Annual report and financial statements

Lannraig Master Issuer PLC

For the year ended 30 September 2021

Company Number: 07454283

Lannraig Master Issuer PLC

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For the year ended 30 September 2021

Contents

Officers and professional advisers

Directors	Justin Fox Intertrust Directors 1 Limited Intertrust Directors 2 Limited
Secretary	Intertrust Corporate Services Limited
Registered office	1 Bartholomew Lane London EC2N 2AX
Independent auditors	Ernst & Young LLP 144 Morrison Street Edinburgh EH3 8EX

Strategic report

The Directors of Lannraig Master Issuer PLC (the "Company") present their strategic report for the year ended 30 September 2021.

Principal activities and business structure

The Company is a Special Purpose Vehicle ("SPV") which was established as part of Clydesdale Bank PLC's ("CB PLC") Lannraig Residential Mortgage Backed Securities Programme (the "Programme"). The Programme was established primarily for the purpose of raising wholesale funding for the Programme Originator ("Originator") CB PLC.

The Company is incorporated under the Companies Act 2006 as a public limited company and registered in England and Wales. It is a wholly owned subsidiary of Lannraig Holdings Limited ("LaHL"), the immediate parent entity, which is incorporated under the Companies Act 2006. The ultimate controlling entity is Virgin Money UK PLC ("VMUK PLC"). VMUK PLC and its subsidiary undertakings, which include CB PLC, comprise the VMUK PLC Group. Further detail of the group structure is disclosed in note 1.1.

The principal activity of the Company is the issuance of limited recourse class A and class Z Residential Mortgage Backed Loan Notes (the "Notes"), under the Programme, for onward lending to Lannraig Funding Limited ("LaFL"). The Notes in issue have a legal maturity date due December 2069. The class A Notes are listed on the London Stock Exchange. The proceeds of the Notes were advanced via Global Intercompany Loans ("Intercompany Loans") to LaFL who applied the proceeds to acquire interests in a pool of buy-to-let mortgage loans held on trust by Lannraig Trustees Limited ("LaTL").

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/securitisation-lannraig/.

Financial analysis

During the year the Programme issued no new Notes or associated Intercompany Loans. There were scheduled repayments of £72m on the 2018-1 1A Notes and 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 borrowers under the underlying mortgage loans in the Trust Property or Originator 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 CB PLC in respect of the deemed loan or applicable reserve funds are available.

The Company receives income from the Intercompany Loans, in line with the requirements of the Notes. Under the terms of the Programme, the Company is entitled to retain a pre-determined profit balance. For the year ended 30 September 2021 this equated to £4,800 (2020: £4,800). Additional income required to meet the pre-defined profit balance accrues from LaFL as deferred consideration of £806,000 (2020: £668,000). Deferred consideration is described in note 1.4 to the financial statements.

The combined performance of the receipts under Intercompany Loans and payments made on the Notes has been in line with expectations.

Key performance indicators ("KPIs")

The Company's Directors are of the opinion that analysis using KPIs would not enhance 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, LaHL, which also forms part of the Programme. CB PLC is the originator 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 to issue Notes under the Programme. The Directors continue to monitor the economic environment and financial markets with regard to the further issuance of Notes. No changes in future activities are envisaged.

Whilst constructive macroeconomic trends such as increased consumer spending, gross domestic product growth and a house price index increase contributed to an improving economic picture for 2021, there is still uncertainty surrounding the removal of government support measures for customers such as the furlough scheme which may lead to adverse economic conditions in the short term.

There continues to be an appetite for a Scottish independence referendum, with the Scottish Government recently announcing that a new referendum could take place by 2023. The Company will continue to closely monitor developments.

Principal risks and uncertainties

The Company is exposed to changes in market variables such as floating rate interest obligations arising from the Notes issued. These risks are mitigated by the terms of the Intercompany Loans to LaFL and the limited recourse nature of the Notes issued. 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 assets are the Intercompany Loans and the risks associated are the potential impairments in the carrying value of the underlying assets which LaFL acquired and the floating rate interest obligations under the Notes 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 20 January 2022 and signed on its behalf by:

Helena Whitaker
For and on behalf of Intertrust Directors 1 Limited, Director
20 January 2022

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 30 September 2021.

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

Due to the nature of the securities which have been issued and the structure of the entity, the Company is largely exempt from the requirements of the Financial Conduct Authority pertaining to the Disclosure and Transparency Rules as detailed in DTR 7.1 *Audit committees* and 7.2 *Corporate governance statements* (save for the rule DTR 7.2.5 requiring description of the features of the internal control and risk management systems*),* which would otherwise require the Company to have an audit committee in place and include a corporate governance statement in the Directors' report. The Directors are therefore satisfied that there is no requirement for an audit committee or supervisory body entrusted to carry out the functions of an audit committee.

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

Profits and appropriations

The statement of comprehensive Income for the year is set out on page 11.

The Directors do not recommend the payment of a dividend for the year under review (2020: £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

There have been no appointments or resignations during the year.

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, an expense of £17,000 (2020: £10,000) was incurred to Intertrust Management Limited for the provision of corporate administration services including the 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 earned in respect of qualifying services provided to the Company. CB PLC has not recharged this Company for the cost of this service.

Company secretary

The Company Secretary during the year, and subsequently, was Intertrust Corporate Services Limited.

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.

Directors' report (continued)

Stakeholder engagement

In accordance with the Companies Act 2006 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this statement on pages 2-3 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.

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 (2020: £Nil).

Research and development costs

The Company does not undertake formal research and development activities.

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 3.7.

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 2021 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 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 ("EY LLP") has expressed their willingness to continue in office until the next annual general meeting ("AGM"). Pursuant to section 489 of the Companies Act 2006, a resolution for the reappointment of EY LLP will be proposed at the forthcoming AGM of the Company.

This report was approved by the Board of Directors on 20 January 2022 and signed on its behalf by:

Helena Whitaker
For and on behalf of Intertrust Directors 1 Limited, Director
20 January 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and 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;
- 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 financial position and financial performance;
- state whether IAS in conformity with the requirements of the Companies Act 2006, have been followed subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable; and
- make an assessment of the Company's ability to continue as a going concern and prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not 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 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 UK company law and regulations, the Directors are also responsible for preparing a strategic report, and Directors' report, that comply with that law and those regulations.

This statement was approved by the Board of Directors on 20 January 2022 and was signed on its behalf by:

Helena Whitaker
For and on behalf of Intertrust Directors 1 Limited, Director
20 January 2022

Independent auditor's report to the members of Lannraig Master Issuer PLC (continued)

Opinion

We have audited the financial statements of Lannraig Master Issuer PLC (the "Company") for the year ended 30 September 2021 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 below. 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 as applied to listed entities, 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

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 in conformity with the requirements of the Companies Act 2006, the Companies Act 2006, the UK Listing Rules of the London Stock Exchange, Market Abuse Regulations, Transparency Regulations, and Tax legislation.

We understood how the Company is complying with those frameworks by making inquiries of management and those charged with governance.

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 non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management and internal audit for their awareness of any known instances of non-compliance or suspected non-compliance with laws and regulations. We performed journal entry testing in order to detect instances of fraud. We also performed focused testing, as referred to in the Key Audit Matters section above.

The Company operates in the capital markets industry which is a regulated environment. As such, the Senior statutory auditor considered the experience and expertise of the engagement team to ensure that the team had appropriate competence and capabilities.

Overview of our audit approach

Key audit matters	• Performance and recoverability of the Intercompany loan, including the impact of COVID-19
Materiality	• Overall materiality of £7.0m which represents 1% of total assets

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to those charged with governance
Performance and recoverability of the intercompany loan, including the impact of COVID-19 Refer to Note 1.4 (page 17), Note 1.5 (page 18) and Note 3.1(page 21) of the Financial Statements. The Company is a special purpose vehicle within a securitisation structure. It exists to advance intercompany funding to Lannraig Funding Limited through the issuance of listed debt, which in turn then uses those funds to acquire a beneficial interest in a mortgage portfolio held by Lannraig Trustees Limited. The interest and capital repayments on the intercompany loan are required to be received by the Company in order to service its external debt. Due to the significance of the intercompany loan (representing 99% of total assets) and the associated interest and capital repayments which may also be impacted by the COVID-19 outbreak, we considered the performance and recoverability of the loan to be a key audit matter.	We walked through the process and relevant controls by which the Directors assessed the expected credit losses for the intercompany loan in order to understand the assessment performed. We independently evaluated this assessment, which involved the following procedures: • Considering the terms of the intercompany loan between Lannraig Master Issuer plc and Lannraig Funding Limited, including the potential for any expected loss events under the Lannraig programme. • Confirming that interest and principal repayments made during the period were recognised appropriately, completely and in accordance with the loan agreement. This included agreeing a sample of repayments to cash transactions in the period. • Examining the loan for any indicators of potential future losses, which involved looking through to the securitised mortgage loan portfolio from which intercompany loan repayments flow and assessing whether shortfalls in mortgage recoveries are expected. • Assessing the appropriateness of provisions for expected credit losses recognised by the Company and assessing the sufficiency and completeness of disclosures of the risk to the intercompany loan. • Assessing the ongoing impact of COVID-19 on the recoverability of the intercompany loan in respect of expected credit losses measurement. This involved evaluating management's COVID-19 assessment and reviewing the financial statement disclosures to determine whether they were consistent with management's assessment of the potential impact of COVID-19 on the Company and in accordance with the requirements of applicable accounting standards.	We concluded to those charged with governance that, based on the procedures performed, we were satisfied that the intercompany loan was not materially misstated as at 30 September 2021. We concluded that the financial statement disclosures in respect of the ongoing impact of COVID-19 are appropriate and in accordance with the requirements of applicable accounting standards.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £7.0m (2020: £7.7m), which is 1% (2020: 1%) of total assets. We believe that the use of total assets is appropriate since the entity is a special purpose vehicle that is structured to make a nominal profit, and so the most relevant aspect of the entity is its assets.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £5.3m (2020: £5.8m). We have set performance materiality at this percentage due to our previous experience as auditors of the Company, from which we concluded that there is a lower expectation of material financial statement misstatements due to the effective control environment and no material audit differences resulting from our prior period and current period work.

Our application of materiality (continued)

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the those charged with governance that we would report to them all uncorrected audit differences in excess of £0.4m (2020: £0.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

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 there is 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 period 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.

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, 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 directors' responsibilities statement set out 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 management.

- 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 in conformity with the requirements of the Companies Act 2006, the Companies Act 2006, the UK Listing Rules of the London Stock Exchange, Market Abuse Regulations, Transparency Regulations, and Tax legislation.
- We understood how the Company is complying with those frameworks by making inquiries of management and those charged with governance.
- 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 non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management and internal audit for their awareness of any known instances of non-compliance or suspected non-compliance with laws and regulations. We performed journal entry testing in order to detect instances of fraud. We also performed focused testing, as referred to in the Key Audit Matters section above.
- The Company operates in the capital markets industry which is a regulated environment. As such, the Senior statutory auditor considered the experience and expertise of the engagement team to ensure that the team had appropriate competence and capabilities.

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.

Other matters we are required to address

- We were appointed by the Company on 30 September 2008 to audit the financial statements for that period and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 14 years ending 30 September 2008 to 30 September 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

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
24 January 2022

Statement of comprehensive income
for the year ended 30 September

	Note	**2021**	2020
		£'000	£'000
Interest income	2.2	**7,652**	11,815
Interest expense	2.3	**(7,432)**	(11,654)
Operating income		**220**	161
Operating expenses	2.4	**(215)**	(156)
Profit before tax		**5**	5
Tax expense	2.5	**(1)**	(1)
Total comprehensive income attributable to equity holders		**4**	4

The notes on pages 15 to 31 form part of these financial statements.

Balance sheet
as at 30 September

	Note	2021 £'000	2020 £'000
Assets			
Intercompany Loans	3.1	**694,297**	766,297
Other assets	3.2	**6,046**	5,242
Cash and cash equivalents	3.3	**860**	959
Total assets		**701,203**	772,498
Liabilities			
Notes in issue	3.4	**694,136**	765,754
Other liabilities	3.5	**7,012**	6,693
Current tax liability		**1**	1
Total liabilities		**701,149**	772,448
Equity			
Share capital	3.7	**13**	13
Retained earnings		**41**	37
Total equity		**54**	50
Total liabilities and equity		**701,203**	772,498

The notes on pages 15 to 31 form part of these financial statements.

The financial statements were approved by the Board of Directors on 20 January 2022 and signed on its behalf by:

Helena Whitaker
For and on behalf of Intertrust Directors 1 Limited, Director
20 January 2022
Company No: 07454283

Statement of changes in equity

	Share capital	Retained earnings	Total
	£'000	£'000	£'000
Balance at 30 September 2019	13	33	46
Total comprehensive income for the year	-	4	4
Balance at 30 September 2020	13	37	50
Total comprehensive income for the year	-	4	4
Balance at 30 September 2021	**13**	**41**	**54**

The notes on pages 15 to 31 form part of these financial statements.

Statement of cash flows
for the year ended 30 September

	Note	2021 £'000	2020 £'000
Operating activities			
Profit before tax		**5**	5
Adjustments for non-cash movements included in profit before tax:			
Interest income	2.2	**(7,652)**	(11,815)
Interest expense	2.3	**7,432**	11,654
Adjustments to working capital:			
Changes in operating assets	4.1	**2**	5
Changes in operating liabilities	4.1	**319**	187
Tax paid		**(1)**	(1)
Net cash provided by operating activities		**105**	35
Investing activities			
Principal repayment of Intercompany Loans		**72,000**	72,000
Interest received on Intercompany Loans		**6,846**	11,379
Interest received on cash and cash equivalents		**-**	4
Net cash provided by investing activities		**78,846**	83,383
Financing activities			
Payment of transaction costs	4.1	**(126)**	(42)
Redemption of Notes	4.1	**(72,000)**	(72,000)
Interest paid on Notes		**(6,924)**	(11,849)
Repayment of start-up loan	4.1	**-**	(190)
Interest paid on start-up loan		**-**	(1)
Net cash used in financing activities		**(79,050)**	(84,082)
Net decrease in cash and cash equivalents		**(99)**	(664)
Cash and cash equivalents at beginning of year		**959**	1,623
Cash and cash equivalents at end of year	3.3	**860**	959

The notes on pages 15 to 31 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 as a public limited company and registered in England and Wales.

The immediate parent company is LaHL, a private limited company incorporated under the Companies Act 2006 and registered in England and Wales. The ultimate parent company is Intertrust Corporate Services Limited, a company incorporated and registered in England. Intertrust Corporate Services Limited does not consolidate the results of the Company.

CB PLC, a company incorporated under the Companies Act 2006 and registered in Scotland, is the Originator 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.

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 IAS in conformity with the requirements of the Companies Act 2006[1]. The financial information has been prepared under the historical cost convention.

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 Intercompany Loans with LaFL. It is the intention of the Directors of the Company to continue operations while the Programme remains commercially viable and it supports the funding and liquidity needs of the Group. Due to the limited recourse nature of the 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 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 income from LaFL

The deferred consideration income arises when the Company receives additional income from LaFL to provide for the expenses of the Company and meet the pre-defined profit level. The deferred consideration paid to the Company is paid in priority to the deferred consideration LaFL pays to the Programme Originator CB PLC as per the priority of payments in the Programme documentation. The income is included within interest income in the statement of comprehensive income and the balance is accrued as a receivable from LaFL and derecognised once settled.

[1] As the Company's accounting year straddles 31 December 2020, the date the UK ceased to be subject to EU law, the 2021 published financial reports are required to follow EU adopted IFRS from 1 October 2021, the Company will follow and refer 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. As at 30 September 2021, there were no material endorsement disparities between the UK and EU.

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 (1) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (2) 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.

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) Intercompany Loans

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

(f) Other assets

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

(g) 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.

(h) Notes in issue

The Residential Mortgage Backed Securities in issue comprise the Notes. The Notes are initially recorded in the balance sheet at the fair values of proceeds received net of any transaction costs. On subsequent reporting dates, the Notes are measured at amortised cost. The EIR has been calculated based on the assumption that the Notes will be fully redeemed on the step-up date.

The accrual for interest payable on the Notes is recognised unless the collectability of the income from the underlying assets in which the proceeds from the limited recourse Notes were invested is in doubt, in which case no interest expense is recognised as there is no obligation to pay interest to the Noteholders in those circumstances.

(i) Other liabilities

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

(j) 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.

(k) 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 12.

1.5 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IAS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues 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:

Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The valuation of these financial instruments is described in more detail in note 3.6.

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

1.5 Critical accounting estimates and judgements (continued)

Impairment of financial assets

At initial recognition, allowance is made for ECLs resulting from default events that are forecast 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 ECL 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 consider 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 Intercompany Loans are, by their construction, an instrument that incorporates credit enhancement. The interest due on the loans to related company 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 excess spread for a particular payment period is insufficient. ECLs for these loans would only therefore be recognised where the ECLs on the underlying assets were large enough that no credit enhancement remained, which is not currently the case. As at 30 September 2021 management judges ECLs to be immaterial and as a result no ECL disclosures are presented.

1.6 New accounting standards & interpretations

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

The Group has adopted a number of IASB pronouncements in the current financial year, none of which have had a material impact on the financial statements of the Company:

- amendments to IFRS 3 ‘Business Combinations’ issued October 2018 and effective for financial years beginning on or after 1 January 2020 This amendment revises the definition of a business and will assist in clarifying whether a transaction is an asset acquisition or a business combination; and
- amendment to IAS 1 and IAS 8 ‘Definition of Material’ issued in October 2018 and effective prospectively for financial years beginning on or after 1 January 2020. The amendments are intended to make the definition of material easier to understand and are not intended to alter the underlying concept of materiality in IASs. The concept of obscuring’ material information with immaterial information has been included as part of the new definition.

Early adoption - Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Following completion of the second part of the IASB’s two-phased project, amendments were issued in August 2020 (adopted for use in both the UK and EU in January 2021) and effective for financial years beginning on or after 1 January 2021. The Group has early adopted these Phase 2 amendments this year, applied from 1 October 2020.

The Phase 2 amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

There was no impact on amounts reported in current or prior years as a result of early adoption of the Phase 2 amendments as the Company early adopted the Phase 1 amendments last year and has no remaining items which are subject to the interest rate benchmark reform.

(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 (2020: £Nil). The corporate administrative duties of the Company have been outsourced to an external services provider, Intertrust Management Limited Refer to page 4 for details of Directors emoluments.

2.2 Interest income

	2021	2020
	£'000	£'000
Interest income on Intercompany Loans	**6,846**	11,143
Deferred consideration income	**806**	668
Interest income on cash and cash equivalents	**-**	4
	7,652	11,815

2.3 Interest expense

	2021	2020
	£'000	£'000
Interest expense on Notes	**6,846**	11,143
Amortisation charge (note 3.4)	**586**	510
Interest expense on start-up loan	**-**	1
	7,432	11,654

2.4 Operating expenses

	2021	2020
	£'000	£'000
Cash management fee	**100**	100
Other operating expenses	**115**	56
	215	156

During the year, the Company expensed £10,000 (2020: £11,000) 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 ("the Securitisation Regulations"), which is effective for accounting periods beginning on or after 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 £4,800 (2020: £4,800) as profit for the year ended 30 September 2021. This profit meets the definition of retained profits under the Securitisation Regulations and is taxable at the current taxation rate.

	2021	2020
	£'000	£'000
Tax expense comprises		
Current tax expense	**1**	1
The total charge can be reconciled to the accounting profit as follows:		
Profit before tax	**5**	5
Income tax expense calculated at standard UK tax rate of 19% (2020: 19%)	**1**	1
Income tax expense recognised in the statement of comprehensive income	**1**	1

The charge above has been calculated in accordance with the permanent regime for taxation of securitisation companies.

Since 1 April 2017, the statutory rate of UK corporation tax has been 19%. The previously enacted corporation tax reduction to 17% on 1 April 2020 was cancelled in the Budget of 11 March 2020, and a resolution effecting this passed by Parliament on 17 March 2020. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The change to the tax rate has no impact on the amount disclosed in the financial statements.

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

3.1 Intercompany Loans

The Company entered into a Global Intercompany Loan Agreement with LaFL, pursuant to which the Company advanced the total proceeds received from the issue of the Notes in intercompany loan tranches to LaFL.

	2021	2020
	£'000	£'000
Principal balance	**694,100**	766,100
Accrued interest receivable	**197**	197
	694,297	766,297

Series and class of Intercompany Loans	**Credit rating of associated Note**	**Initial principal amount**	**Interest**	**Margin**	**Step-up date**	**Adj margin**
		£'000				
2018-1 Class 1A	AAA Rated	450,000	SONIA	0.836%	21 August 2023	1.672%
2018-1 Class 2A	AAA Rated	250,000	SONIA	0.946%	21 August 2023	1.892%

Intercompany Loans linked to the class Z Variable Funding Notes (“VFNs”) are also in existence. These are reassessed at the point of each issuance and have a rate of Compounded Daily SONIA plus 0.90%.

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 in LaFL.

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 for the loan tranches is December 2069.

Movements in the underlying Notes during the year are further disclosed in note 3.4.

3.2 Other assets

	2021	2020
	£'000	£'000
Deferred consideration receivable	**6,042**	5,236
Other receivables	**4**	6
	6,046	5,242

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

3.3 Cash and cash equivalents

	2021	2020
	£'000	£'000
Cash and cash equivalents	860	959

The Company holds cash and cash equivalents in bank accounts with National Australia Bank and Citibank. The accounts have been established in the Company's name for the following purposes:

- to hold the Company's available principal and revenue receipts until each quarterly Note payment date;
- to apply proceeds to pay various creditors in accordance with the relevant priority of payments; and
- to retain the remaining balance as the Company's profits and paid up share capital.

3.4 Notes in issue

	2021	2020
	£'000	£'000
Principal balance	694,100	766,100
Unamortised transaction costs	(733)	(1,193)
Accrued interest payable	769	847
	694,136	765,754

Series and class of Notes	Credit rating	Currency	Initial consideration £'000	Interest	Margin	Step-up date	Adj margin
2018-1 Class 1A	AAA rated	GBP	450,000	SONIA	0.836%	21 August 2023	1.672%
2018-1 Class 2A	AAA rated	GBP	250,000	SONIA	0.946%	21 August 2023	1.892%

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 Compounded Daily SONIA plus 0.90%.

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

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

The proceeds from each issue and class of Notes have been applied to fund a specified loan tranche of the Intercompany Loans, as discussed in note 3.1.

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

3.4 Notes in issue (continued)

Movements during the year

2021 **Series and class of Notes**	**Principal balance brought forward**	**Notes issued**	**Notes redeemed**	**Principal balance carried forward**
	£'000	**£'000**	**£'000**	**£'000**
2018-1 Class 1A	**360,000**	**-**	**(72,000)**	**288,000**
2018-1 Class 2A	**250,000**	**-**	**-**	**250,000**
VFN 1 Class Z	**106,100**	**-**	**-**	**106,100**
VFN 2 Class Z	**50,000**	**-**	**-**	**50,000**
	766,100	**-**	**(72,000)**	**694,100**

2020 Series and class of Notes	Principal balance brought forward	Notes issued	Notes redeemed	Principal balance carried forward
	£'000	£'000	£'000	£'000
2018-1 Class 1A	432,000	-	(72,000)	360,000
2018-1 Class 2A	250,000	-	-	250,000
VFN 1 Class Z	106,100	-	-	106,100
VFN 2 Class Z	50,000	-	-	50,000
	838,100	-	(72,000)	766,100

Interest

Interest is payable quarterly in arrears. The payment of interest on the Notes is dependent on the receipt of income from the underlying loan tranches under the Intercompany Loans. If the Company does not receive income from the underlying loan tranches there is no obligation to pay interest to the Noteholders.

Redemption

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

Limited recourse and segregation of assets and liabilities

The Notes are limited in recourse to the underlying tranche of Intercompany Loans held pursuant to each class of Notes. Following enforcement of the Global Intercompany Loan Agreement against LaFL, there will be no other assets of the Company available to meet any outstanding claims of the Noteholders, who will bear any shortfall pro rata to their holding of Notes.

The Noteholders of each class therefore cannot claim against the assets of any other classes of Notes.

Unamortised transaction costs

	2021	2020
	£'000	£'000
Opening balance	**1,193**	1,851
Capitalisation of transaction costs	**126**	(148)
Amortisation charge (note 2.3)	**(586)**	(510)
Closing balance	**733**	1,193

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

3.5 Other liabilities

	2021	2020
	£'000	£'000
Amounts due to LaFL	**6,956**	6,640
Other payables	**56**	53
	7,012	6,693

3.6 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).

Fair value of financial instruments held at amortised cost

There are various limitations inherent in this fair value disclosure particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore 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 the 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.

	2021					2020				
			Fair value measuring:					Fair value measuring:		
	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
Intercompany Loans	**694,297**	**702,177**	-	702,177	-	766,100	759,130	-	-	759,130
Financial liabilities held at amortised cost										
Notes in issue	**694,136**	**702,760**	-	702,760	-	766,100	759,780	-	-	759,780

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

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

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

Transfers between levels during the year were as a result of a change in the underlying methodology.

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

3.7 Share capital

	2021	2020
	£	£
Issued, alloted and paid-up shares		
1 ordinary share - fully paid	**1**	1
49,999 ordinary share - £0.25 partly paid-up	**12,500**	12,500
	12,501	12,501

The entire issued share capital of the Company is held by LaHL.

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

4.1 Notes to the statement of cash flows

	2021	2020
	£'000	£'000
Changes in operating assets		
Net decrease in:		
Other receivables	**2**	5
Changes in operating liabilities		
Net increase/(decrease) in:		
Other amounts due to LaFL	**316**	213
Other payables	**3**	(26)
	319	187

Liabilities arising from financing activities

	Notes in issue	Accrued capital expenses [(1)]	Start-up loan	Total
	£'000	£'000	£'000	£'000
At 30 September 2019	837,802	190	190	838,182
Cash flows:				
Transaction costs	-	(42)	-	(42)
Redemptions	(72,000)	-	(190)	(72,190)
Non-cash flows:				
Movement in accrued interest	(706)	-	-	(706)
Other movement[(2)]	658	(148)	-	510
At 30 September 2020	765,754	-	-	765,754
Cash flows:				
Transaction costs	-	(126)	-	(126)
Redemptions	(72,000)	-	-	(72,000)
Non-cash flows:				
Movement in accrued interest	(78)	-	-	(78)
Other movement[(2)]	460	126	-	586
At 30 September 2021	**694,136**	**-**	**-**	**694,136**

(1) Accrued capital expenses are transaction costs associated with the issuance of Notes and the IBOR transition, which have not yet been invoiced and form a component of the total other payables balance.

(2) Other movement relates to the capitalisation and amortisation of transaction costs in relation to the issuance and modification of Notes.

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

4.2 Related party transactions

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

Transactions during the year	**2021**	2020
	£'000	£'000
LaFL		
Principal repayments received on Intercompany Loans	**72,000**	72,000
Interest received on Intercompany Loans	**6,846**	11,143
Deferred consideration received	**806**	668
CB PLC		
Notes redeemed	**72,000**	72,000
Interest paid on Notes	**6,846**	11,143
Principal repayments made on start-up loan	**-**	190
Interest paid on start-up loan	**-**	1
Cash management fee paid	**100**	100
Audit fee recharged from CB PLC	**10**	11

Balances at end of the year	**2021**	2020
	£'000	£'000
LaFL		
Intercompany Loans receivable	**694,297**	766,297
Deferred consideration receivable	**6,042**	5,236
Expense contribution payable	**(6,956)**	(6,640)
	693,383	764,893
CB PLC		
Notes in issue	**694,869**	766,947

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 the issuance of limited recourse Notes, under the Lannraig Programme, for onward lending to LaFL. Therefore, the role of financial assets and financial liabilities is central to the activities of the Company; the financial liabilities provide the funding advanced to LaFL, which are the Company's financial assets. Financial assets and liabilities provide the majority of the assets and liabilities of the Company.

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 Notes with the receivables under the Intercompany Loans. 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.

This ensures that if one series defaults, the holders of that series do not have the ability to claim other assets of the issuer, resulting in the issuer's bankruptcy and the default of the other series of Notes. The segregation criteria include the following:

- The Company is a bankruptcy remote structured entity.
- The Company issues separate series of debt obligations.
- Intercompany Loan tranches relating to any particular classes of Notes are held separate from the assets relating to any other classes of that series.
- Only the trustees are entitled to exercise remedies on behalf of the Noteholders.
- Each series of Notes is reviewed by a recognised rating agency prior to issuance regardless of whether it is to be rated or not.

The Notes are initially recognised at the value of the net proceeds received less issue costs and are carried at amortised cost. The ultimate amount repaid to the Noteholders of these Notes will depend on the proceeds from the relevant tranches of Intercompany Loans.

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 Intercompany Loans.

The Company limits its exposure to credit risk by investing only with counterparties that have a credit rating defined in the documentation of the relevant Note series. The risk of default on the Intercompany Loans is borne by the Noteholders of the relevant classes of Notes.

Maximum exposure to credit risk

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

	2021	2020
	£'000	£'000
Intercompany Loans	**694,297**	766,297
Other assets	**6,046**	5,242
Cash and cash equivalents	**860**	959
	701,203	772,498

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 Intercompany Loans and Notes has been based upon these being redeemed at the step-up date.

				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							
Intercompany Loans	**-**	**18,197**	**54,000**	**622,100**	**-**	**-**	**694,297**
Other assets	**-**	**4**	**-**	**-**	**-**	**6,042**	**6,046**
Cash and cash equivalents	**860**	**-**	**-**	**-**	**-**	**-**	**860**
	860	**18,201**	**54,000**	**622,100**	**-**	**6,042**	**701,203**
Liabilities							
Notes in issue	**-**	**18,750**	**53,943**	**621,443**	**-**	**-**	**694,136**
Other liabilities	**-**	**56**	**-**	**-**	**-**	**6,956**	**7,012**
Current tax liability	**-**	**-**	**1**	**-**	**-**	**-**	**1**
	-	**18,806**	**53,944**	**621,443**	**-**	**6,956**	**701,149**

				2020			
	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							
Intercompany Loans	-	18,197	54,000	694,100	-	-	766,297
Other assets	-	6	-	-	-	5,236	5,242
Cash and cash equivalents	959	-	-	-	-	-	959
	959	18,203	54,000	694,100	-	5,236	772,498
Liabilities							
Notes in issue	-	18,819	53,916	693,019	-	-	765,754
Other liabilities	-	53	-	-	-	6,640	6,693
Current tax liability	-	-	1	-	-	-	1
	-	18,872	53,917	693,019	-	6,640	772,448

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 the Noteholders of a particular class of Notes is limited to the net proceeds receivable under the related tranche of Intercompany Loans and any available reserve fund. Should the net proceeds be insufficient to make all payments due in respect of a particular series of Notes, the other assets of the Company will not be available for payment and the deficit is instead borne by the Noteholders according to established priorities.

Cash flows payable under financial liabilities by contractual maturity

The following are the gross undiscounted contractual cash flows of the financial liabilities. Liquidity analysis of Notes has been based upon these being redeemed at the step-up date.

				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**
Notes in issue	**-**	**19,665**	**59,906**	**631,481**	**-**	**-**	**711,052**
Other liabilities	**-**	**56**	**-**	**-**	**-**	**6,956**	**7,012**
Current tax liability	**-**	**-**	**1**	**-**	**-**	**-**	**1**
	-	**19,721**	**59,907**	**631,481**	**-**	**6,956**	**718,065**

				2020			
	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
Notes in issue	-	19,163	58,841	704,272	-	-	782,276
Other liabilities	-	53	-	-	-	6,640	6,693
Current tax liability	-	-	1	-	-	-	1
	-	19,216	58,842	704,272	-	6,640	788,970

The balances in the cash flow tables above do 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 repayments received on the Intercompany Loans with the repayment profiles of the Notes.

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

4.3 Management of risk (continued)

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 would be exposed to interest rate risk, to the extent that there is a difference between the amount of the interest-earning assets and the amount of the interest-bearing liabilities, or that the assets and liabilities mature or reprice on different schedules. To mitigate this risk the programme is structured so as to match asset and liability cash flows.

At the reporting date, the Company's interest-bearing financial instruments were as follows:

	2021	2020
	£'000	£'000
Floating rate instruments		
Intercompany Loans	**694,100**	766,100
Notes in issue	**(694,100)**	(766,100)
	-	-

Sensitivity analysis

The Company has mitigated any interest rate risk by matching interest receivable on the Intercompany Loans to that payable under the Notes. 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 underlying loans in the deemed loan, which allow LaFL to make Intercompany Loan payments, may be realised earlier than it is possible to redeem the liabilities. This may arise due to redemptions of mortgages 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.

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.

4.4 Events after the balance sheet date

There have been no significant events between 30 September 2021 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.