Annual report and financial statements

Lanark Funding Limited

For the year ended 30 September 2022

Company Number: 06302746

Lanark Funding Limited

Annual report and financial statements
For the year ended 30 September 2022

Contents

Officers and professional advisers

Directors	Julius Bozzino Christopher Upton (appointed 5 August 2022) Sunil Masson (resigned 5 August 2022) Justin Fox
Secretary	Sunil Masson (resigned 5 August 2022)
Registered office	7th Floor 50 Broadway London SW1H 0DB
Independent auditors	Ernst & Young LLP 144 Morrison Street Edinburgh EH3 8EX

Strategic report

The Directors of Lanark Funding Limited (the “Company”) present their strategic report for the year ended 30 September 2022.

Principal activities and business structure

The Company is a Special Purpose Vehicle (“SPV”) which forms part of Clydesdale Bank PLC’s (“CB PLC”) Lanark Residential Mortgage Backed Securities Programme (the “Programme”). The Programme was established primarily for the purpose of raising wholesale funding for the Programme Sponsor (“Sponsor”) CB PLC.

The Company is incorporated under the Companies Act 2006 and registered in England and Wales as a private limited company. It is a wholly owned subsidiary of Lanark Holdings Limited (“LHL”), the immediate parent entity, which is incorporated under the Companies Act 2006 and registered in England and Wales. The Company also holds the full share capital of Lanark Master Issuer PLC (“LMI”), another entity established as part of the Programme which is incorporated under the Companies Act 2006 and registered in England and Wales. The ultimate controlling entity is Virgin Money UK PLC (“VMUK PLC”). VMUK PLC and its subsidiary undertakings, which include CB PLC, comprise the Virgin Money UK PLC Group (“Group”). Further detail of the group structure is disclosed in note 1.1.

The principal activity of the Company is to hold an interest in a pool of residential mortgages held on trust (the “Trust Property”) by Lanark Trustees Limited (“LTL”), a private limited company incorporated under the Companies Act 2006 and registered in England and Wales. The Trust Property was sold to LTL by the Sponsor who retains substantially all the risks and rewards associated with the mortgage loans. As such, the Company’s interest in the Trust Property is recognised as part of a deemed loan with CB PLC. The deemed loan is described in note 1.4 to the financial statements. Pursuant to the Global Intercompany Loan Agreement, the Company has received Intercompany Loans (“Intercompany Loans”) from LMI to fund the acquisition of the deemed loan.

The Programme documentation relating to the Programme structure defines certain prescribed roles and terms and should be read in conjunction with these financial statements. The Programme documentation can be found at: https://www.virginmoneyukplc.com/investor-relations/debt-investors/lanark-programme/.

Financial analysis

During the year, the Programme raised additional funds of £700m by issuing the 2022-1 series of Residential Mortgage Backed Loan Notes (the ”Notes”), offset by a £180m decrease in the class Z Variable Funding Notes (“VFN”). These movements were matched in the associated Intercompany Loans and the beneficial interest held in the deemed loan increased by the net amount. There were scheduled repayments of £1,195m including the full redemption of Notes 2017-1 2A, 2019-2 1A and the associated Intercompany Loans.

The class A Notes and associated Intercompany Loans are subject to controlled amortisation and bullet repayments, with the maximum repayment on each payment date set out in the Programme documentation. Repayments are ultimately dependent on there being sufficient principal receipts from the underlying mortgage loans in the Trust Property or Sponsor cash contributions as outlined in the Programme documentation. The Company is only obliged to make repayments of interest and principal in respect of the Intercompany Loans, to the extent that repayments are received from LTL in respect of the deemed loan or applicable reserve funds are available.

The Company receives a share of income from the Trust Property in proportion to its share of the total mortgage assets of the Trust. Under the terms of the Programme, the Company is entitled to retain a predetermined profit balance. For the year ended 30 September 2022 this equated to £12,000 (2021: £12,000). Income in excess of the required amount accrues to CB PLC as deferred consideration of £29,900,000 (2021 £49,354,000). Deferred consideration is described in note 1.4 to the financial statements.

The combined performance of the deemed loan and payments made under the Intercompany Loans has been in line with expectations.

Key performance indicators (“KPIs”)

The Company’s Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the Company.

Section 172(1) statement

In accordance with the Companies Act 2006 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this statement describing how they have had regard to the matters set out in section 172(1), when performing their duty to promote the success of the Company.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the Directors have engaged with and had regard to the interest of key stakeholders. In accordance with section 426B of the Companies Act 2006, this statement is also available at https://www.virginmoneyukplc.com/investor-relations/.

Strategic report (continued)

Section 172(1) statement (continued)

As an SPV, the governance structure and key policies to achieve the objectives of section 172(1) were set out in the Programme documentation at inception of the Programme. Therefore, compliance with the Programme documentation ensures regard for the matters set out in section 172(1) as follows:

- The Programme documentation sets out the principal transactions that will be undertaken to achieve the purpose and objectives of the Company, while ensuring the Company's assets are safeguarded;
- The Company has appointed third parties to perform various roles as specified in the Programme documentation. Fees and conditions were agreed at inception and are paid in line with the Programmes' priority of payments schedule;
- In accordance with the securitisation tax regime, the Company is only permitted to retain minimal profit;
- The limited nature and range of activities of an SPV mean the Company has no employees and engagement with community and environmental stakeholders is not relevant for consideration; and
- The Company has a sole member, LHL, which also forms part of the Programme. CB PLC is the Sponsor of the Programme and where matters impact the wider Group, stakeholder engagement is led by the VMUK PLC Board.

Future developments

The Company was established as a structured entity to facilitate the raising of funds for investment in a deemed loan. The Directors continue to monitor the economic environment and financial markets with regard to the borrowing of further loan tranches from LMI for additional investment. No changes in future activities are envisaged.

Despite the United Kingdom ("UK") economy gradually recovering from the impact of COVID-19, the outlook continues to be uncertain. Household incomes have been, and will continue to be, affected by the recent (and further anticipated) Bank of England base rate rises, increasing energy prices (despite recent UK Government announcements on the assistance it will provide customers), and the headwinds from higher inflation. The impact on the UK economy of the Russian invasion of Ukraine remains uncertain but as the Company has no direct lending in that region, it is anticipated that any potential impact will be modest.

Principal risks and uncertainties

The Company is exposed to changes in market variables such as floating interest rate obligations arising from floating rate interest-bearing loans. These risks are mitigated by the Company through a funding basis swap arrangement and the limited recourse nature of the Intercompany Loans. Climate risk has been assessed as a potential future risk of the Company. The main features of the Company's internal control and risk management systems are set out in note 4.3.

The risks and challenges identified in the financial statements do not represent an exhaustive list of the risks and issues associated with the Company. Other risks and issues not specifically referenced may adversely impact the future financial position and performance of the Company. Accordingly, no assurances or guarantees of future performance, profitability or returns on capital are given by the Company.

Financial risk management

The Company's principal financial asset is the deemed loan and the associated risks are the performance of the underlying mortgage loans along with the floating rate interest obligations on the Intercompany Loans issued. The financial risk management policies are discussed further in note 4.3 to the financial statements.

This report was approved by the Board of Directors on 19 December 2022 and was signed on its behalf by:

DocuSigned by:
Chris Upton
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Christopher Upton
Director
19 December 2022

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 30 September 2022.

Corporate governance

The Directors have been charged with governance in accordance with the Programme documentation, describing the structure and operation of the Programme. The governance structure of the Company is such that the key policies have been predetermined at inception and the operational roles have been assigned to third parties with their roles strictly governed by the Programme documentation.

The main features of the Company's internal control and risk management systems are set out in note 4.3.

Profits and appropriations

The statement of comprehensive income for the year is set out on page 10.

The Directors do not recommend the payment of a dividend for the year under review (2021: £Nil).

Future developments, principal risks and financial risk management objectives and policies

Information regarding future developments, principal risks and financial risk management objectives and policies of the Company in relation to the use of financial instruments that would otherwise be required to be disclosed in the Directors' report, and which is incorporated into this report by reference, can be found in the strategic report.

Directors and Directors' interests

The Directors of the Company during the year and up to the date on which the financial statements were approved are shown on page 1.

Directors' interests

None of the Directors had any interest either during the year or at the end of the year in any material contract or arrangement with the Company.

Appointments and resignations

Christopher Upton was appointed as a director of the Company on 5 August 2022.

Sunil Masson resigned as a director of the Company on 5 August 2022.

Directors' remuneration

None of the Directors were directly remunerated by the Company in respect of their duties as Directors of the Company. However, during the year, a fee in the amount of £8,000 (2021: £5,000) expensed to Vistra (UK) Limited for the provision of corporate administration services including services of two Directors to the Company. In relation to the remaining Director, their service to the Company was performed as part of their employment with CB PLC and no remuneration was received in respect of qualifying services provided to the Company. CB PLC has not recharged the Company for the cost of this service.

Company secretary

Sunil Masson resigned as company secretary on 5 August 2022. As there is no legal requirement for a company secretary in a limited company, no replacement has been appointed.

Third party indemnities

A qualifying third party indemnity provision for the benefit of the Directors was in force during the year and remains in force as at the date of approval of the annual report and financial statements.

Employees

The Company does not have any employees.

Stakeholder engagement

The Directors have provided a statement in the strategic report, describing how they have performed their duty to promote the success of the Company and how they have engaged with and had regard to the interest of key stakeholders.

The Company is a controlled entity of VMUK PLC and as such follows many of the processes and practices of this company which are further referenced in this statement where relevant. In accordance with section 426B of the Companies Act 2006, this statement is also available at https://www.virginmoneyukplc.com/investor-relations/.

Political donations

No political donations were made throughout the year (2021: £Nil).

Research and development costs

The Company does not undertake formal research and development activities.

Directors' report (continued)

Related parties

Details of related party transactions are set out in note 4.2 of the financial statements.

Share capital

Information about share capital is shown in note 3.10.

Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for 12 months from the approval of the financial statements.

The Company's use of the going concern basis for preparation of the accounts is discussed in note 1.3.

Events after the balance sheet date

There have been no significant events between 30 September 2022 and the date of approval of the annual report and financial statements which would require a change to or additional disclosure in the financial statements.

Auditors and disclosure of information to the auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

The auditor, Ernst & Young LLP, has expressed their willingness to continue in office. Pursuant to Section 487 of the Companies Act 2006, Ernst & Young LLP, subject to any resolution to the contrary, are deemed to have been re-appointed as auditor of the Company.

This report was approved by the Board of Directors on 19 December 2022 and was signed on its behalf by:

DocuSigned by:
Chris Upton
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Christopher Upton
Director
19 December 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards ("IAS"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards ("IFRS") is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- state whether UK adopted IAS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and Directors' report that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company included on the Group's website.

This statement was approved by the Board of Directors on 19 December 2022 and was signed on its behalf by:

DocuSigned by:
Chris Upton
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Christopher Upton
Director
19 December 2022

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Independent auditor's report to the members of Lanark Funding Limited

Opinion

We have audited the financial statements of Lanark Funding Limited for the year ended 30 September 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, and the related notes 1.1 to 4.4 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- We reviewed the Directors' going concern assessment, taking into consideration the nature of the entity and its operations, its financial performance and position, including verifying the reasonableness of the key factors and assumptions which could affect the entity's ability to continue as a going concern.
- We examined the Directors' cashflow forecasts and compared these forecasts against our own assessment of the reasonable prospects of the entity.
- We additionally considered the recoverability of the assets of the Company, including the intercompany loan asset.
- We reviewed the Company's going concern disclosures included in the financial statements in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditor's report to the members of Lanark Funding Limited (continued)

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities on page 6 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and Directors.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are International Accounting Standards, the Companies Act 2006, Market Abuse Regulations, Transparency Regulations, and Tax legislation.
- We understood how the Company is complying with those frameworks by inquiring of Directors and identifying the controls in place in order to comply.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing.

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

Independent auditor's report to the members of Lanark Funding Limited (continued)

Use of our report

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

Ernst & Young LLP

Blake Adlem (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
Edinburgh
20 December 2022

Statement of comprehensive income for the year ended 30 September

	Note	2022 £'000	2021 £'000
Interest income	2.2	**48,712**	34,936
Interest expense	2.3	**(48,582)**	(34,812)
Operating income		**130**	124
Operating expenses	2.4	**(118)**	(112)
Profit before tax		**12**	12
Tax expense	2.5	**(2)**	(2)
Total comprehensive income attributable to the equity holders		**10**	10

The notes on pages 14 to 29 form part of these financial statements.

Balance sheet
as at 30 September

	Note	**2022** £'000	2021 £'000
Assets			
Investment in subsidiary	3.1	**13**	13
Deemed loan	3.2	**2,688,914**	3,302,571
Reserve funds	3.3	**62,004**	76,867
Other assets	3.4	**51,388**	49,020
Cash and cash equivalents	3.5	**26,664**	30,456
Total assets		**2,828,983**	3,458,927
Liabilities			
Intercompany Loans	3.6	**2,740,671**	3,414,725
Subordinated loan	3.7	**41,778**	-
Other liabilities	3.8	**46,397**	44,075
Current tax liability		**2**	2
Total liabilities		**2,828,848**	3,458,802
Equity			
Share capital	3.10	**-**	-
Share premium	3.11	**12**	12
Retained earnings		**123**	113
Total equity		**135**	125
Total liabilities and equity		**2,828,983**	3,458,927

The notes on pages 14 to 29 form part of these financial statements.

The financial statements were approved by the Board of Directors on 19 December 2022 and were signed on its behalf by:

DocuSigned by:
Chris Upton
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Christopher Upton
Director
19 December 2022
Company No: 06302746

Statement of changes in equity

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 30 September 2020	-	12	104	116
Total comprehensive income for the year	-	-	10	10
Rounding adjustment [1]	-	-	(1)	(1)
Balance at 30 September 2021	-	12	113	125
Total comprehensive income for the year	-	-	10	10
Balance at 30 September 2022	**-**	**12**	**123**	**135**

[1] Due the predefined profit level and current applicable tax rate of 19%, every 4 years the cumulative effect results in a casting break in the closing retained earnings balance. As it would not be appropriate to round either the tax or income balances, an additional rounding adjustment has been added to ensure the correct closing position.

The notes on pages 14 to 29 form part of these financial statements.

Statement of cash flows
for the year ended 30 September

	Note	2022	2021
		£'000	£'000
Operating activities			
Profit before tax		**12**	12
Adjustments for non-cash movements included in profit before tax:			
Interest income	2.2	**(48,712)**	(34,936)
Interest expense	2.3	**48,582**	34,812
Adjustments to working capital:			
Changes in operating assets	4.1	**(2,368)**	(626)
Changes in operating liabilities	4.1	**5**	2
Tax paid		**(2)**	(2)
Net cash flows used in operating activities		**(2,483)**	(738)
Investing activities			
Reduction in deemed loan		**635,373**	1,240,822
Interest received on the deemed loan		**26,865**	44,697
Reduction in investment in reserve funds		**14,863**	39,386
Interest received/(paid) on cash and cash equivalents		**131**	(20)
Net cash flows provided by investing activities		**677,232**	1,324,885
Financing activities			
Drawdown of Intercompany Loans	4.1	**700,000**	-
Principal repayment of Intercompany Loans	4.1	**(1,375,069)**	(1,312,876)
Interest paid on Intercompany Loans		**(44,877)**	(31,694)
Drawdown of subordinated loan	4.1	**41,702**	-
Principal repayment of subordinated loan	4.1	**-**	(12,212)
Interest paid on subordinated loan		**(297)**	(17)
Net cash flows used in financing activities		**(678,541)**	(1,356,799)
Net decrease in cash and cash equivalents		**(3,792)**	(32,652)
Cash and cash equivalents at beginning of year		**30,456**	63,108
Cash and cash equivalents at end of year	3.5	**26,664**	30,456

The notes on pages 14 to 29 form part of these financial statements.

Notes to the financial statements
Section 1: Basis of preparation and accounting policies

1.1 General information

The Company is incorporated under the Companies Act 2006 and registered in England and Wales as a private limited company.

The immediate parent company is LHL, a company incorporated under the Companies Act 2006 and registered in England and Wales. The ultimate parent company is Vistra Capital Markets (Ireland) Limited ("Vistra Ltd"), a company incorporated and registered in the Republic of Ireland. Vistra Ltd does not consolidate the results of the Company and its subsidiary.

CB PLC, a company incorporated under the Companies Act 2006 and registered in Scotland, is the Sponsor of the Programme. The smallest group in which the results of the Company are consolidated is that headed by CB PLC. The ultimate controlling entity is VMUK PLC, a company incorporated under the Companies Act 2006 and registered in England and Wales. VMUK PLC and its subsidiary undertakings, which include CB PLC, comprise the Virgin Money UK PLC Group. The Virgin Money UK PLC Group is the largest group in which the results of the Company are consolidated. The financial statements of VMUK PLC may be obtained from the registered office at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

The Company has not presented consolidated financial statements; relying on the exemption under section 400 of the Companies Act 2006.

1.2 Basis of accounting

The Company's financial statements, which should be read in conjunction with the strategic report and the Directors' report, have been prepared in accordance with UK adopted IAS[1]. The financial information has been prepared under the historical cost convention. Climate risk has been considered in the preparation of these accounts and no adjustments have been deemed necessary.

1.3 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. In addition, note 4.3 to the financial statements includes the Company's risk management objectives.

The Company has access to financial resources through its interest in the deemed loan. It is the intention of the Directors of the Company to continue operations while the Programme supports the funding and liquidity needs of the Group. Due to the limited recourse nature of the Intercompany Loans and the associated Notes, the ultimate risk is borne by the Noteholders, therefore any shortfall in the proceeds from the deemed loan will be a risk to the Noteholders of the Programme rather than the Company.

The Directors believe the Company is well placed to manage its business risks successfully in line with the Programme documentation. Accordingly, the financial statements have been prepared on a going concern basis.

1.4 Accounting policies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in pounds sterling ("GBP"), which is also the Company's presentation currency, rounded to the nearest thousand pounds ("£000") unless otherwise stated.

(b) Interest income and interest expense

Interest income is reflected in the statement of comprehensive income using the effective interest rate ("EIR") method which discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the non-credit impaired financial asset. Interest expense is reflected in the statement of comprehensive income using the same EIR method on the amortised cost of the financial liability.

When calculating the EIR, cash flows are estimated considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options) excluding future Expected Credit Losses ("ECL"). The calculation includes all amounts paid or received that are an integral part of the EIR such as transaction costs and all other premiums or discounts. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Deferred consideration to LMI

Deferred consideration to LMI arises when LMI requires additional income to provide for expenses and meet the predefined profit level. Deferred consideration to LMI is paid in priority to the deferred consideration paid to the Sponsor, CB PLC, as per priority of payments in the Programme documentation. The expense is included in interest expense in the statement of comprehensive income and is accrued as a payable until settled.

[1] As the Company's prior accounting year straddled 31 December 2020, the date the UK ceased to be subject to EU law, the 2021 published financial reports were required to follow IAS in conformity with the Companies Act 2006 and EU adopted IFRS. From 1 October 2021, the Company follows and refers only to UK adopted IAS, with the UK Endorsement Board being the body responsible for providing authorisation for the use of new International Accounting Standards Board ("IASB") standards, amendments or interpretations in the UK from 1 January 2021.

Notes to the financial statements (continued)
Section 1: Basis of preparation and accounting policies (continued)

1.4 Accounting policies (continued)

(c) Income tax

Income tax on the profit or loss for the year comprises current tax. Income tax is recognised in the statement of comprehensive income except to the extent that it is related to items recognised in equity, in which case the tax is also recognised in equity.

Income tax expense is the tax payable on the current year's taxable income based on the applicable tax rate adjusted by changes in deferred tax assets and liabilities and is based on the permanent tax regime for securitisation companies.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(d) Financial instruments

Recognition and derecognition

A financial asset or a financial liability is recognised on the balance sheet when the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual cash flows from the asset expire or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership are transferred. Financial liabilities are derecognised from the balance sheet when the Company has discharged its obligation to the contract, or the contract is cancelled or expires.

Classification and measurement

The Company measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability (with the exception of financial assets or liabilities at fair value through profit or loss, where transaction costs are recognised directly in the statement of comprehensive income as they are incurred).

Financial assets

Subsequent accounting for a financial asset is determined by the classification of the asset depending on the underlying business model and contractual cash flow characteristics. This results in classification within one of the following categories: i) amortised cost, ii) fair value through other comprehensive income (“FVOCI”), or iii) fair value through profit or loss (“FVTPL”). The Company has no financial assets classified as FVOCI or FVTPL.

A financial asset is measured at amortised cost when (i) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (ii) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding. Financial assets held at amortised cost are assessed for impairment using the ECL methodology. Further detail is provided in note 1.5.

All of the Company’s financial assets are classified as financial assets at amortised cost. This classification is determined by the business model under which the Company uses the assets (‘held to collect’ business model) and the nature of the assets’ cash flows. The cash flows have been determined to be solely payments of principal and interest, reflecting the basic lending arrangement.

Financial liabilities

All of the Company’s financial liabilities are classified as financial liabilities at amortised cost.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where no such active market exists for the particular asset or liability, the Company uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises profits or losses on the transaction date.

Notes to the financial statements (continued)
Section 1: Basis of preparation and accounting policies (continued)

1.4 Accounting policies (continued)

(e) Investment in subsidiary

Investment in subsidiary is valued at cost plus incidental expenses or valuation less any provision for impairment. Such investments are reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Losses relating to impairment in the value of shares in the subsidiary are recognised in the statement of comprehensive income. Gains or losses on the disposal or part disposal of an investment in a subsidiary are also recognised in the statement of comprehensive income within other operating income.

(f) Deemed loan

Where a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Company has concluded that CB PLC has retained substantially all the risks and rewards of the pool of mortgage loans held by the Trustee. Consequently, the Company should not recognise the beneficial interest in the mortgage loans on its balance sheet but rather a deemed loan at amortised cost due from CB PLC.

Initial recognition of the deemed loan corresponds to the initial consideration paid by the Company for the interest in the Trust Property. The Company recognises principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to such cash flows in accordance with the Company revenue and principal priority of payments as detailed in the Programme documentation. Cash flows attributable to CB PLC are not recognised in the Company’s statement of comprehensive income.

Deferred consideration to CB PLC

Deferred consideration to CB PLC arises when there is surplus income of the underlying mortgage loans to which the Company has a beneficial interest, to the extent that it exceeds the costs and allowable profit of the Company. Deferred consideration is payable to CB PLC as the Sponsor of the Programme. As the Company does not recognise income to which it is not beneficially entitled, deferred consideration payable is accounted for as a deduction against the deemed loan and the associated expense is recognised in the statement of comprehensive income as a deduction against deemed loan interest income.

Basis swaps

The Company uses derivative financial instruments to manage exposure to interest rate risk, which arises when there is a mismatch between fixed interest rate and floating interest rates, and different repricing characteristics between assets and liabilities.

As the transfer of the Trust Property did not qualify for derecognition, the basis swap derivatives have not been separately recognised on the balance sheet other than the accrued interest, which has been recognised as a component of the deemed loan.

(g) Reserve funds

Reserve funds are held in line with the Programme documentation, which places restrictions on the timing and use of the funds. The reserve funds are held as cash at bank, which is measured at amortised cost.

(h) Other assets

Other assets include intercompany receivables and prepaid expenses, which are recognised initially at fair value and subsequently measured at amortised cost.

(i) Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

(j) Intercompany Loans

The loans issued under the terms of the Global Intercompany Loan Agreement with LMI comprise the Intercompany Loans. The Intercompany Loans are initially recognised on the balance sheet at the fair value of the proceeds received and subsequently measured at amortised cost.

(k) Subordinated loan

The subordinated loan is a formal intercompany loan agreement between the Company and CB PLC. The loan is subject to the terms of the Subordinated Loan Agreement. The subordinated loan is recognised initially at fair value and subsequently measured at amortised cost.

(l) Other liabilities

Other liabilities include non-interest-bearing intercompany payables and accrued expenses, which are recognised initially at fair value and subsequently measured at amortised cost.

Notes to the financial statements (continued)
Section 1: Basis of preparation and accounting policies (continued)

1.4 Accounting policies (continued)

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

(n) Share premium

Share premium substantially represents the aggregate of all amounts that have been paid above par value to the Company when it has issued ordinary or deferred shares. Certain incremental expenses in relation to the issue of share capital can be offset against the share premium account.

(o) Capital management overview

The Company is not subject to externally imposed capital requirements outside the scope of Programme documentation. The Company considers its capital to reflect share capital which can be found in the balance sheet on page 11.

1.5 Critical accounting estimates and judgements

The preparation of financial statements in accordance with UK adopted IAS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses reported in these financial statements. Assumptions made at each balance sheet date are based on best estimates at that date and are reviewed by the Directors at each reporting date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The most significant use of estimates and judgements relate to the following:

Impairment of financial assets

At initial recognition, allowance is made for ECLs resulting from default events that are forecasted within the next 12 months (12 month ECL). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for ECLs resulting from all possible default event over the expected life of the financial instrument (lifetime ECL). In assessing a significant increase in credit risk, the Company monitors the level of credit enhancement within the Programme as detailed in the monthly reporting, as well as considers the presence of any trigger events as per the Programme documentation.

Financial assets where 12 month ECL are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Unlike other financial instruments, the deemed loan is, by its construction, an instrument that incorporates credit enhancement. The interest due on the deemed loan is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the cash flow for a particular payment period is insufficient. ECL for the deemed loan would only therefore be recognised where the ECL on the underlying assets were large enough that no credit enhancement remained, which is not currently the case. As at 30 September 2022, management judges ECLs based on the available supportable information, to be immaterial and as a result no ECL disclosures are presented.

1.6 New accounting standards and interpretations

(a) New accounting standards and interpretations adopted during the year

There were no material IASB pronouncements adopted by the Company in the current financial year.

(b) New accounting standards and interpretations not yet adopted

The IASB has issued a number of minor amendments to IFRSs that are not mandatory for the current financial year and have not been early adopted by the Company. These amendments are not expected to have a material impact for the Company and have therefore not been listed.

Notes to the financial statements (continued)
Section 2: Results for the year

2.1 Employee costs and Directors' emoluments

The Company does not have any employees thus there are no associated costs included within these financial statements (2021: £Nil). The administrative duties of the Company have been outsourced to an external services provider, Vistra (UK) Limited. Refer to page 4 for details of Directors' emoluments.

2.2 Interest income

	2022 £'000	2021 £'000
Interest income on deemed loan	**48,581**	34,936
Interest income on cash and cash equivalents	**131**	-
	48,712	34,936

Interest income on the deemed loan represents the income on the underlying mortgage loans, reduced by the net expense on the basis swap and deferred consideration expense of £29,900,000 (2021: £49,354,000).

2.3 Interest expense

	2022 £'000	2021 £'000
Interest expense on Intercompany Loans	**45,892**	31,461
Deferred consideration expense to LMI	**2,317**	3,320
Interest expense on cash and cash equivalents	**-**	20
Interest expense on subordinated loan	**373**	11
	48,582	34,812

2.4 Operating expenses

	2022 £'000	2021 £'000
Cash management fee	**100**	100
Other operating expenses	**18**	12
	118	112

During the year, the Company expensed £10,000 (2021: £5,000) of audit fees which are included in other operating expenses.

Notes to the financial statements (continued)
Section 2: Results for the year (continued)

2.5 Income tax

The Company is taxable under The Taxation of Securitisation Companies Regulations 2006 ("Securitisation Regulations"), which is effective for accounting periods beginning on or after the 1 January 2007. As the payments condition has been satisfied at all times during the accounting year, the calculation of corporation tax is based upon the Company's retained profits.

The Company is entitled to retain an amount of £12,000 (2021: £12,000) as profit for the year ended 30 September 2022. This profit meets the definition of retained profits under the Securitisation Regulations and is taxable at the current taxation rate.

	2022	2021
	£'000	£'000
Tax expense comprises:		
Current tax expense	**2**	2
The total charge can be reconciled to the accounting profit as follows:		
Profit before tax	**12**	12
Income tax expense calculated at standard UK tax rate of 19% (2021: 19%)	**2**	2
Income tax expense recognised in the statement of comprehensive income	**2**	2

The charge above has been calculated in accordance with the Securitisation Regulations.

Since 1 April 2017, the statutory rate of UK corporation tax has been 19%. On 17 October 2022, the Chancellor of the Exchequer confirmed that, in line with the previously enacted legislation, the UK corporation tax rate will increase to 25% from 1 April 2023.

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital

3.1 Investment in subsidiary

	2022	2021
	£'000	£'000
Investment in subsidiary	**13**	13

The company holds 100% of the issued share capital of LMI. The Company's investment is unlisted and detailed as follows:

Name	Nature of business	Class of share held	Interest held	Country of incorporation
Lanark Master Issuer PLC	Raising funding for the Programme	Ordinary	100%	UK

The subsidiary has a financial year end of 30 September. The registered office of the subsidiary is 7th Floor, 50 Broadway, London, SW1H 0DB.

3.2 Deemed loan

	2022	2021
	£'000	£'000
Principal balance	**2,686,476**	3,300,346
Accrued interest receivable	**2,438**	2,225
	2,688,914	3,302,571

The deemed loan represents the beneficial interest in the underlying mortgages and deferred consideration payable of £225,818,000 (2021: £247,321,000). The mortgage loans are all denominated in GBP and are at various variable or fixed rates of interest.

3.3 Reserve funds

The Company maintains a liquidity reserve fund and a funding reserve fund, the balances of which are held as cash at bank. The Programme documentation specifies the terms under which the reserve funds can be utilised.

	2022	2021
	£'000	£'000
Funding reserve fund	**42,892**	63,594
Liquidity reserve fund	**19,112**	13,273
	62,004	76,867

3.4 Other assets

	2022	2021
	£'000	£'000
Amounts due from LMI	**51,387**	49,019
Other receivables	**1**	1
	51,388	49,020

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.5 Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and cash equivalents	**26,664**	30,456

The Company holds accounts with National Australia Bank and Clydesdale Bank. These accounts have been established in the Company's name for the following purposes:

- to hold the Company's share of the mortgage trustee available principal and revenue receipts until each distribution date;
- to apply proceeds to pay various creditors in accordance with the relevant priority of payments;
- to hold applicable reserve funds (note 3.3); and
- to retain the remaining balance as the Company's profits and paid up share capital.

3.6 Intercompany Loans

	2022	2021
	£'000	£'000
Principal balance	**2,738,999**	3,414,068
Accrued interest payable	**1,672**	657
	2,740,671	3,414,725

Series and class of Intercompany Loans	**Credit rating of associated Note**	**Initial principal amount £'000**	**Interest**	**Margin**	**Step-up date**	**Adj margin**
2018-1 Class 2A	AAA rated	285,000	SONIA	0.541%	22 February 2023	0.961%
2018-2 Class 2A	AAA rated	250,000	SONIA	0.642%	22 August 2023	1.162%
2019-2 Class 2A	AAA rated	300,000	SONIA	0.770%	22 November 2022	1.540%
2020-1 Class 1A	AAA rated	191,307	SONIA	0.926%	22 November 2022	1.852%
2020-1 Class 2A	AAA rated	800,000	SONIA	0.570%	22 November 2023	1.140%
2022-1 Class 1A	AAA rated	700,000	SONIA	0.500%	22 February 2028	1.000%

Credit enhancements in the form of class Z VFNs are also in existence. These are reassessed at the point of each issuance and have a rate of Daily Compounded SONIA plus 0.90%.

Key movements in the year are shown in the table below.

	Issuances	Redemptions
	£'000	£'000
Intercompany Loans	700,000	(1,375,069)

The Intercompany Loans are repayable quarterly in order of priority starting from the class A tranches to the class Z tranches, to the extent there are sufficient funds available.

The Intercompany Loans are interest-bearing and have a step-up provision for the interest margin. The adjusted margin is the margin that is payable if the principal is not paid by the step-up date. The ultimate maturity date of all tranches is December 2069.

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.6 Intercompany Loans (continued)

Interest

Interest is payable monthly in arrears. The payment of interest on the Intercompany Loans is dependent on the receipt of income from the deemed loan. If the Company does not receive income from the deemed loan, there is no obligation to pay interest to LMI.

Redemption

Redemption of the Intercompany Loans will be made from the principal proceeds received on the deemed loan on the relevant payment date, in accordance to the seniority of the associated Notes and availability of funds.

Limited recourse and segregation of assets and liabilities

The Intercompany Loans are limited in recourse to the swap agreements and to the underlying mortgage loans within the deemed loan. Following termination of a swap agreement and its enforcement against the counterparty and the enforcement of the Mortgages Trust Deed there will be no other assets of the Company available to meet any outstanding Intercompany Loans and the Noteholders, who will bear any ultimate shortfall pro rata to their holdings of Notes.

3.7 Subordinated loan

The Company entered into a subordinated loan agreement with the Sponsor of the Programme, pursuant to which the Company received a loan to be applied towards:

- the establishment of the liquidity reserve fund (in whole or in part); and
- payment (in whole or in part) of the fees and expenses incurred by the Company in respect of the issuance of the Notes.

The loan bears interest at the rate of Daily Compounded SONIA plus 0.90%. The loan is subordinated to all classes of Notes in issue.

	2022	2021
	£'000	£'000
Principal balance	**41,702**	-
Accrued interest payable	**76**	-
	41,778	-

3.8 Other liabilities

	2022	2021
	£'000	£'000
Deferred consideration payable to LMI	**46,385**	44,068
Other payables due to CB PLC	**11**	1
Other payables	**1**	6
	46,397	44,075

3.9 Fair value of financial instruments held at amortised cost

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for an identical financial asset or liability;
- Level 2 fair value measurements - inputs other than quoted prices within level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.9 Fair value of financial instruments held at amortised cost (continued)

Fair value of financial instruments held at amortised cost

The methodologies and assumptions used in the fair value estimates are described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as the Intercompany Loans.

The tables below show a comparison of the carrying amounts, as reported on the balance sheet, and fair values of those financial assets and liabilities measured at amortised cost where the carrying value amounts of the financial assets and financial liabilities recorded at amortised cost in the balance sheet are not approximately equal to their fair value.

	2022					2021				
			Fair value measure using:					Fair value measure using:		
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets held at amortised cost	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Deemed loan	**2,688,914**	**2,603,330**	-	2,603,330	-	3,302,571	3,321,458	-	3,321,458	-
Financial liabilities held at amortised cost										
Intercompany Loans	**2,740,671**	**2,743,042**	-	2,743,042	-	3,414,725	3,440,379	-	3,440,379	-

The Company's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

Deemed loan – The fair value of the deemed loan is predominately based on the fair value of the underlying mortgage loans and is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity and incorporates behavioural adjustment where appropriate.

Intercompany Loans – The fair value is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

There were no transfers between levels during the year.

3.10 Share capital

	2022	2021
	£	£
Issued, allotted and paid-up share capital		
2 ordinary shares - fully paid	**2**	2

3.11 Share premium

	2022	2021
	£'000	£'000
Share premium	**12**	12

Notes to the financial statements (continued)
Section 4: Other notes

4.1 Notes to the statement of cash flows

	2022	2021
	£'000	£'000
Changes in operating assets		
Net (increase)/decrease in:		
Other receivables	-	1
Amounts due from LMI	(2,368)	(627)
	(2,368)	(626)
Changes in operating liabilities		
Net increase/(decrease) in:		
Other payables due to CB PLC	10	-
Other payables	(5)	2
Other payables	5	2

	Intercompany Loans	Subordinated loan	Total
	£'000	£'000	£'000
At 30 September 2020	4,727,834	12,218	4,740,052
Cash flows:			
Redemptions	(1,312,876)	(12,212)	(1,325,088)
Non-cash flows:			
Movement in accrued interest	(233)	(6)	(239)
At 30 September 2021	3,414,725	-	3,414,725
Cash flows:			
Issuances	700,000	41,702	741,702
Redemptions	(1,375,069)	-	(1,375,069)
Non-cash flows:			
Movement in accrued interest	1,015	76	1,091
At 30 September 2022	**2,740,671**	**41,778**	**2,782,449**

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.2 Related party transactions

The Company had intercompany transactions with fellow Programme company LMI and the Sponsor of the Programme, CB PLC. The transactions with these related parties are disclosed below.

Transactions during the year	**2022**	2021
	£'000	£'000
LMI		
Proceeds from Intercompany Loans drawn	**700,000**	-
Principal repayments made on Intercompany Loans	**1,375,069**	1,312,876
Interest expensed on Intercompany Loans	**45,892**	31,461
Deferred consideration expensed	**2,317**	3,320
CB PLC		
Principal movement in deemed loan	**(613,870)**	(1,248,741)
Interest earned on deemed loan	**48,581**	34,936
Cash management fee expensed	**100**	100
Proceeds from subordinated loan drawn	**41,702**	-
Principal repayments made on subordinated loan	**-**	12,212
Interest expensed on subordinated loan	**373**	11
Other expenses recharged from CB PLC	**11**	5

Balances at the end of the year	**2022**	2021
	£'000	£'000
LMI		
Intercompany Loans payable	**(2,740,671)**	(3,414,725)
Expense contribution receivable	**51,387**	49,019
Deferred consideration payable	**(46,385)**	(44,068)
	(2,735,669)	(3,409,774)
CB PLC		
Deemed loan	**2,688,914**	3,302,571
Subordinated loan payable	**(41,778)**	-
Balance in current accounts	**63,250**	82,035
Other payables due to CB PLC	**(11)**	(1)
	2,710,375	3,384,605

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk

Introduction and overview

The principal activity of the Company is to hold a beneficial interest in a deemed loan with CB PLC. The Company received Intercompany Loans from LMI to fund the acquisition of the deemed loan. Therefore, the role of financial assets and financial liabilities is central to the activities of the Company; the financial liabilities provide the funding used to invest in the deemed loan, which represents the Company's principal financial asset. Financial assets and liabilities provide the majority of the assets and liabilities of the Company.

In addition to the investment in the deemed loan, and the drawdown of the Intercompany Loans, the Company has also entered into basis swaps. These are used to manage the interest rate risk associated with the mismatch between the fixed and floating interest generated by the deemed loan and that paid on the Intercompany Loans.

The strategies used by the Company in achieving its objectives regarding the use of financial instruments were set when the Company entered into the series issuance transactions, such as aligning the cash flow profiles of the Intercompany Loans with the receivables under the deemed loan. The Company has attempted to match the properties of its financial liabilities to its assets in order to avoid significant elements of risk generated by mismatches of maturity and interest rate risk.

The Intercompany Loans are initially recognised at the value of the net proceeds received and are carried at amortised cost. The amounts repaid to LMI (being the provider of the Intercompany Loans) in respect of these Intercompany Loans will depend on the proceeds from the underlying mortgage loans within the deemed loan.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework which is in line with the Programme documentation.

This note presents information about the Company's exposure to risk, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are provided below.

Credit risk

Credit risk is the risk of the financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's deemed loan.

The Company limits its exposure to credit risk by investing only with counterparties that have a suitable credit rating as defined in the Programme documentation. Credit risk is reduced in respect of the Intercompany Loans by establishing a reserve fund to meet shortfalls. The risk of default on the deemed loan is borne by the ultimate Noteholders.

Maximum exposure to credit risk

The carrying amount of financial assets, excluding investments, represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2022	2021
	£'000	£'000
Deemed loan	**2,688,914**	3,302,571
Reserve funds	**62,004**	76,867
Other assets	**51,388**	49,020
Cash and cash equivalents	**26,664**	30,456
	2,828,970	3,458,914

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk (continued)

Maturity analysis of assets and liabilities

The following tables represent a breakdown of the Company's balance sheet according to the contractual maturity of the assets and liabilities. Maturity analysis of the deemed loan and Intercompany Loans has been based upon these being redeemed at the step-up date.

	2022						
	Call	**3 months or less**	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets							
Investment in subsidiary	**-**	**-**	**-**	**-**	**-**	**13**	**13**
Deemed loan	**-**	**417,149**	**572,285**	**1,396,806**	**302,674**	**-**	**2,688,914**
Reserve funds	**-**	**-**	**-**	**-**	**-**	**62,004**	**62,004**
Other assets	**-**	**1**	**-**	**-**	**-**	**51,387**	**51,388**
Cash and cash equivalents	**26,664**	**-**	**-**	**-**	**-**	**-**	**26,664**
	26,664	**417,150**	**572,285**	**1,396,806**	**302,674**	**113,404**	**2,828,983**
Liabilities							
Intercompany Loans	**-**	**425,179**	**583,300**	**1,423,692**	**308,500**	**-**	**2,740,671**
Subordinated loan	**-**	**10,398**	**31,380**	**-**	**-**	**-**	**41,778**
Other liabilities	**-**	**12**	**-**	**-**	**-**	**46,385**	**46,397**
Current tax liability	**-**	**-**	**2**	**-**	**-**	**-**	**2**
	-	**435,589**	**614,682**	**1,423,692**	**308,500**	**46,385**	**2,828,848**

	2021						
	Call	3 months or less	3 months to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Investment in subsidiary	-	-	-	-	-	13	13
Deemed loan	-	85,455	1,071,346	2,145,770	-	-	3,302,571
Reserve funds	-	-	-	-	-	76,867	76,867
Other assets	-	1	-	-	-	49,019	49,020
Cash and cash equivalents	30,456	-	-	-	-	-	30,456
	30,456	85,456	1,071,346	2,145,770	-	125,899	3,458,927
Liabilities							
Intercompany Loans	-	88,357	1,107,728	2,218,640	-	-	3,414,725
Other liabilities	-	6	-	-	-	44,069	44,075
Current tax liability	-	-	2	-	-	-	2
	-	88,363	1,107,730	2,218,640	-	44,069	3,458,802

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk (continued)

Liquidity and funding risk

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due at acceptable cost.

The Company's obligation to LMI is limited to the net proceeds receivable under the deemed loan and any available reserve funds. Should the net proceeds be insufficient to make all payments due in respect of a particular tranche of Intercompany Loans, the other assets of the Company will not be available for payment and the deficit is instead borne by LMI and the swap counterparty according to established priorities.

Cash flows payable under financial liabilities by contractual maturity

The following is an analysis of gross contractual cash flows payable under financial liabilities. Liquidity analysis of Intercompany Loans has been based upon these being redeemed at the step-up date.

				2022			
	Call	**3 months or less**	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Intercompany Loans	**-**	**443,672**	**673,316**	**1,573,172**	**314,996**	**-**	**3,005,156**
Subordinated loan	**-**	**11,038**	**33,115**	**-**	**-**	**-**	**44,153**
Other liabilities	**-**	**12**	**-**	**-**	**-**	**46,385**	**46,397**
Current tax liability	**-**	**-**	**2**	**-**	**-**	**-**	**2**
	-	**454,722**	**706,433**	**1,573,172**	**314,996**	**46,385**	**3,095,708**

				2021			
	Call	3 months or less	3 months to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Intercompany Loans	-	92,219	1,132,326	2,248,134	-	-	3,472,679
Other liabilities	-	6	-	-	-	44,069	44,075
Current tax liability	-	-	2	-	-	-	2
	-	92,225	1,132,328	2,248,134	-	44,069	3,516,756

The balances in the cash flow tables above will not agree directly to the balances in the balance sheet as the table incorporates all future cash flows, on an undiscounted basis, related to both principal and interest.

The Company's exposure to liquidity risk is mitigated by matching the combined repayment profile of the deemed loan and the basis swap with the repayment profiles of the Intercompany Loans.

Interest rate risk

Interest rate risk comprises the sensitivity of the Company's current and future net interest income to movements in market interest rates. The Company is exposed to interest rate risk, as its interest expense is linked to Daily Compounded SONIA, whilst its interest income originates from its beneficial interest in a pool of mortgages at various fixed and floating rates. To mitigate this, the Company has entered into basis swaps.

The basis swaps transform the basis of the interest received on the deemed loan to match the basis of the interest on the Intercompany Loans. As the notional of the swap is set to match the notional of the Intercompany Loans the risk has been fully mitigated. Therefore, any change in interest rates would not affect the statement of comprehensive income of the Company.

Prepayment risk

Prepayment risk is the risk that the deemed loan may be realised earlier than it is possible to redeem the liabilities. This may arise due to redemptions of mortgage loans in the underlying pool. In the event that mortgage loans are redeemed sooner, the prepayment proceeds are distributed in accordance with the Programme documentation and additional mortgage loans are assigned to the pool as required.

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk (continued)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems or from external events. All administration functions have been outsourced by the Company to reputable organisations with strong operational risk controls.

Climate risk

The potential impact of climate related risks on the Company's financial position and performance has been considered in preparing the financial statements.

This involved undertaking an assessment at a Group level over the assets (both financial and non financial) and evaluating whether the observable effects of physical and transitional risk of climate change would have a material impact on the financial position and performance in the current year. The inherent risks and uncertainties in quantifying the effect of climate change in the financial statements are significant and more likely to impact in the medium to long term. Consequently, the Company does not consider there to be a material impact of climate change in these financial statements.

4.4 Events after the balance sheet date

There have been no significant events between 30 September 2022 and the date of approval of the annual report and financial statements which would require a change to or additional disclosure in the financial statements.