears by making an overpayment each month, thereby reducing the arrears back to zero over time. In this pool, over 50% of the loans in arrears already have such an arrangement plan in place, 40% of which have been in place for more than 5 years.

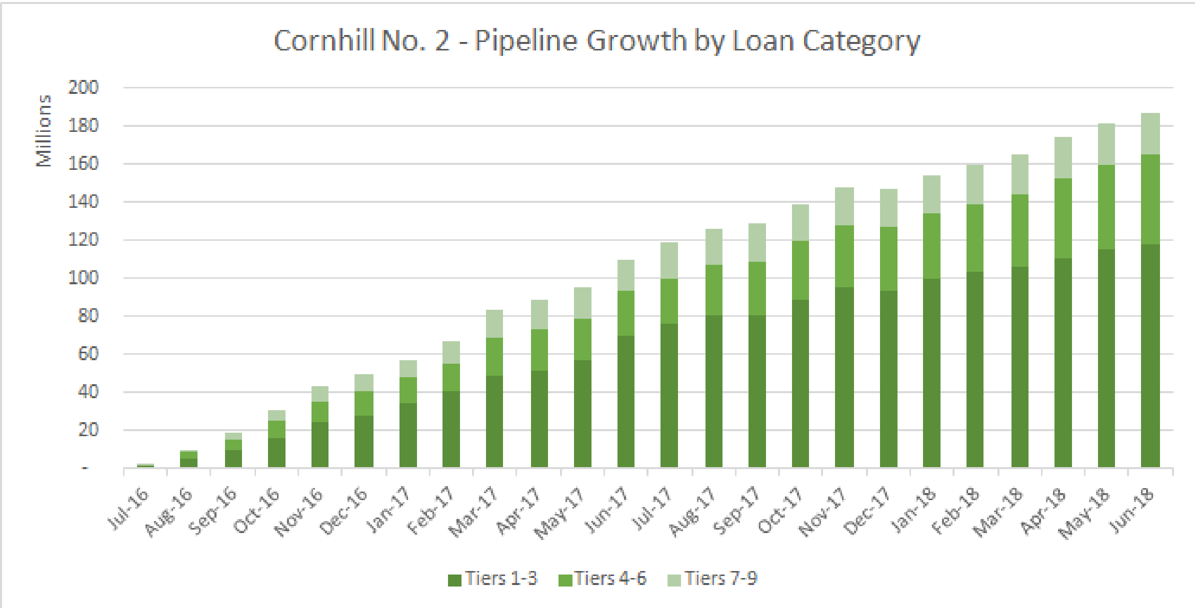
Owner-Occupied Investments

Owner-Occupied mortgages continue to be a well performing sector. Loans are typically differentiated by loans made by high street banks, generally to prime (i.e. employed, clean credit history) borrowers, and specialist lending (self-employed, variable-income and borrowers who may have experienced historical credit issues).

The TML portfolio is the Company's only current investment in this sector although others have been analysed and are likely to feature in the future. The TML loans fall into the specialist category, albeit with a heavy focus at the "near-prime/near-bank" end of the spectrum and only a minimal exposure to credit impaired borrowers.

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

Completions reached £152m by the end of June with a further £35m loans in the pipeline. The portfolio continues to show underlying asset performance far better than our original assumptions, with only three loans currently in arrears; the only occurrences since lending began, and all three of these loans are currently making payments but have experienced a shortfall along the way.



Other than a slight seasonal dip in the pipeline in December, the pace of completions and origination has been relatively stable albeit subdued by the slow mortgage market. Given the size of the portfolio it is contemplated that a securitisation could be completed at around the turn of the calendar year, depending on market conditions at that time, and work towards this has already begun with a number of investor and rating agency meetings held at this year's annual Global ABS conference in June and investor visits to TML's offices in Glasgow being planned, along with some initial portfolio modelling and structuring work.

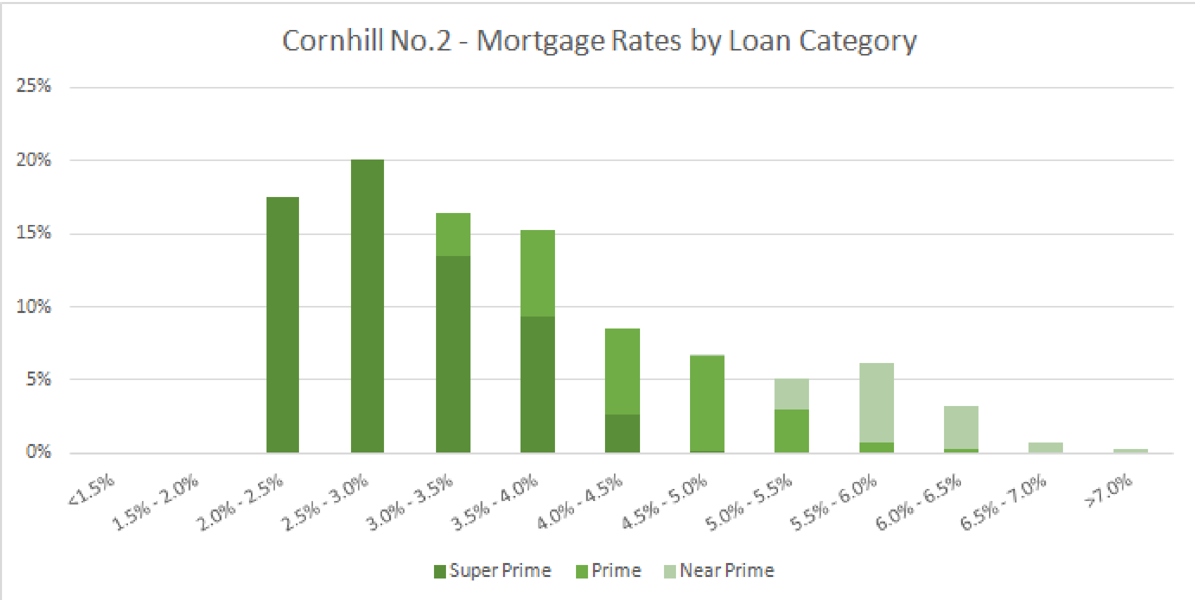
PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2018

As might be expected with a relatively new and growing business, the product range, pricing, funding strategies etc., are reviewed on an ongoing basis. Since launching the business, TML has originated loans graded by quality into tiers numbering from 1 (highest) to 9 (lowest). These tiers are then further grouped into 3 categories, 1-3, 4-6 and 7-9, whereby borrowers in each category share similar characteristics, but are differentiated by credit score and thereby pricing. The quality of the portfolio continues to be higher than initially expected, with a greater proportion of lending and applications seen in the highest quality credit category, albeit with the consequence that these loans pay a lower rate of interest. Feedback from the distribution networks and intermediaries who generate borrower introductions for TML, along with competitor analysis has shown that the complexity of the 9-tier model may be constraining origination volumes. Therefore, in Q1 2018 TML, in consultation and agreement with TwentyFour and Natwest (as warehouse providers) began to simplify their product range, initially focusing essentially on the 3 broader current categories, with a blended interest rate in each category, although this is currently being further refined to incorporate specific borrower characteristics. This should help to boost returns going forward (as historically more loans have fallen towards the higher end of each category), whilst still retaining a similarly strong focus on credit.

Key Performance Indicators

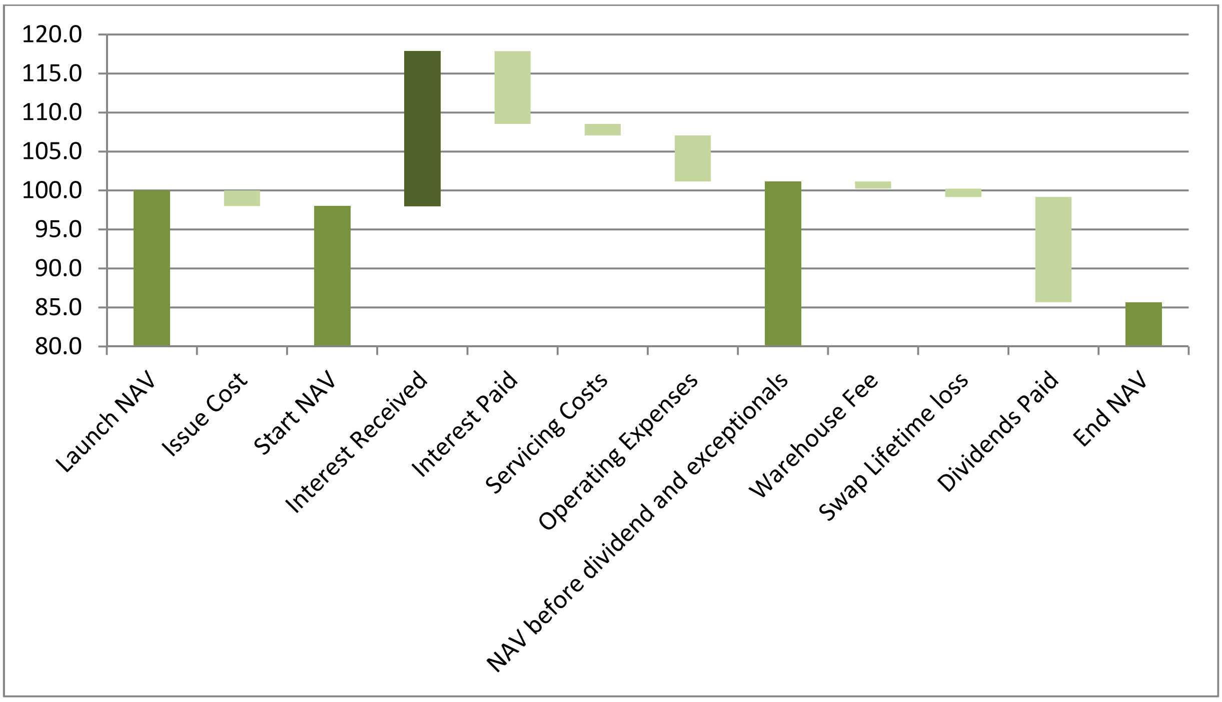
Due to the risk-priced nature of loans there is a wide spread of mortgage rates across the portfolio. However, as noted above, the portfolio has a high concentration of loans in the higher credit quality categories and therefore the majority of loans are concentrated in the 2% - 4% range, with a weighted average interest rate for the whole pool at 3.66%, up from 3.51% in June 2017, reflecting that newer loans incorporate the two UK base rate rises seen during the period.



Around 65% of the loans have an initial two-year fixed rate period, 19% have a five-year initial fixed rate period and the balance (around 16%) are floating rate loans, tracking 3 month Libor. The two-year loans have a current average interest rate of 3.49%, with the five-year loans at 4.23% and the floating rate loans at 3.64%. The weighted average LTV of the pool is 67.9%.

PORTFOLIO MANAGER'S REPORT Continued
for the year ended 30 June 2018

Portfolio Performance Review



The above chart illustrates how the NAV of the Company has evolved since launch. After issue costs, the NAV started at a base of 98 pence per share in July 2015. The table below shows the major contributors to the performance of the NAV since that time. The longer time taken for the portfolio to become fully invested and the ongoing payment of the dividend of 6p per annum have been the major drivers of NAV performance, although the drag has reduced following the securitisation of the Oat Hill No.1 transaction and will do so further following the Malt Hill No.2 transaction, as the TML portfolio grows further and as the Keystone portfolio begins to develop. The 1.1p fair value movement in the swap valuation, reflects a change from 0.7p in June 2017. As the Company had adopted hedge accounting effective 1 July 2017, the change is primarily due to the new hedge on Malt Hill No. 2 being ineffective as at the year end. However, this swap qualifies for hedge accounting for the period beginning July 2018 on a prospective basis.

NAV to end June-2018	
Start NAV	**98.0**
Net Interest	10.5
Dividend	-13.5
Costs (Servicing, Operating, Warehouse)	-8.3
Swap MTM	-1.1
Company NAV	**85.7**

Market and Investment Outlook

The broader market remains intrinsically linked to the vagaries of the ongoing geopolitical situation. The Brexit negotiations continue with escalating tensions between Leavers and Remainers both in parliament and within the Conservative government itself. UK housing market uncertainty and subdued mortgage lending is set to continue whilst this uncertainty remains. Meanwhile, the possibility of an escalation to a full-blown trade war between China and the US also remains, with the potential for a negative knock-on impact for both sentiment and earnings.

PORTFOLIO MANAGER'S REPORT Continued

for the year ended 30 June 2018

To what extent RMBS markets suffer from contagion is yet to be seen but despite the more supply-driven softening in the summer, RMBS market participants will have been generally encouraged by the resilience to recent volatility in other sectors. Fundamentals and performance remain very strong, and the future direction of spreads is likely to be mainly determined by the level of primary issuance in Q4 and beyond, as the end of the TFS has brought a combination of hope of renewed issuance from the UK bank and building society sector, but trepidation that over-supply and tapering in Europe could in fact lead to spread widening.

Early indications of RMBS supply suggest that at the prime, high street end of the market, some deals are likely to be placed into the US market where there is currently a strong bid and a favourable swap basis for shorter dated bonds. Given the lower than expected primary issuance since the summer and with spreads having stabilised to a certain extent, it is anticipated that new supply will be reasonably well received by the market initially for deals that are competitively priced.

The impact of the new STS securitisation regulations should also help more widely, although are expected to take some time before they are fully embraced by the issuance community.

TwentyFour Asset Management LLP
17 October 2018

PORTFOLIO OF INVESTMENTS

As at 30 June 2018

Portfolio Summary as at 30 June 2018	Buy-to-Let			Owner Occupied
	Purchased			Forward Flow
	Malt Hill No. 1	Malt Hill No. 2	Oat Hill No. 1	Cornhill No. 2
Originator	Coventry Building Society	Coventry Building Society	Capital Home Loans	The Mortgage Lender
Outstanding Notional Balance	£214m	£350m	£544m	£187m*
Number of Accounts	1,190	1,993	4,229	1,029
Average Mortgage Size	£179k	£176k	£129k	£185k
WA** Current Indexed LTV	63.11%	60.73%	66.31%	66.02%
WA Interest Rate	2.80%	2.71%	1.79%	3.62%
WA Remaining Term (mth)	213	240	137	294
WA Seasoning (mth)	35	17	138	9
3mth + Arrears (% balance)	0.00%	0.00%	0.29%	0.04%
Refinancing Date	May 19	May 21	May 20	n/a

**includes completions and pipelines*
*** weighted average*

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

Paul Le Page (Audit Committee Chairman) - Independent Non-Executive Director-Guernsey resident
Mr Le Page is a director of Man Fund Management Guernsey Limited, Man Group Japan Limited and FRM Investment Management Limited which are subsidiaries of Man Group Plc. He is responsible for managing hedge fund portfolios. 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 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, City Natural Resources High Yield Trust plc and Acorn Income Fund Limited, of which she is Chairman. Mrs Green was appointed to the Board on 16 June 2016.

DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGES

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

Company Name	Stock Exchange
Christopher Waldron (Chairman)	
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	
Aberdeen Emerging Markets Investment Company	London
Acorn Income Fund Limited	Channel Islands and London
City Natural Resources High Yield Trust PLC	London

DIRECTORS' REPORT

The Directors present their Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2018.

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.

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

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

Going Concern
As a Specialist Fund Segment entity, the Company has voluntarily chosen to comply with the disclosure requirements of Premium Listing rules and as such applies the AIC Code and applicable regulations. Under this code, the Directors are required to satisfy themselves that it is reasonable to assume that the Company is a going concern and to identify any material uncertainties to the Company's ability to continue as a going concern for at least 12 months from the date of approving 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 57. The Company declared dividends of £15,345,980 in respect of the year ended 30 June 2018, a breakdown of which can be found in note 22. Distributions declared and paid during the year amount to £15,000,000 as recognised in the 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 2018 by:

Paul Le Page	**Helen Green**
Director	**Director**

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.

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

- Net Asset Value

The Company's net asset value has declined from 98p per share at launch to 85.69p at the year end. This decline in NAV is largely attributable to servicing and warehouse costs, and total dividend payments of 13.5p 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 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 3.8% to NAV for its third year which the Directors regard as a pleasing result in the context of volatility within the investment companies sector.

- Ongoing Charges

The Company's ongoing charges ratio has increased to 2.58% from 2.18% mainly due to additional costs on Malt Hill No.2 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, UKML, decreased from 1.07% to 0.92% of NAV mainly due to the reduction in the management fee from 0.75% to 0.6% with effect from July 1 2017. The costs of servicing the underlying mortgage portfolio have increased from 1.11% to 1.27% which is in line with the increase in the size of the investment portfolio. The Portfolio Manager incorporates servicing costs into their portfolio models and projections and the directors expect that these costs will rise in an approximately linear manner with the size of the underlying mortgage portfolio.

- Quarterly Dividends

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

- Investment Level

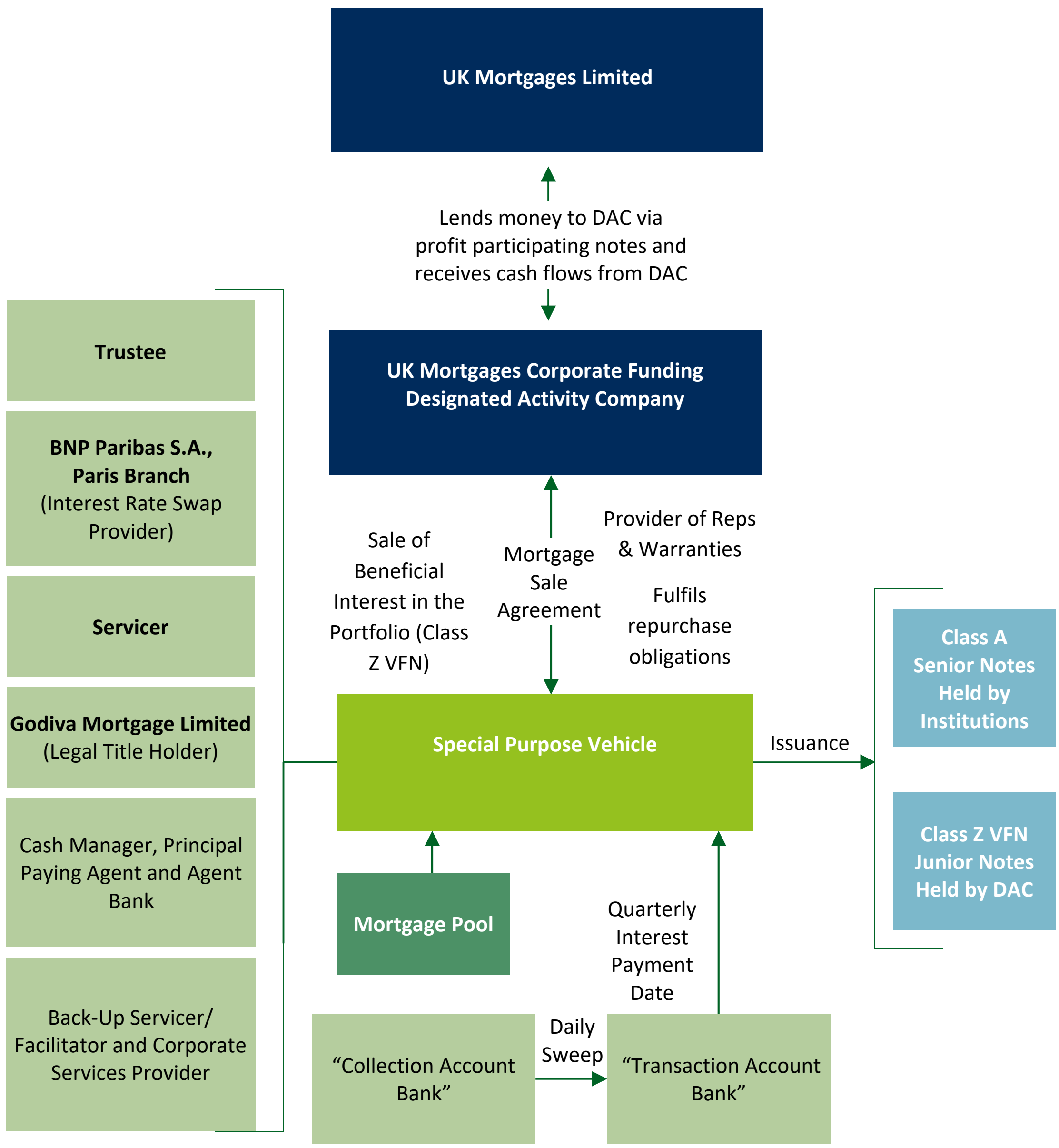
At 30 June 2018, the Company had approximately £43m of cash and near cash working capital compared with £86m at 30 June 2017. As the Company now has a substantially leveraged exposure to mortgage investments the Directors monitor uncommitted cash levels and intend to keep average working capital balances to a minimum over the life of the Company. The year end working capital balance was elevated due to the repayment of loans in the Malt Hill No. 1 and Oat Hill No. 1 portfolios and the capital raise during June 2018.

STRATEGIC REPORT Continued

Company Structure

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

The structure of a typical securitisation issued by the Company is shown below. During the year, a new securitisation SPV, Malt Hill No.2 Plc, was incorporated to hold and securitise loans following a purchase in June 2018. Malt Hill 2 Plc did not require a Warehouse SPV.



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 UKML. DAC qualifies for Irish tax relief on the income that it distributes which ensures that UKML's investors are only taxed on their dividend income once, upon payment by UKML.

A number of relevant additional explanation points are set out below for the Malt Hill No.1 Plc, Malt Hill No. 2 Plc and Oat Hill No. 1 Plc transactions:

- The Servicer, typically the originator of the underlying mortgages, is responsible for servicing the loans i.e. managing the underlying borrowers and collecting the mortgage payments. It is also common practice for third party servicers to be employed if the originator is incapable of servicing the loans that they have originated. A back up servicer is retained by the Issuer SPV to ensure continuity of cash flows in the event of failure of the main servicer.
- The Trustee provides monthly reports on the mortgage pool and ensures that the Issuer SPV complies with its investment policy.
- The Issuer SPV is a public Securitisation Vehicle modelled on Intex (ticker: MLTH1, MLTH2, OATH1), ABSNet (ticker: MALTH, MALTH2, OATH) and Bloomberg (ticker: MALTH 1 Mtge, MALTH 2 Mtge, OATH 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.

STRATEGIC REPORT Continued

Investment Process (continued)

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

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

Key Service Providers

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

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 2018, Directors of the Company held the following Ordinary Shares beneficially:

	Number of Shares 30.06.2018	Number of Shares 30.06.2017
Christopher Waldron	20,000	5,000
Richard Burrows	5,000	5,000
Paul Le Page	20,000	20,000
Helen Green	10,000	-

Signed on behalf of the Board of Directors on 17 October 2018 by:

Paul Le Page
Director

Helen Green
Director

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

Throughout the year ended 30 June 2018, the Company has complied with the recommendations of the AIC Code and thus the relevant provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

- the role of the Chief Executive;
- Executive Directors' remuneration;
- annually assessing the need for an internal audit function;
- 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, fulfills the function of a Nomination and Remuneration Committee as detailed in the Directors Remuneration report.

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 38 and 39.

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 fourteen 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 20.

Composition of the Board

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

Financial Reporting

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

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

The Financial Statements of UKML 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 UKML'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.2 Plc was not subject to an annual audit at 30 June 2018 but it was reviewed by the independent auditor as part of the UKML 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 general management, structure, finance, corporate governance, marketing, risk management, compliance, asset allocation and gearing, contracts and performance.

The quarterly Board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance, compliance and controls but these meetings are also supplemented by communication and discussions throughout the year.

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	3 *	4	3	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	5
Paul Le Page	1	1	8	8
Helen Green	1	1	8	7

*Richard Burrows could not attend one meeting due to being on jury service.

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 Remuneration Report on pages 40 to 41.

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 2018, 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. 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 42.

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 40 to 41.

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.

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

Internal Controls
The Board is ultimately responsible for establishing and maintaining the Company's system of internal financial and operating control and for maintaining and reviewing its effectiveness. The Company's risk matrix is the basis of the Company's risk management process in establishing the Company's system of internal financial and reporting control.

CORPORATE GOVERNANCE REPORT Continued

Internal Controls (continued)
The risk matrix is prepared and maintained by the Board and identifies the risks facing the Company and then collectively assesses the likelihood of each risk, the impact of those risks and the strength of the controls operating over each risk. The Board uses the product of risk and impact scores to determine key areas requiring their attention. The system of internal financial and operating control is designed to manage rather than to eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

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

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

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

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

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

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

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

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

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

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

- The risk of the Company's hedges being deemed ineffective following the adoption of hedge accounting which has been applied since 1 July 2017. With the adoption of hedge accounting, the Company is required to assess the historic effectiveness of the Company's hedges in accordance with IAS 39 up to 30 June 2018 and the prospective effectiveness of the Company's hedges in accordance with IFRS 9 with effect from 1 July 2018. Should prospective testing show the hedges to be effective, the Company may continue to hedge account until the point that the Board can prove the hedges to be ineffective. Thereafter, the Company would need to cease hedge accounting, meaning that the fair value movements on the derivative instruments are taken through the Statement of Comprehensive Income in full.

CORPORATE GOVERNANCE REPORT Continued

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 2021, being the refinance date of Malt Hill No. 2 plc. The models subject the underlying mortgage pools to a variety of stresses including elevated levels of default, reduced levels of recovery following default, financing stresses and delays in loan origination.

Having considered the above, and with reference to the Company's current position and prospects, and assuming the Company successfully passes the five year continuation vote due during 2020, and in the event of a dividend trigger (see note 19) a continuation vote would be passed, the Board is of the opinion that the Company is viable until at least May 2021 and in all scenarios, would be able to meet its liabilities as they fall due.

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 2018, the Company has been notified of the following interests in the share capital of the Company exceeding 3% of the issued share capital:

	Number of shares	Percentage of issued share capital
Twentyfour Asset Management *	46,759,800	17.12
Coutts & Co	26,430,811	9.68
Investec Wealth & Investment	20,630,279	7.56
Seven Investment Management	19,496,689	7.14
Premier Fund Managers Limited	15,607,017	5.72
Old Mutual Global Investors	14,855,777	5.44
Fidelity International	13,209,817	4.84
Brooks Macdonald Nominees Limited	12,515,172	4.58
City Financial Investment Company	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
MI TwentyFour Investment Funds – Asset Backed Income Fund	8,700,649	3.19

CORPORATE GOVERNANCE REPORT Continued

Significant Shareholdings (continued)

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

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

Disclosure of Information to Auditor

The Directors who held office at the date of approval of these Audited Consolidated Financial Statements confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditor

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The Audited Consolidated Financial Statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Audited Consolidated Financial Statements, the Directors are required to:

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

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

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

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES Continued

The Directors confirm that to the best of their knowledge:

(a) The Annual Report and Audited Consolidated Financial Statements have been prepared in accordance with IFRS and give a true and fair view of the assets, liabilities, financial position and profit or loss of UKML and its subsidiaries included in the consolidation taken as a whole, as at and for the year ended 30 June 2018.

(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 2018 by:

Paul Le Page
Director

Helen Green
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 6 December 2018.

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 2018, the Directors received the following remuneration in the form of Director's fees:

	30.06.2018	**30.06.2017**
	£	£
Christopher Waldron	40,000	30,000
Richard Burrows	30,000	25,000
Paul Le Page	35,000	27,500
Helen Green*	30,000	25,000
Total	135,000	107,500

*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 2018 and is not expected to change in the foreseeable future.

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.

Signed on behalf of the Board of Directors on 17 October 2018 by:

Paul Le Page
Director

Helen Green
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 2018.

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. A review of the service provider policies took place at the Management Engagement Committee Meeting on 20 March 2018. The Board receives confirmation from all service providers that they comply with the requirements of the UK Bribery Act.

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 £1,215,803,865 (fair value of £1,274,277,755) as at 30 June 2018 and represent a substantial portion of net assets of the Company. As such this is the largest factor in relation to the consideration of the Audited Consolidated Financial Statements. These investments are valued in accordance with the Accounting Policies set out in note 2 with further details in notes 20 and 21 to the Audited Consolidated Financial Statements. The Audit Committee considered the valuation of the investments held by the Company as at 30 June 2018 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 2018. 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.

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 22.

External Auditor

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

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

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

Summary of activity during the year

The implementation of IFRS9 was one of the biggest issues that the Audit Committee had to oversee during the financial year. As the Company has a 30 June financial year end, we did not formally commence reporting under this standard until 1 July 2018. In order for this to happen an accounting workshop was held in January to ensure that all of our service providers and our Portfolio Manager understood the implications of this new standard on the NAV calculation and financial reporting processes.

AUDIT COMMITTEE REPORT Continued

Summary of activity during the year (continued)
As many of our peers in the LSE listed Investment Company sector have December year ends they effectively commenced reporting under the new IFRS 9 standard in January. To give our shareholders the ability to compare UKML against its peers the Audit Committee worked with the Portfolio Manager to produce some guidance on the level of materiality of our portfolio credit impairment charges for our shareholders which was published on a monthly basis. The implementation process concluded with our auditors PwC reviewing our impairment models and resulting provisions against the standard.

Another topic of critical importance to the Audit Committee and the Company as a whole is to ensure that UKML pays fully covered dividends. The Audit Committee worked with Northern Trust to design and implement an independent dividend coverage projection model to monitor the transition process.

During the course of the year PwC provided two non-audit services to the Company which the Committee reviewed (and subsequently approved) as required by our non-audit service policy. The first service related to the provision of technical accounting papers to help implement hedge accounting and to ensure that financial reporting of our securitisations as held by the Acquiring Entity complied with revised Irish regulations. The second service related to take on due diligence services provided as part of our purchasing process for the second Coventry portfolio which was securitised in the Malt Hill 2 securitisation.

As part of the preparation for the year end reporting cycle the Audit Committee revisited whether it would be appropriate to use individual portfolios as segments under IFRS8 and concluded that with the addition of the second Coventry portfolio and likely future growth of the Company's portfolio that it would be better to analyse the Company's portfolio under two broad headings : (1) Owner Occupied vs Buy to Let as the repayment profiles and contractual cash flows are very different; (2) Purchased vs Forward Flow portfolios as Forward Flow portfolios are subject to origination completion across multiple lenders.

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 2018.

	For the year from 01.07.2017 to 30.06.2018	For the year from 01.07.2016 to 30.06.2017
PricewaterhouseCoopers CI LLP - Assurance work	**£**	**£**
- Annual audit of the Company	46,000	31,000
- Annual audit of the Company's subsidiaries	12,500	25,000
- Interim review	26,250	25,000
Other PwC member firms - Assurance work		
- Annual audit of the Company's subsidiaries	159,593	111,839
Other PwC member firms - Non-assurance work		
- Accounting papers	60,000	-
- Securitisation procedures	48,000	-
- Taxation	12,431	13,684
Ratio of assurance to non-assurance work	67% / 33%	94% / 6%

UKML and the DAC do not qualify as an EU Public Interest Entity 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.

AUDIT COMMITTEE REPORT Continued

Summary of activity during the year (continued)
The Audit Committee reviews and authorises any non-audit related services provided by PwC to the Company. PwC currently acts as auditor to the Company, specifically the Acquiring Entity DAC and the underlying securitisation SPVs.

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 2018 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 net asset value and the publication of the Company's net asset value; and,
- to make available to the Company's shareholders, a description of all fees, charges and expenses and the amounts thereof, which have been directly or indirectly borne by them,
- 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

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

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

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

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

ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT Continued

June 2018	Number of Beneficiaries	Total remuneration paid	Fixed remuneration
Total remuneration paid to the AIFM by UKML during the year	74	£95,033	£95,033
Remuneration paid to employees of the AIFM who have a material impact on the risk profile of the AIF	5	£17,106	£17,106

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 2018

DEPOSITARY STATEMENT

for the year ended 30 June 2018

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 2018, in our capacity as Depositary to the Company.

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

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

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

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

Basis of Depositary Review

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

Review

In our view, the Company has been managed during the period, 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 2018

INDEPENDENT AUDITOR'S REPORT Continued
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 2018, 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 2018;
- 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, and we have fulfilled our ethical responsibilities in accordance with these requirements.

Our audit approach
Overview

Materiality
- Overall Group materiality, was £5.8 million which represents 2.5% of Group net assets.

Audit scope
- 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 component and supporting audit firm (a separated PwC network firm) perform their audit work on the relevant subsidiaries in the UK and Ireland, and we perform our audit of UK Mortgages Limited.
- We have included in scope all subsidiaries within the Group. We have confirmed that two immaterial subsidiaries are in liquidation and thus no audit work was performed on these entities.
- We tailored the scope of our audit taking into account the types of investments within the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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

Audit scope

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

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls at the subsidiaries' and Company level, and the industry in which the Group operates. We communicated clearly with the component audit team regarding the scope and timing of their work on the financial information related to the subsidiaries. Our communication and audit procedures were tailored to ensure that we obtained sufficient appropriate audit evidence regarding the financial information of the subsidiaries and the consolidation process to express an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Materiality

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

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

INDEPENDENT AUDITOR'S REPORT Continued

Overall Group materiality	£5.8 million (2017: £5.6 million)
How we determined it	2.5% of net assets
Rationale for the materiality benchmark	We believe that net assets is the most appropriate benchmark because this is the key metric of interest to members of the Company. 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 £0.3 million, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional 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) Mortgage loans, carried at £1.216 billion at year end as shown under note 7 of these consolidated financial statements are measured at amortised costs and comprise four 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 the valuation of these loans is driven by complex models that take into account management's judgements and estimates. The models rely on the accuracy of underlying loan book data including interest rates, principal amounts, term structures and delinquency status. Such factors mean there is a high degree of subjectivity and reliance on the accuracy of information used in the valuation process over the mortgage loans, and we therefore consider this to be a key audit matter.	We assessed the accounting policy for mortgage loans for compliance with International Financial Reporting Standards and we ensured the mortgage loans have been measured in accordance with the stated accounting policy. We understood and evaluated the internal control environment in place at the Portfolio Manager and the relevant service providers to the Group in relation to the servicing and valuation of the mortgage loans. Our approach to testing the portfolios was predominantly substantive in nature, as we considered this the most effective approach to testing the closed portfolios; however, one of the portfolios is a forward flow transaction, and for this one we adopted a controls based approach, supplemented by substantive testing. For this portfolio, we evaluated the controls around the loan origination process as well as the IT general controls. We tested the mortgage loan data of each portfolio, on a sample basis, by performing the following substantive audit procedures: ➢ We agreed the portfolio balances at year end to the underlying loan books. ➢ We verified standing data within the mortgage loan books, such as interest rates, principal and maturity dates, to the relevant supporting documentation. ➢ We agreed cash collections / advances / redemptions to supporting documentation

INDEPENDENT AUDITOR'S REPORT Continued

	and bank statements. ➢ We recalculated the split of interest and principal repayments during the year and confirmed they were correctly captured in the accounting records. ➢ Title deeds were inspected to validate the existence of the underlying properties. We agreed the mortgage loan balances on all four portfolios through to management's appointed third party valuation specialist's models. We reviewed these effective interest rate ("EIR") models and understood the methodology adopted and the key assumptions applied within each model and assessed the assumptions for reasonableness. We reviewed investor reporting and the loan books for balances in arrears for indications of impairment. Further, we reviewed customer complaints raised during the year to assess whether the nature of these complaints indicated a heightened risk of arrears due to inaccurate servicing of the loans. No significant issues or concerns were noted with regards to the valuation of mortgage loans which required reporting to those charged with governance.
Risk of fraud in revenue recognition pertaining to interest income on mortgage loans Interest income for the year of £26.8 million, as reflected in the consolidated statement of comprehensive income, was measured in accordance with the effective interest rate method as required by International Financial Reporting Standards. The requirement to estimate the expected cash flows when forming an effective interest rate model is subject to management judgement and estimation, and as such could be open to manipulation by management which is why we considered this a key audit matter.	We assessed the accounting policy for the recognition of interest income for compliance with International Financial Reporting Standards and we ensured that interest income has been recognised in accordance with the stated accounting policy. We understood and evaluated the internal control environment in place at the Portfolio Manager and associated service providers to the Group in relation to the recognition of interest income. We verified the interest rates and mortgage portfolio standing data thereby confirming the inputs used in the EIR models were appropriate and supportable. We reviewed management's third party specialist's EIR models, assessed the reasonableness of assumptions used in the models and recalculated the initial EIR computed (arising from purchase price premium / discount, fees and expected prepayments on the mortgage loan portfolios) and tested the unwinding of this

	EIR adjustment which impacts revenue recognition for the year. We performed substantive analytical procedures to assess the reasonableness of interest income recognised for the year based on average monthly interest rates and the average monthly portfolio balances, as obtained from the loan servicers. No indications of management bias or manipulation of data with regards to revenue recognition were noted which required reporting to those charged with governance.
Errors in the priority of payments to noteholders ("waterfalls") There is a risk that payments to noteholders are not processed in line with the priority of payments as prescribed by the transaction documents and prospectus, and as noted under note 13 of these consolidated financial statements, given the complexity of the transactions. Due to this risk of error, we considered this a key area of focus to our audit.	We have understood the controls in place at the corporate service provider to the UK subsidiaries over the priority of payments structure and we noted the high level of segregation in duties and layers of review within the process. We have reviewed the legal transaction documentation and ensured that the waterfall calculation, as set out in these documents, had been correctly applied in accordance with these agreements. No significant issues or concerns with the priority of payments to the noteholders were noted which required reporting to those charged with governance.

Other information

The directors are responsible for the other information. The other information comprises all 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.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

INDEPENDENT AUDITOR'S REPORT Continued

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.
- 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

INDEPENDENT AUDITOR'S REPORT Continued

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

Report on other legal and regulatory requirements

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

The directors' have volunteered to report on how they have applied the UK Corporate Governance Code (the "Code").

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

- the directors' statement set out on page 22
- 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 Group'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 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2018

	Note	For the year from 01.07.2017 to 30.06.2018 £	For the year from 01.07.2016 to 30.06.2017 £
Income			
Interest income on mortgage loans		26,806,700	15,594,254
Interest income on cash and cash equivalents		8,176	11,423
Unrealised gain/(loss) on financial liabilities at fair value through profit and loss	9	-	2,269,926
Net loss from derivative financial instruments	9	(856,186)	-
Total income		25,958,690	17,875,603
Interest expense on loan notes	13	8,715,238	4,526,663
Mortgage loans servicing fees		2,181,286	1,416,073
Net interest expense on financial liabilities at fair value through profit and loss		1,809,444	2,487,186
Loan note issue fees		1,653,078	1,533,495
Portfolio management fees	16	1,313,002	1,714,555
Interest expense on borrowings	14	1,165,171	2,216,204
Legal and professional fees		720,394	246,456
Borrowings facility fees	14	496,370	1,261,233
Financing costs		380,862	-
Audit fees		333,886	182,246
General expenses		324,218	206,744
Swap costs amortised		265,239	-
Administration and secretarial fees	17	243,847	279,518
Directors' fees	16	135,000	107,500
Amortisation of set up costs		106,790	29,235
AIFM fees	17	95,033	96,730
Depositary fees	17	71,337	68,503
Corporate broker fees		48,038	50,131
Mortgage loan write offs	7	24,367	405,699
Custody fees		23,799	22,559
Total expenses		20,106,399	16,850,730
Total comprehensive gain for the year		5,852,291	1,024,873
Earnings per ordinary share - basic and diluted	4	0.023	0.004

All items in the above statement derive from continuing operations.

The notes on pages 61 to 96 form an integral part of these Audited Consolidated Financial Statements.

UK Mortgages Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2018

Assets	Note	30.06.2018 £	30.06.2017 £
Non-current assets			
Mortgage loans	7	1,205,151,843	829,201,473
Reserve fund	8	17,761,100	13,157,350
Total non-current assets		1,222,912,943	842,358,823
Current assets			
Mortgage loans	7	10,652,022	12,674,700
Trade and other receivables	10	3,722,809	3,522,323
Cash and cash equivalents	11	43,784,286	86,022,869
Total current assets		58,159,117	102,219,892
Total assets		1,281,072,060	944,578,715
Liabilities			
Non-current liabilities			
Borrowings	14	104,445,310	-
Loan notes	13	937,924,240	715,734,468
Total non-current liabilities		1,042,369,550	715,734,468
Current liabilities			
Financial liabilities at fair value through profit and loss	9	1,371,362	1,808,049
Trade and other payables	12	3,340,720	3,648,060
Total current liabilities		4,712,082	5,456,109
Total liabilities		1,047,081,632	721,190,577
Net assets		233,990,428	223,388,138
Equity			
Share capital account	15	264,749,999	245,000,000
Other reserves		(30,759,571)	(21,611,862)
Total equity		233,990,428	223,388,138
Ordinary shares in issue	15	273,065,390	250,000,000
Net Asset Value per ordinary share	5	0.8569	0.8936

The Audited Consolidated Financial Statements on pages 57 to 96 were approved and authorised for issue by the Board of Directors on 17 October 2018 and signed on its behalf by:

Paul Le Page
Director

Helen Green
Director

The notes on pages 61 to 96 form an integral part of these Audited Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	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

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

The notes on pages 61 to 96 form an integral part of these Audited Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2018

	Note	For the year from 01.07.2017 to 30.06.2018 £	For the year from 01.07.2016 to 30.06.2017 £
Cash flows from operating activities			
Total comprehensive gain for the year		5,852,291	1,024,873
Adjustments for:			
Borrowing charges amortised	7	-	(424,709)
Amortised borrowing charges released	7	159,658	52,218
Mortgage loans written off	7	24,367	405,699
Net loss from derivative financial instruments	9	856,186	-
Amortisation adjustment under effective interest rate method	7	(5,845,006)	(1,626,884)
Unrealised gain on financial liabilities at fair value through profit and loss		-	(2,269,926)
Purchase of mortgage loans	7	(465,950,403)	(576,732,728)
Mortgage loans repaid	7	96,390,819	40,035,931
Increase in reserve fund	8	(4,603,750)	(8,417,950)
Decrease in trade and other payables		(307,340)	(462,080)
(Increase)/Decrease in trade and other receivables		(755,176)	1,270,201
Net cash outflow from operating activities		(374,178,354)	(547,145,355)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	15	20,000,000	-
Share issue costs	15	(250,001)	-
Proceeds from borrowings	14	105,000,000	437,381,692
Repayment of borrowings	14	-	(437,381,692)
Proceeds from issue of loan notes	13	317,500,000	474,695,416
Repayments of loan notes	13	(95,431,974)	(19,433,084)
Loan note issue fees paid	13	(1,028,869)	(1,795,120)
Loan note issue fees amortised	13	1,150,615	482,763
Dividends paid		(15,000,000)	(15,000,000)
Net cash inflow from financing activities		331,939,771	438,949,975
Decrease in cash and cash equivalents		(42,238,583)	(108,195,380)
Cash and cash equivalents at beginning of year		86,022,869	194,218,249
Cash and cash equivalents at end of year		43,784,286	86,022,869

The notes on pages 61 to 96 form an integral part of these Audited Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2018

1. General Information

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

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 and the Warehouse SPVs; Cornhill Mortgages No.1 Limited, until being placed into liquidation on 4 May 2017, Cornhill Mortgages No.2 Limited and Cornhill Mortgages No.3 Limited, placed into liquidation on 9 February 2018, together referred to as the "Company". The Warehouse SPVs are placed into liquidation on the transfer of the mortgage loans to the Issuer SPVs.

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

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

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

2. Accounting Policies

Statement of compliance

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

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

New accounting policy

The Company adopted hedge accounting from 1 July 2017 to reduce volatility in the Consolidated Statement of Comprehensive Income. No prior period restatement has been made as the Company only became eligible to hedge account from that date.

2. Accounting Policies (continued)

Standards, amendments and interpretations issued but not yet effective

At the date of this document, the following applicable standards were in issue but not yet effective:

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. The key elements of the standard 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 ("FVTPL"), 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:

(a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

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 Company 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

2. Accounting Policies (continued)

Standards, amendments and interpretations issued but not yet effective (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 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 the 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.

2. Accounting Policies (continued)

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

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.

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 ECLs 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 effectively replace the collectively-assessed allowance for loans not yet identified as impaired recorded under IAS 39, while Stage 3 effectively replaces the individually and collectively assessed allowances for impaired loans. Under IFRS 9, the population of financial assets and corresponding allowances disclosed as Stage 3 will not necessarily correspond to the amounts of financial assets currently disclosed as impaired in accordance with IAS 39. 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 ECLs, 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 will 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 ECLs 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.

2. Accounting Policies (continued)

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

Impairment (continued)

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.

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.

Inputs into the assessment of whether a financial instrument is in default and their significant may vary over time to reflect changes in circumstances.

Under IFRS 9, when determining whether the credit risk (i.e. the risk of default) 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.

The measurement of ECLs 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. The process will involve 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

2. Accounting Policies (continued)

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

Hedge accounting

The hedge accounting requirements of IFRS 9 have been simplified 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. This will have no impact on the balance sheet at 1 July 2018.

Transition

To manage the transition to IFRS 9, the Portfolio Manager implemented a comprehensive 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.

The new classification and measurement and impairment requirements will be applied by adjusting the Consolidated Statement of Financial Position on 1 July 2018, the date of initial application. The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to financial information. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 July 2018.

Loans and advances that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9. While held to maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

The implementation will result in a reduction to retained earnings of approximately £538 thousand (0.20 per cent of year end NAV) as at 1 July 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. Future projections use assumptions based on observable low historical losses in existing or comparable pools.

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. The standard 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. Material revenue streams have been reviewed and it is not anticipated that there will be a material impact on timing of recognition or gross up for principal/agent considerations. There will be no material impact on the Company's financial statements.

2. Accounting Policies (continued)

Consolidation

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

Subsidiaries are all entities (including structured entities) over which UKML has control. UKML controls an entity when UKML 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 UKML. They are derecognised from the date that control ceases.

UKML 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 UKML. 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. UKML 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.

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

Subsidiaries	Date of Control	Country of Incorporation	Principal Place of Business
UK Mortgages Corporate Funding Designated Activity Company	19/11/2015	Ireland	Ireland
Cornhill Mortgages No.1 Limited*	19/11/2015	UK	UK
Cornhill Mortgages No.2 Limited	02/03/2016	UK	UK
Malt Hill No.1 Plc	02/06/2016	UK	UK
Cornhill Mortgages No.3 Limited*	21/02/2017	UK	UK
Oat Hill No.1 Plc	23/06/2017	UK	UK
Malt Hill No. 2 Plc	28/06/2018	UK	UK

* Cornhill Mortgages No. 1 Limited and Cornhill Mortgages No. 3 Limited were placed into liquidation on 4 May 2017 and 9 February 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) and the Warehouse SPVs (Cornhill Mortgages No.1 Limited, Cornhill Mortgages No.2 Limited and Cornhill Mortgages No.3 Limited) are consolidated into the Audited Consolidated Financial Statements.

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)

Financial Assets

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

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

Mortgage loans are classified as loans and receivables. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method, other than where an adjustment is made as part of a fair value hedging arrangement.

Loans and receivables are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market and include mortgage loans. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal and interest repayments, and where relevant less any write-down for incurred impairment provision.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premium or discount to maturity using the effective interest method.

Mortgage loans impairment provisions

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

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

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

Recognition and de-recognition of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

2. Accounting Policies (continued)

Loan notes

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

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

Interest rate swaps

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

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 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 tested 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

2. Accounting Policies (continued)

Hedge Accounting (continued)

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 IAS39 have to be complied with before it can be applied.

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.

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.

Interest income and interest expense

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

Cash and cash equivalents

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

Reserve fund

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

2. Accounting Policies (continued)

Borrowings

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

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

Share capital

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

Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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.

Expenses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

2. Accounting Policies (continued)

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.

Taxation

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

Trade and other receivables

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

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

Trade and other payables

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

Dividend distributions

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

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

Mortgage Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement.

In addition, the directors consider how appropriate past trends and patterns could impact the current economic climate and may make any adjustments they believe are necessary to reflect the current 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.

Credit enhancement is provided to the securitised portfolios in a number of ways. The income on the Mortgage Loans is expected to exceed the interest payable on the Notes. This excess spread is available to make good any reductions in the principal balance of the Mortgage Loans as a result of defaults by customers.

The recoverability of the Loan to the Seller is dependent on the collections from the underlying Mortgage Loans. Mortgage Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement. The key assumptions for recoverability relate to estimates of the probability of any account going into default, cash flows from borrowers' accounts, their timing and expected proceeds from the sale of repossessed collateral. These key assumptions are based on observed data from historical patterns and are updated by the servicer as new data becomes available.

Fair value

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

Amortised cost and effective interest rate model assumptions

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

The key area where judgement is made is as follows:

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 2018, the Directors reported the Company is engaged in two segments of business, being Buy-to-Let and Owner Occupied mortgage portfolios secured against UK residential property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
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3 Critical accounting judgements and estimates and assumptions (continued)
Determining operating segments continued
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/(loss) per Ordinary Share - basic and diluted
The gain per Ordinary Share of £0.023 (30 June 2017: £0.004) - basic and diluted has been calculated based on the weighted average number of Ordinary Shares of 250,252,771 (30 June 2017: 250,000,000) and a net gain of £5,852,291 (30 June 2017: £1,024,873).

5. Net Asset Value per Ordinary Share
The Net Asset Value of each share of £0.8569 (30 June 2017: £0.8936) is determined by dividing the net assets of the Company £233,990,428 (30 June 2017: £223,388,138) by the number of shares in issue at 30 June 2018 of 273,065,390 (30 June 2017: 250,000,000).

6. Taxation
The Company has been granted Exempt Status under the terms of The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 to income tax in Guernsey. Its liability for Guernsey taxation is limited to an annual fee of £1,200.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) and Oat Hill No.1 Plc) should, in relation to any business they carried on in the year, be treated as being securitisation companies for the purposes of the United Kingdom's Taxation of Securitisation Companies Regulations 2006 '(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 company 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 01.07.2017 to 30.06.2018	For the year from 01.07.2016 to 30.06.2017
	£	£
Mortgage loans at start of the year	841,876,173	303,585,700
Mortgage loans purchased	465,950,403	576,732,728
Effective interest rate adjustment	5,845,006	1,626,884
Mortgage loans repaid	(96,390,819)	(40,035,931)
Borrowings charges amortised	-	424,709
Amortised borrowing charges released	(159,658)	(52,218)
Fair value adjustment for hedged risk*	(1,292,873)	-
Mortgage loans written off	(24,367)	(405,699)
Mortgage loans at end of the year	1,215,803,865	841,876,173
Amounts falling due after more than one year	1,205,151,843	829,201,473
Amounts falling due within one year	10,652,022	12,674,700
	1,215,803,865	841,876,173

*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.

Mortgage loans at 30 June 2018 comprise of three securitised mortgage portfolios legally held in Malt Hill No.1 Plc, Malt Hill No.2 Plc and Oat Hill No.1 Plc and one mortgage portfolio held with Cornhill Mortgages No.2 Limited. Please refer to the Portfolio of Investments for breakdown of portfolios.

8. Reserve fund

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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for the year ended 30 June 2018

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

Malt Hill No.1 Plc

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

Cornhill Mortgages No.2 Limited

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

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.

Notional and fair value balances:

	Malthill No. 1 Plc	Cornhill No. 2 Limited	Malthill No. 2 Plc	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)

	Malthill No. 1 Plc	Cornhill No. 2 Limited	Malthill No. 2 Plc	30.06.2017 Total
	£	£	£	£
Notional amount of Interest Rate Swap	288.5m	35.5m	-	324.0m
Fair value of Interest Rate Swap	(1,734,294)	(73,755)	-	(1,808,049)

On 1 July 2017, the Directors designated the Malt Hill No.1 Plc and Corn Hill 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

9. Financial liabilities held at fair value through profit and loss (continued)
Net loss from derivative financial instruments

	Malthill No. 1 Plc £	Cornhill No. 2 Limited £	Malthill No. 2 Plc £	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 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. At the year end, Malt Hill No.2 and Cornhill No.2 did not qualify for hedge accounting due to the retrospective testing being ineffective. As such the movement in Cornhill No.2'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's fair values have been charged directly to the Statement of Comprehensive Income. Prospective testing has shown these swaps to be effective therefore they qualify for hedge accounting under IFRS9 going forward.

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 30.06.2018 £	As at 30.06.2017 £
Interest receivable on mortgage loans	1,627,428	1,343,479
Other receivables and prepayments	1,448,181	747,706
Capitalised formation expenses	647,200	1,431,138
	3,722,809	3,522,323

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

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 30.06.2018	As at 30.06.2017
	£	£
Cash at bank	43,784,286	86,022,869
	43,784,286	86,022,869

12. Trade and other payables

	As at 30.06.2018	As at 30.06.2017
	£	£
Loan note issue fees payable	1,303,113	1,707,580
Interest due on loan notes	848,058	398,870
Portfolio management fees payable	329,854	832,816
Mortgage loans servicing fees payable	301,552	104,054
Audit fees payable	252,446	199,316
General expenses payable	120,939	63,376
Legal and professional fees payable	109,818	81,201
Directors' fees payable	33,750	26,875
AIFM fees payable	23,469	48,148
Depositary fees payable	11,223	5,498
Custody fees payable	3,784	3,793
Administration and secretarial fees payable	2,714	176,533
	3,340,720	3,648,060

13. Loan notes

The Malt Hill No.1 Plc, Oat Hill No.1 Plc and Malt Hill No. 2 Plc mortgage portfolio acquisitions are partially financed by the issue of notes. The notes are repaid as the underlying mortgage loans repay. The terms and conditions of the notes provide that the note holders will receive interest and principal only to the extent that sufficient funds are generated from the underlying mortgage loans. The priority and amount of claims on the portfolio proceeds are determined in accordance with strict priority of payments. Note holders have no recourse to the Company in any form.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. Loan notes (continued)

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 call date. Loan notes have been classified as current based on their contractual obligations.

	As at 30.06.2018 £	As at 30.06.2017 £
Loan notes at start of the year	715,734,468	261,784,493
Loan notes issued	317,500,000	474,695,416
Loan notes repaid	(95,431,974)	(19,433,084)
Loan note issue fees paid	(1,028,869)	(1,795,120)
Loan note issue fees amortised	1,150,615	482,763
Loan notes at end of the year	937,924,240	715,734,468

Interest expense on loan notes for the year amounted to £8,715,238 (30 June 2017:£4,526,663).

14. Borrowings

Cornhill Mortgages No.2 Limited was paying a commitment fee for £150m until 1 June 2017. The facility was restructured in June 2017, in order to improve the cost efficiency of the structure, with changes involving reduction of commitment fees and drawn margins on the facility. Any increase to the commitment amount is subject to NatWest Markets approval and the total facility size remains at £250m. The facility fees of £496,370 (2017: £1,261,233) were expensed in the year. At the year end the Company had a liability of £104,445,310 consisting of £105,000,000 of the utilised borrowing facility and £554,690 of borrowing costs which are being amortised over the life of the borrowing facility. At the year end the Company had utilised £105,000,000 of the borrowing facility (30 June 2017: nil). The interest expense charged on borrowings of £1,165,171 (2017: £2,216,204) was expensed in the year.

Cornhill Mortgages No.3 Limited had a loan from Bank of America Merrill Lynch International Limited of £437,381,692 that commenced on 20th February 2017 and was repaid on 26 June 2017. Interest expense of £nil (2017: £2,216,204) was incurred 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 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 2018, 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 30.06.2018	As at 30.06.2017
Ordinary shares	£	£
Share capital at the beginning of the year	245,000,000	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	245,000,000

	As at 30.06.2018	As at 30.06.2017
Ordinary shares	shares	shares
Shares at the beginning of the year	250,000,000	250,000,000
Issue of shares	23,065,390	-
Total shares in issue at the end of the year	273,065,390	250,000,000

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 UKML 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 2017: £30,000) payable to Mr Waldron, the Chairman, £35,000 (30 June 2017: £27,500) to Mr Le Page as Chairman of the Audit Committee, and £30,000 (30 June 2017: £25,000) each to Mrs Green and Mr Burrows. During the year ended 30 June 2018, Directors' fees of £135,000 were charged to UKML (30 June 2017: £107,500), of which £33,750 remained payable at the end of the year (30 June 2017: £26,875).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Continued
for the year ended 30 June 2018

16. Related Parties (continued)
b) Shares held by related parties

As at 30 June 2018, Directors of UKML held the following shares in UKML beneficially:-

	Number of Shares 30.06.2018	Number of Shares 30.06.2017
Christopher Waldron	20,000	5,000
Richard Burrows	5,000	5,000
Paul Le Page	20,000	20,000
Helen Green	10,000	-

As at 30 June 2018, the Portfolio Manager held Nil shares (30 June 2017: Nil) and partners and employees of the Portfolio Manager held 7,048,299 shares (30 June 2017: 7,040,076), which is 2.581 % of the issued share capital (30 June 2017: 2.812%).

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 at a rate of 0.60% per annum of the lower of NAV, which is calculated monthly on each valuation day, or market capitalisation of each class of shares. Prior to this date, the portfolio management fee per annum was 0.75%.

UKML 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 £1,313,002 (30 June 2017: £1,714,555) of which £329,854 (30 June 2017: £832,816) remained payable at the year end.

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

d) Group entities

UKML'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 2018, AIFM fees of £95,033 (30 June 2017: £96,730) were charged to the Company, of which £23,469 (30 June 2017: £48,148) remained payable at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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for the year ended 30 June 2018

17. Material Agreements (continued)

b) Administrator and Secretary

Administration fees are payable to Northern Trust International Fund Administration Services (Guernsey) Limited monthly in arrears at a rate of 0.06% of the NAV of the Company below £100 million, 0.05% on net assets between £100 million and £200 million and 0.04% on net assets in excess of £200 million as at the last business day of the month subject to a minimum £75,000 per annum. These NAV based fees commenced from 19 November 2015 being the date 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 £243,847 (30 June 2017: £279,518) of which £2,714 (30 June 2017: £176,533) 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 £71,337 (30 June 2017: £68,503) of which £11,223 (30 June 2017: £5,498) 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 £23,799 (30 June 2017: £22,559) of which £3,784 (30 June 2017: £3,793) 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 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.

The retrospective testing completed at the year end identified that both the Cornhill No.2 and Malt Hill No.2 hedges were ineffective. The hedge on Malt Hill No. 2 was not effective as at the year-end due to the write down of the initial premium paid on the balance guaranteed swap, however it is effective on a prospective basis and is expected to be so going forward. The hedge on Cornhill No. 2 was only partially ineffective and the impact is minimal and similar to Malt Hill No. 2 was effective on a prospective basis beginning July 2018. 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 30.06.2018
	£	£	£	£
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. Financial Risk Management (continued)
Market risk (continued)

	Floating rate £	Fixed rate £	Non interest bearing £	Total as at 30.06.2017 £
Assets				
Mortgage loans	628,248,344	275,030,969	(61,403,140)	841,876,173
Reserve fund	13,157,350	-	-	13,157,350
Trade and other receivables	-	-	3,522,323	3,522,323
Cash and cash equivalents	86,022,869	-	-	86,022,869
Total assets	727,428,563	275,030,969	(57,880,817)	944,578,715
Financial liabilities at fair value through profit and loss	(1,808,049)	-	-	(1,808,049)
Trade and other payables	-	-	(3,648,060)	(3,648,060)
Loan notes (note 13)	(720,966,916)	-	5,232,448	(715,734,468)
Total liabilities	(722,774,965)	-	1,584,388	(721,190,577)
Total interest sensitivity gap	4,653,598	275,030,969	(56,296,429)	223,388,138

The Company is protected against interest rate risk by virtue of the fact that there is 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 2018, 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. The Acquiring Entity is bound by EU securities law and will be unable to fully liquidate, sell, hedge or otherwise mitigate its credit risk under or associated with the Retention Notes issued by the Warehouse SPVs or Issuer SPVs until such time as the securities of the relevant Issuer SPVs have been redeemed in full (whether at final maturity or early redemption). This places limitations on the Company's ability to redeem the Profit Participating Notes issued by the Acquiring Entity. It is not expected that any party will make a secondary market in relation to the Retention Notes, and that there will usually be a limited market for the Retention Notes. Any partial sales of Retention notes would need to be negotiated on a private counterparty to counterparty basis and could result in a liquidity discount being applied. There may be additional restrictions on divestment in the terms and conditions of the underlying investments. The illiquidity of the Retention Notes may therefore adversely affect the value of the Profit Participating Notes in the event of a forced sale which would, in turn, adversely affect the Company's business, business prospects, financial condition, returns to Shareholders including dividends, NAV and/or the market price of the shares.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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for the year ended 30 June 2018

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

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

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.

	Less than one year £	More than one year £	Total as at 30.06.2018 £
Assets			
Mortgage loans	10,652,022	1,205,151,843	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	58,159,117	1,222,912,943	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	1,042,369,550	1,047,081,632

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

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 £24,367 (2017: £405,699). 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 30.06.2018	As at 30.06.2017
Loan to value	**£**	**£**
0-49%	185,723,429	101,602,362
50-75%	753,485,955	473,438,989
75-100%+	276,594,481	266,834,822
	1,215,803,865	841,876,173

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 30.06.2018	As at 30.06.2017	As at 30.06.2018	As at 30.06.2017
	£	£	£	£
>1 month but <2 months	8,552,587	1,552,194	8,548,958	1,552,194
>2 months but <3 months	1,118,202	1,075,168	1,118,202	1,075,168
>3 months but <6 months	853,657	1,109,153	853,657	1,109,153
>6 months	1,018,857	1,186,031	799,089	1,186,031
	11,543,303	4,922,546	11,319,906	4,922,546

19. Capital risk management

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

(i) Share Buybacks

Under the articles of incorporation, the Company may purchase shares in the market at prices which represent a discount to the prevailing NAV per share of that class so as to enhance the NAV per share for the remaining holders of shares of the same class. Subject to satisfying a statutory solvency test, the Company is authorised to make market purchases of up to 14.99% of the aggregate number of issued shares immediately following admission. This authority is subject to approval by a shareholder vote at each Annual General Meeting.

The Directors will consider whether the Company should purchase shares where such shares are quoted in the market at a discount in excess of 5% to NAV per share of that class. The making and timing of any Share Buybacks is at the absolute discretion of the Directors and is expressly subject to the Directors determining that the Company has sufficient surplus cash resources available (excluding borrowed monies). The listing rules published by the UK Listing Authority prohibit the Company from conducting any Share Buybacks during close periods immediately preceding the publication of annual and interim results. There have been no share buybacks during the current year.

(ii) Continuation Vote

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

20. Analysis of Financial Assets and Liabilities by Measurement Basis

	Financial Assets at fair value through profit and loss	Financial Assets at amortised cost	Total
	£	£	£
30 June 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

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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

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

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

21. Fair Value Measurement

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

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices including interest rates, yield curves, volatilities, prepayment speeds, credit risks and default rates) or other market corroborated inputs (level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following tables analyse within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value for the year ended 30 June 2018 and the period ended 30 June 2017.

	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)

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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 2018 but for which fair value is disclosed.

	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	-	1,045,710,270	-	1,045,710,270

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

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

The other assets and liabilities included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value. 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.

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

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

22. Dividend Policy

The Company declared the following interim dividends in relation to the year ended 30 June 2018:

Period to	Dividend rate per Share (pence)	Net dividend payable (£)	Record date	Ex-dividend date	Pay date
30 September 2017	1.5	3,750,000	20 October 2017	19 October 2017	31 October 2017
31 December 2017	1.5	3,750,000	19 January 2018	18 January 2018	31 January 2018
31 March 2018	1.5	3,750,000	20 April 2018	19 April 2018	30 April 2018
30 June 2018	1.5	4,095,980	20 July 2018	19 July 2018	31 July 2018

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

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

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

23. Segment reporting

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

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23. Segment reporting (continued)

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. This is a change from the previously reported segmental reporting as it was considered by the Portfolio Manager and the Audit Committee that with the addition of the second Coventry portfolio and likely future growth of the Company's portfolio that it would be better to analyse the Company's portfolio under two broad headings : (1) Owner Occupied vs Buy to Let as the repayment profiles and contractual cash flows are very different; (2) Purchased vs Forward Flow portfolios as Forward Flow portfolios are subject to origination completion across multiple lenders.

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	30.06.2018
	£	£	£	£	£
Interest income on mortgage loans	-	23,126,534	3,680,166	-	26,806,700
Net interest expense on financial liabilities at fair value through profit and loss	-	(1,548,358)	(261,086)	-	(1,809,444)
Net loss from derivative financial instruments	-	(703,959)	(152,227)	-	(856,186)
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
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23. Segment reporting (continued)

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2017
	£	£	£	£	£
Interest income on mortgage loans	-	15,017,904	576,350	-	15,594,254
Net interest expense on financial liabilities at fair value through profit and loss	-	(2,458,538)	(28,648)	-	(2,487,186)
Unrealised gain/(loss) on financial liabilities at fair value through profit and loss	-	2,343,681	(73,755)	-	2,269,926
Interest expense on loan notes	-	(4,526,663)	-	-	(4,526,663)
Other expenses	-	(5,066,638)	(2,024,710)	-	(7,091,348)
Total net segment income	-	5,309,746	(1,550,763)	-	3,758,983

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

	30.06.2018	30.06.2017
	£	£
Total net segment income	8,116,641	3,758,983
Other fees and expenses	(2,264,350)	(2,734,110)
	5,852,291	1,024,873

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	30.06.2018
	£	£	£	£	£
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

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2017
	£	£	£	£	£
Mortgage loans	-	784,381,310	57,494,863	-	841,876,173
Reserve fund	-	11,657,350	1,500,000	-	13,157,350
Other	-	1,721,871	23,476	-	1,745,347
	-	797,760,531	59,018,339	-	856,778,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23. Segment reporting (continued)

	30.06.2018	30.06.2017
	£	£
Segment assets for reportable segments	1,253,845,615	856,778,870
Other	27,226,445	87,799,845
Total assets	1,281,072,060	944,578,715

Total segment liabilities include:

	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

	Buy-to-Let		Owner Occupied		Total as at
	Forward Flow	Purchased	Forward Flow	Purchased	30.06.2017
	£	£	£	£	£
Loan notes	-	715,734,468	-	-	715,734,468
Financial liabilities at fair value through profit and loss	-	1,734,294	73,755	-	1,808,049
Other	-	1,874,164	120,121	-	1,994,285
	-	719,342,926	193,876	-	719,536,802

	30.06.2018	30.06.2017
	£	£
Segment liabilities for reportable segments	1,046,410,049	719,536,802
Trade and other payables	671,583	1,653,775
Total liabilities	1,047,081,632	721,190,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS Continued

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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 1.5p per Ordinary Share in respect of year ending 30 June 2018 was declared on 12 July 2018 and paid from the capital on 31 July 2018.

On 2 October 2018, UKML announced the completion of a forward flow purchase arrangement with Keystone Property Finance Limited (“Keystone”). Under this investment Keystone will originate a book of Buy-to-Let (“BTL”) mortgages, into a warehouse financing structure. TwentyFour have subsequently appointed National Australia Bank as both financing and swap provider and Pepper UK as servicer.

On 11 October 2018, the Company declared a dividend of 1.5p in relation to the 3 month period to 30 September 2018.

These Audited Consolidated Financial Statements were approved for issuance by the Board on 17 October 2018. There were no other subsequent events until this date.

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 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
CHL	Capital Home Loans
Class A Notes	means the Class A Mortgage Backed Floating Rate Notes issued by the Issuer and admitted to trading on the Irish Stock Exchange
Company	means UKML, Acquiring Entity, Issuer SPV and Warehouse SPVs
Company's Articles or Articles	the articles of incorporation of the Company
Continuation Vote	An ordinary resolution that gives shareholders the ability to instruct the board to prepare a proposal to restructure or wind up a company by means of a simple majority vote.
Corporate Broker	Numis Securities Limited
CRS	The Common Reporting Standard, a global standard for the automatic exchange of financial account information developed by OECD
Custodian and Depositary	Northern Trust (Guernsey) Limited (a non-cellular company limited by shares incorporated in the Island of Guernsey with registered number 2651)
Derivative Instruments	means instruments used to gain leveraged exposure to mortgage portfolios, including but not limited to Credit Linked Notes and Credit Default Swaps

GLOSSARY OF TERMS Continued

DAC	UK Mortgages Corporate Funding Designated Activity Company an independently managed, Dublin based, section 110 designated activity company that is responsible for the warehousing and securitisation of mortgage portfolios under the supervision of TFAM the investment adviser. DAC is wholly financed by the Company via Profit Participating Notes and distributes substantially all of its profits to the Company thereby qualifying for a reduced rate of taxation, commonly known as a Eurobond exemption. From a financial reporting perspective DAC is consolidated with the Company as it provides its services exclusively to the Company
DSCR	Debt Service Coverage Ratio
FFI	Foreign Financial Institution
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
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) o
Hedge Accounting	This is the process by which the change in fair value of a hedging instrument is offset by a proportionate change in the fair value of the company's portfolio to neutralise the volatility of the company's net asset value. It requires initial proof and ongoing monitoring of the hedge effectiveness.
IFRS	International Financial Reporting Standards
Investment Company	a company whose main business is holding securities for investment purposes
Internal Control	a process for assuring achievement of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies
IPO, Initial Public Offering	means the initial public offering of shares in the Company on the specialist fund segment of the London Stock Exchange
IPD	Interest Payment Date
IRR	internal rate of return
IRS	the US Internal Revenue Service

GLOSSARY OF TERMS Continued

Issue	means together the Placing and the Offer (or as the context requires both of them
Issuer SPVs	means special purpose vehicles established for the specific purpose of securitisation and issuing Retention Notes for purchase by the Acquiring Entity
Junior Note	These notes have the lowest priority claim on capital and income from the securitisation SPV and offer the highest potential returns in exchange for bearing the first loss experienced by the SPV.
Loan Financing Facility	means a facility in terms of which ongoing finance is provided by Bank of America Merrill Lynch International Limited for a period of up to two-years
LSE	London Stock Exchange plc (a company registered in England and Wales with registered number 2075721)
LTV	means Loan to Value
Mortgage Pool/ Mortgage Portfolio	The underlying mortgage loans that produce the income for the securitised portfolios.
NAV	means net asset value
OECD	the Organisation for Economic Co-operation and Development
Offer	means the offer for subscription of Ordinary Shares at 1 pence each to the public in the United Kingdom on the terms and conditions set out in Part 12 of the Prospectus and the Application Form
Official List	in reference to DAC and Issuer SPV refers to the official list of the Irish Stock Exchange p.l.c 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
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.

GLOSSARY OF TERMS Continued

Rating Agency	companies that assess the creditworthiness of both debt securities and their issuers, for these purposes Standard and Poor's, Moody's and Fitch
Retention Notes	means a Subordinated tranche of securities which as part of the securitisation issuance structure are issued for purchase by the Acquiring Entity
RMBS	Residential Mortgage-Backed Security
RNS	Regulatory News Service
Section 110	Section 110 of the Irish Taxes Consolidation Act 1997 (as amended). A Section 110 company is an Irish resident special purpose vehicle ("SPV") which holds and/or manages "qualifying assets" and usually distributes substantially all of its income net of a fixed annual tax payment.
Seasoning	The weighted average age of a mortgage portfolio.
Securitisation Vehicle	special purpose vehicle incorporated in the UK established for the purpose of issuing notes collateralised by underlying mortgage pool
Senior Note	Senior note holders receive first priority with respect to income and capital distributions and effectively provide long term leverage finance to the Junior note holders.
Servicer	Means the entity that maintains the relationship with the underlying mortgage borrower to answer questions, collect payments and refinance existing loans if required.
Share Buyback	the Company purchases shares in the market
Shareholders	holders of Shares
Specialist Fund Segment	the Specialist Fund Segment of the London Stock Exchange
SPV	means a special purpose vehicle
SVR	Standard variable rate
TFS	Term Funding Scheme
TML	The Mortgage Lender
UK Code	The UK Corporate Governance Code 2016
UKML	UK Mortgages Limited
Valuation Agent	Kinson Advisors LLP
WA LTV	Weighted average loan-to-value
Warehousing	the process by which mortgages are acquired in a portfolio prior to securitisation. The portfolio is typically leveraged by borrowing from a warehouse credit facility. Three warehouse SPVs; Cornhill Mortgages No. 1 Limited, Cornhill Mortgages No. 2 Limited and Cornhill Mortgages No. 3 Limited, have been established for the purpose of warehousing the first and second transactions of the company respectively
Warehouse SPV	a special purpose vehicle, incorporated in the UK, established for the purpose of warehousing the mortgage portfolio

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