

HACIENDA NO.1 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Registered Number 12381717

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HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

COMPANY INFORMATION

DIRECTORS AND ADVISORS

P H Whitaker
Intertrust Directors 1 Limited
Intertrust Directors 2 Limited

INDEPENDENT AUDITOR

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

COMPANY SECRETARY

Intertrust Corporate Services Limited

REGISTERED OFFICE

1 Bartholomew Lane
London
England
EC2N 2AX

SOLICITORS

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present the strategic report of Hacienda No. 1 Limited (the "Company" or the "Issuer") for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a warehouse funding vehicle which holds beneficial interest in owner-occupied mortgage loans secured by first charge over residential mortgage properties in the United Kingdom. These are financed by the issuance of asset backed loan notes. The mortgage loans were purchased from Paratus AMC Limited (the "Originator"), which holds the beneficial interest in the portfolio of mortgage loans.

The Company's interest in the mortgage loans is represented by a deemed loan to the Originator as described in note 2.4 of the Accounting Policies (page 18).

Class	Issued	Balance at 31	Maturity Date	Interest rate
	£'000	Dec 2022 £'000		
Senior notes	£283,697	£191,905	March 2065	Compounded Daily SONIA + Margin
Junior notes	£31,019	£21,559	March 2065	9%
Total	£314,716	£213,464		

The notes are categorised in order of ranking as senior and junior notes.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Company is a warehouse funding vehicle which purchases beneficial interest in a portfolio of mortgage loans on a periodic basis from the Originator. These mortgages are expected to be sold to a securitisation vehicle as the Originator seeks to secure long term financing for the assets. On securitisation, the notes issued to finance these mortgages will be repaid.

The Company sought to mitigate the liquidity risk through agreeing priorities of payment with its creditors including the noteholders. Under the terms of the facility agreement, the loan notes are limited recourse obligations of the Issuer. Under the terms of its structure, the Company is required to make payments to the noteholders to the extent of cash available within the Company. Any losses incurred due to defaults by the borrowers and resultant cash shortages are absorbed by the junior noteholder which is also the residual interest holder according to the priority of payments as defined in the Company's structure.

The Directors do not anticipate any changes to the present level of activity or to the nature of the Company's business in the near future and will continue to purchase mortgage loans from the Originator using proceeds from the issuance of additional notes.

Since the end of last year, consumer price inflation has accelerated dramatically, especially the cost of energy. This trend is expected to continue for the foreseeable future. Recent economic instability in the UK coupled with the increase in inflation and cost of living influenced partly by economic factors as well as the conflict in Ukraine could have an impact on disposal income for households and in effect increase the credit risk for underlying borrowers. To date, borrowers of the Company have absorbed increased cost of living pressures, and the Company has only observed a minor increase in arrears. The Company is continuing to monitor carefully for an increase in payment stress among its borrowers. The Originator services arrears in-house and is well positioned to react promptly and appropriately to any increase in the incidence of payment difficulties in the mortgage book. More generally, the Originator has embarked on a project to ensure timely implementation of the new Consumer Duty regime launched by the Financial Conduct Authority.

Refer to note 2.1 for the going concern assessment and principal risks and uncertainties section relevant to the Company.

RESULTS AND DIVIDENDS

The Company's statement of profit or loss and other comprehensive income is set out on page 13 and reflects a profit on ordinary activities after taxation of £1k (2021: £1k). Cash flow hedge accounting was implemented during the financial year to manage fluctuations in the statement of profit and loss account as a result of changes in variable interest repayments on the notes due to changes in the variable interest rates. As such, other comprehensive income for the year amounted to £3,123k and has been classified as cash flow hedge reserve in the statement of financial position with an equity surplus of £3,126k. Further details are included in note 17. The Directors do not propose the payment of a dividend for the year-ended 31 December 2022 (2021: nil).

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

KEY PERFORMANCE INDICATORS

Given the nature of the business and current market conditions, the Directors' focus is on the management of assets and their performance. The Directors use a range of qualitative and quantitative indicators to monitor the performance of the Company which are reviewed at least quarterly. Additionally, management's focus on risks is outlined below and in note 3 to the financial statements.

Key financial performance indicators used by the Company included the following:

	2022	2021
Total value of loans purchased in the year (£'000)	262,082	249,356
Weighted average LTV	60%	54%
Number of loans in arrears	2	-
Value of loans in arrears (£'000)	542	-
Total value of loans sold (£'000)	317,013	-

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is a warehouse funding vehicle which has been structured to include excess collateral over the senior loan notes as well as a reserve fund so as to avoid, as far as possible, significant financial risks. Certain estimates in the financial statements are based wholly or in part on estimates or assumptions made by the Directors, taking into consideration the current market and economic conditions.

The net balance of the mortgage loans, presented as a deemed loan asset, as at 31 December 2022 was £195.0m (2021: £268.2m) (see note 13). All cash receipts from repayments of mortgage loans are used to repay liabilities to the loan noteholders and other creditors in accordance with the priority of payments as defined in the Company's structure. The outstanding balance of the senior notes at the end of the year was £191.9m (2021: £250.0m) (see note 16).

The Company's activities expose it to a number of risks and uncertainties as summarised below and discussed in more detail in the financial risk management section of this report in note 3. The Company is also exposed to operational risk which is detailed below.

OPERATIONAL RISK

Operational risk is the risk of financial loss or reputational damage resulting from inadequate internal processes and failures in relation to people and systems. The activities of the Company are strictly governed by the Facility Documents such as note issuance agreements which are designed to facilitate effective and efficient operations whilst managing the risk of failure to achieve business objectives. The Company does not have any employees and has entered into contracts with a number of third parties whose responsibilities are determined by the Facility Documents.

The Company's operations are managed by the originator (servicer), Paratus AMC Limited, which has established a thorough operational risk framework which includes an operational process library. The framework includes a business continuity plan designed to ensure that any breakdown in systems would not cause significant disruption to the business, which is updated, reviewed and tested regularly.

FINANCIAL INSTRUMENTS

The Company's operations are financed primarily by means of the loan notes. The Company issues such financial instruments to finance the acquisition of beneficial interest in a portfolio of mortgage loans. It is not the Company's policy to trade in financial instruments.

The primary risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The principal nature of such market risks is summarised below.

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

CREDIT RISK

Credit risk is the risk that the underlying borrowers or other transaction parties will not meet their obligations as they fall due. Recent economic instability in the UK coupled with the increase in inflation and cost of living influenced partly by economic factors as well as the conflict in Ukraine could have an impact on disposal income for households and in effect increase the credit risk for underlying borrowers.

The Company operates active debt management strategies should borrowers default. Debt management strategies include negotiating repayment arrangements, concessions, debt counselling and other forbearance options such as term extensions and temporary conversions to interest only. See note 3 for details.

The Company's principal business objective rests on the mortgage loan portfolio it purchased from the Originator (Paratus AMC Limited). Although the underlying mortgage loans are secured by first charges over residential properties in the UK, the Company considers the evaluation of a borrower's ability to service a loan according to its terms to be the principal factor in assessing the credit risk.

The Company's approach to the management of credit risk and the systems in place to mitigate that risk are described in note 3.1 to the accounts entitled "Credit Risk Management".

So far based on current default rates on mortgage portfolio, the Company has not experienced a significant increase in credit risk as a result of the cost of living crisis resulting from economic conditions in the UK coupled with the effects of the war in Ukraine. However, given the future economist outlook is so uncertain, management has adjusted the expected credit losses to include an overlay for any potential losses on the mortgage loans as a result of the increased cost of living crisis.

INTEREST RATE RISK

Interest rate risk arises on both fixed and variable loans. Funding of these assets is short term in nature as the assets are to be securitised. The funding is variable based on Compounded Daily SONIA (Sterling Overnight Index Average) for the Senior noteholders and as well as a Junior note issued to the originator at a fixed interest rate of 9%. Part of this risk is managed on a continuous basis through the use of interest rate swaps which is executed fortnightly and maintained within the tolerances set in the warehouse documentation.

Interest rate risk is managed through the use of interest rate swaps. The fixed rate assets are funded by variable rate mortgage backed loan notes. Interest rate risk is managed through the use of fixed for floating interest rate swaps. The Company has implemented hedge accounting during the year to mitigate the volatility in results as a result of changes in the fair value of interest rate swaps. Refer to note 2.13 for more details on the accounting policy.

Due to the setup structure of the Company, any losses are borne by the Originator to the extent of the Originator's interest, being both the residual interest holder as well as Junior noteholder. Excess losses will be borne by the other note holders in the hierarchy in an ascending order.

The Bank of England began publishing the daily SONIA Compounded Index as a replacement for GBP LIBOR. The Company's notes issued were referencing SONIA. The Company has notified customers of a rate change to BBR (bank base rate) for a few mortgages that were originally referencing LIBOR. This took effect from 1 April 2022.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments, should the actual cash flows from its assets differ from those expected.

The Company's assets (the deemed loan asset underpinned by mortgage loans) are financed principally by the issuance of the loan notes. The financing policy substantially reduces the Company's liquidity risk as the Company is expected to make repayments on the loan notes based on available funds on each IPD and upon securitisation of the mortgage assets. The Company also has a reserve fund in place to cover shortfalls in revenue payments to the noteholders in the order of priority.

The senior notes are subject to mandatory redemption upon securitisation of the underlying mortgage assets.

HACIENDA NO. 1 LIMITED
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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

FINANCIAL REPORTING RISK AND UNCERTAINTY

Accounting estimates in the financial statements are based wholly or in part on estimates, assumptions and judgements made by the Directors where not all necessary inputs are observable or where factors specific to the Company need to be considered. There is, therefore, a risk that they may be subject to change in future periods and that the accuracy of the calculations would be affected by unexpected market movements and/or, inaccuracies within the various models when compared to actual outcomes. Critical accounting estimates are set out in note 4 to the financial statements.

SECTION 172(1) STATEMENT

Section 172(1) of Companies Act 2006 requires the Directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the Company

As a warehouse funding vehicle, the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The Directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

With reference to the likely consequences of any decision in the long term, the Facility Agreement have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long-term view and in accordance with relevant Facility Agreement and applicable legislation.

The matters set out in subsections (b)–(f) have limited or no relevance to the Company for the following reasons:

- The Company has no employees;
- The Company has appointed various professional third parties to perform certain roles governed by the Facility Agreements;
- As a warehouse funding vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment; and
- The Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purposes.

SUSTAINABILITY REPORTING

During 2022 the Originator began scoping its strategy and considering the part it could play in supporting the transition to a low carbon economy and support the aims of the 2015 Paris Climate Agreement, the UK Government's net zero target, the Ten Point Plan for the Green Industrial Revolution and the Task Force on Climate-related Financial Disclosures recommendations.

Following the acquisition of the Originator/ Servicer by a subsidiary of Apollo Global Management, Inc, the Originator has during the second half 2022 engaged with its new owners to develop its own Sustainability and ESG strategy in order to support the aims of the aforementioned agreements, targets and initiatives.

This strategy is in the early stages of its development however work has been undertaken internally to form the basis of a sustainability (Climate change) strategy. A draft Climate Change risk assessment has been undertaken which has identified both physical and transition risks and the actions that need to be taken to develop the strategy including targets to be achieved backed by a strong governance and monitoring programme. This assessment sets out actions the Company will undertake and assessment of its risks in more detail and these actions will be undertaken during 2023.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

SUSTAINABILITY REPORTING (continued)

The draft Climate Change risk assessment shows that in relation to its portfolio of mortgage assets the Physical and Transition risks are limited. This has been assessed by undertaking the following:

- Mapping by UK postcode the concentration of properties over which the Company has security and transposing this on to a current map of the UK showing areas of potential flooding, coastal erosion and/or other climate issues such as subsidence. On reviewing insurance claim history and expected losses in the related post code areas there appeared to be no current impact of coastal erosion or flooding on any of the properties in the portfolio. The Originator/ Servicer will continue to monitor and review and make amendments in case of change in circumstances.
- Consideration has been given to the impact of the regulatory changes to the Minimum Energy Efficiency Standards and Energy Performance Certificate (EPC) requirements where rental properties will, from 1 April 2025 be required to have a minimum EPC rating of C with no negative impact noted so far and management will continue to review and monitor for any impact. New lending on BTL properties has seen a general improvement in the EPC ratings with ratings moving to an average of D. This is supported by BVA BDRG research showing that landlords purchasing properties are focusing on the purchase of properties with an A-C Rating and with the average costs of works to achieve an EPC standard of C that are consider is affordable.
- A review of delinquencies, lasting power of attorney (LPA) appointments/voluntary possession of BTL accounts has not shown any impactor trend relating to the pressure on landlords to improve properties to meet these regulatory requirements or from loss of rental as a result of changes in the letting market.

On the basis of the above, it is not considered necessary to adjust the level of expected credit losses in the Company, apply any management overlay or other adjustment to the IFRS9 outputs in respect of climate change.

On behalf of the board



P H Whitaker
For Intertrust Directors 1 Limited
Director

Date: 26 June 2023

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their annual report together with the audited financial statements of the Company for the above year ended 31 December 2022.

CORPORATE GOVERNANCE

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

The Facility Documents provide for 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.

DIRECTORS

The Directors who have served during the year ended 31 December 2022 and subsequently are set out below:

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
P H Whitaker

DIRECTORS' INDEMNITY

Qualifying third party indemnity provisions for the benefit of the Directors were in force during the year under review and remain in force as at the date of approval of the Directors' report and financial statements.

FUTURE DEVELOPMENTS

The future developments are disclosed in the Strategic Report on page 2.

FINANCIAL INSTRUMENTS

Financial instruments and related risks are disclosed in the Strategic Report on page 4.

DIVIDENDS

Dividends are disclosed in the Strategic Report on page 2.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, it discusses the principal risks and uncertainties it faces. Management has determined the period over which it has assessed the Company's ability to continue as a going concern to be up to June 2024 (12 months). Note 2.1 of the financial statements entitled "Basis of preparation" provides more detailed considerations on the going concern assumption.

COMPANY SECRETARY

Intertrust Corporate Services Limited acted as Company Secretary for the year ended 31 December 2022 and up to the date of signing of the financial statements.

ISSUE OF SHARES

The issued share capital consists of 1 fully paid ordinary share of £1 nominal value. The share capital was issued to Intertrust Corporate Services Limited.

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are discussed in note 22.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

Each of the Directors confirms that:

- (a) so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Ernst & Young LLP acted as auditors during the year ended 31 December 2022 and have expressed their willingness to continue in office and a resolution for their re-appointment as auditors will be proposed for passing as an Ordinary Resolution in accordance with section 485(4)(a) of the Companies Act 2006.

On behalf of the Board



P H Whitaker
For Intertrust Directors 1 Limited
Director
Date: 26 June 2023

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare Company financial statements for each financial year. Under that law the directors have elected to prepare the Company financial statements in accordance with UK-adopted international accounting standards ("IFRSs").

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 or loss of the Company for that period.

In preparing these Company 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 IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- in respect of the Company financial statements, state whether UK-adopted international accounting standards 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 Company 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, 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 included on the Company's website.

The Directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face.

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF HACIENDA NO. 1 LIMITED

Opinion

We have audited the financial statements of Hacienda No.1 Limited for the year ended 31 December 2022 which comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes 1 to 25, 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 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted 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.

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 until June 2024 (12 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.

HACIENDA NO. 1 LIMITED
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF HACIENDA NO. 1 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, 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 8, 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 entity 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 the Companies Act 2006 and direct tax regulation in the United Kingdom.
- We understood how the Company is complying with those frameworks by making inquiries of management, those charged with governance, and those responsible for legal and compliance matters. We corroborated our inquiries through review of meeting minutes of the Board and key correspondence received from regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud, and how management monitors these controls. We identified the risks of fraud in the loan loss provision for the mortgage portfolio and the effective interest rate calculation used for revenue recognition. Our procedures included challenging management on the assumptions and judgements made in determining these estimates. We also considered management's incentives and opportunities for fraudulent manipulation of the financial statements, including management override of controls, and determined that the principal risks were related to posting of manual topside journals to misstate reported results. We considered the appropriateness of journal entries recorded in the general ledger and evaluated the business rationale for significant and/or unusual manual journals.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved inquiries of those charged with governance and senior management as to their awareness of any non-compliance with laws or regulation, inquiring about the policies that have been established to prevent non-compliance with laws and regulations and inquiring about the Company's methods of enforcing and monitoring.

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.

HACIENDA NO. 1 LIMITED
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF HACIENDA NO. 1 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.

DocuSigned by:

Ernst & Young LLP

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Robin Enstone (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol

26 June 2023

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Interest income calculated using the effective interest rate method	7	8,552	6,139
Interest expense calculated using the effective interest rate method	8	(6,410)	(3,325)
Deferred consideration due to residual interest holders		1,346	(4,706)
Net interest income/ (expense)		3,488	(1,892)
Fees receivable and other income		92	103
Fees payable and other expenses		(175)	(66)
Net operating income/ (expense)		3,405	(1,855)
Net (losses)/ gains from derivative financial instruments		(2,741)	2,155
Administrative expenses		(418)	(248)
Impairment charge	11	(245)	(51)
Profit on ordinary activities before taxation		1	1
Income tax expense	12	-	-
Profit for the year	19	1	1
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax) in relation to cash flow hedges:</i>		3,123	-
Other comprehensive income for the year	20	3,123	-
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		3,124	-

All results are from continuing operations.

The notes on pages 17 to 41 form an integral part of these financial statements.

HACIENDA NO. 1 LIMITED
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STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	2022 £'000	2021 £'000
ASSETS			
Cash and cash equivalents		5,618	8,949
Trade and other receivables	14	14,212	2,488
Deemed loan asset	13	194,997	268,150
Derivative financial asset	17	2,928	1,977
Total Assets		217,755	281,564
LIABILITIES			
Trade and other payables	15	1,165	4,437
Loan notes	16	213,464	277,125
Total Liabilities		214,629	281,562
EQUITY			
Share capital	18	-	-
Retained earnings	19	3	2
Cash flow hedge reserve	20	3,123	-
Total Equity		3,126	2
Total Liabilities and Equity		217,755	281,564

The notes on pages 17 to 41 form an integral part of these financial statements.

The financial statements on pages 13 to 41 were approved by the Board of Directors on 26 June 2023 and were signed on its behalf by:



P H Whitaker
For Intertrust Directors 1 Limited
Director

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

STATEMENT OF CASH FLOWS
For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flow from operating activities			
Profit before taxation		1	1
Adjustments for non-cash items:			
Increase in loan impairment in the year	13	245	51
Net losses/ (gains) on derivative financial instruments (unrealised)		2,172	(2,500)
Effective interest rate (EIR) adjustment	13	720	-
Changes in operating assets / liabilities:			
(Increase)/ decrease in receivables	14	(11,724)	2,989
(Decrease)/ increase in payables	15	(3,272)	4,307
Net cash flows (used in)/ from operating activities		(11,858)	4,848
Cash flow used in investing activities			
Change in deemed loan asset due from group undertakings		72,188	(234,398)
Net cash flows used in/ (from) investing activities		72,188	(234,398)
Cash flows from financing activities			
Notes issuance		314,715	255,194
Repayment of notes		(378,376)	(17,883)
Net cash flows (used in)/ from financing activities		(63,661)	237,311
Net increase in cash and cash equivalent during the year		(3,331)	7,761
Cash and cash equivalents at start of the year		8,949	1,188
Cash and cash equivalents at 31 December		5,618	8,949
Additional Information			
Interest paid		6,079	4,493
Interest received		7,358	5,214

The notes on pages 17 to 41 form an integral part of these financial statements.

HACIENDA NO. 1 LIMITED
Company Registration No. 12381717

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

2022

	Note	Share Capital £'000	Retained Earnings £'000	Cash flow hedge reserve £'000	Total Equity £'000
Balance at 1 January 2022		-	2	-	2
Profit for the year	19	-	1	-	1
Other comprehensive income		-	-	3,123	3,123
Balance at 31 December 2022		-	3	3,123	3,126

2021

	Note	Share Capital £'000	Retained Earnings £'000	Cash flow hedge reserve £'000	Total Equity £'000
Balance at 1 January 2021		-	1	-	1
Profit for the year	19	-	1	-	1
Other comprehensive income		-	-	-	-
Balance at 31 December 2021		-	2	-	2

The notes on pages 17 to 41 form an integral part of these financial statements.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements

For the year ended 31 December 2022

1. REPORTING ENTITY

Hacienda No. 1 Limited is a company incorporated in the United Kingdom and registered in England and Wales under the Companies Act 2006. The Company's registered office and principal activities are set out on pages 1 and 2 respectively.

2. ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with UK-adopted international accounting standards.

Going concern

In determining the appropriate basis of preparation of the financial statements, the Directors considered whether the Company can continue in operational existence for the foreseeable future. Management has determined the period over which it has assessed the Company's ability to continue as a going concern to be up to June 2024 (12 months). The Directors have also considered significant factors affecting the going concern of the Company, and concluded that it is appropriate to adopt going concern basis, for the reasons set out below.

The Company, at the time of issuance of the Facility Documents, ensured that the maturity profile of the mortgage loans (deemed loan asset) it acquired and the notes issued were matched. The Company also sought to mitigate the liquidity risk through agreeing priorities of payment with its creditors including the noteholders. Under the terms of the Facility Documents, the loan notes are limited recourse obligations of the Issuer. If, and to the extent that, after the charged assets have been realised and the proceeds thereof have been applied in accordance with the applicable priorities of payments, the amounts recovered on realisation of the charged assets are insufficient to pay or discharge amounts due from the Issuer to the noteholders in full for any reason, the amounts will cease to be due and payable by the Issuer.

Increased cost of living

Directors also note the increased cost of living during the financial year which is attributable to recent economic factors as well as the conflict in Ukraine. As at the date of signing the financial statements, the Directors have not noted a significant impact on customers' ability to meet their monthly repayments. However, as noted below, any losses recognised resulting from customers inability to meet their principal repayments will be limited to the investments made by the note holders in order of the payment priorities set out in the Facility Documents. The Originator also maintains an active arrears management to ensure that defaulted loans are made current.

Other considerations

The loan notes are limited recourse obligations of the Issuer. This means the Company's capital repayment obligations to the note holders, in substance, is limited to the application of the capital receipts from the beneficial interest mortgage loans under the priority of payments as set out in the Facility Documents. The investors have no right to petition for insolvency proceedings against the Company in the event that the underlying assets are insufficient to repay the principal amount of the debt securities issued.

The ability of the Company to meet its revenue obligations such as interest payments to the noteholders and to meet its operating and administrative expenses is dependent principally on the performance of the beneficial interest in mortgage loans it owns. The Company's performance for the period and cash flow position are set out in the Company's statement of profit or loss and other comprehensive income, the Company's statement of financial position and the Company's statement of cash flows.

In the current year, the Directors have performed stress tests on downside scenarios of forecasts on "worse case" economic variables which were sourced externally and provide a more accurate estimate view of the economy, and have taken into consideration factors such as the impact of recent economic events such as upward trend of inflation on consumer price index on the economy. The results of these tests indicated that the Company is well placed to continue as a going concern for the next 12 months.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

ACCOUNTING POLICIES (continued)**BASIS OF PREPARATION (continued)****Going concern (continued)**

The Directors have also considered the probability of key transactions or other liquidity events both controllable and non-controllable and how they might impact the Company's liquidity position. The Directors determined the key non-controllable event to be an economic decline and a controllable liquidity event to be the effective arrears management system.

The Company has considered the potential impacts of climate change on the financial statements, including on key assumptions and estimates used in the valuation of reported assets and liabilities, and concluded that there are no material implications at this time. Impacts of climate change will remain under review by the Directors.

The Directors considered the factors discussed above and form the view that the Company:

- a) had sufficient credit enhancement built in to the structure of the Company (i.e. over-collateralisation, excess spread, junior notes and the liquidity facility), which ensures that the Company has sufficient liquidity to meet its obligations;
- b) loan notes maturity profile matches the deemed loan asset and loan notes are limited recourse obligations; and
- c) was able to operate effectively and maintain appropriate control and governance, and is expected to be able to continue to do so under a range of reasonable circumstances.

The Directors have identified no material uncertainties and were comfortable that for the period of the assessment (up to June 2024) the Company can continue to operate as a going concern.

For sustainability reporting, please refer to the strategic report for the steps undertaken by the Originator/ Servicer.

2.2. ACCOUNTING CONVENTION

The financial statements have been prepared on a historical cost basis except for revaluation of derivative financial instruments held at fair value as required by the applicable International Financial Reporting Standard (IFRS 9 – Financial Instruments recognition and measurement). See note 2.13 for further details on the hedge accounting policy.

2.3. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Great British Pound Sterling ("£"), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

2.4. DEEMED LOAN ASSET

The Company periodically purchases mortgages from Paratus AMC Limited (Originator). The residual interest associated with the transfer of the mortgage assets has been retained by Paratus AMC Limited and thus the mortgage assets do not meet the de-recognition criteria of IFRS 9 in Paratus AMC Limited. Accordingly, the Company accounts for the transaction as a deemed loan asset to Paratus AMC Limited as the loans are deemed not to have transferred to the Company for accounting purposes.

Significant economic risks and rewards associated with these mortgage loans remain with Paratus AMC Limited and as such, the Company recognises the principal and interest cash flows from the associated mortgage loans only as principal and interest on the deemed loan asset. The Company continues to recognise deferred consideration in accordance with the Facility Documents.

The deemed loan asset is initially recognised at the fair value of the mortgage assets plus directly related transaction costs, and is subsequently at amortised cost using the effective interest rate method. The fair value of the assets at the date of initial recognition represents the consideration paid by the Company to acquire the underlying assets.

Financial risks (including credit risk) and returns relating to the deemed loan asset are considered to be substantially the same as the risks and returns related to the underlying mortgage loan assets portfolio.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

ACCOUNTING POLICIES (continued)

2.5. DEFERRED CONSIDERATION DUE TO RESIDUAL INTEREST HOLDINGS

Under the terms of the mortgage sale agreement for the purchase of the mortgage assets, the Company has a liability to pay deferred consideration. Deferred consideration is accounted for on an accrual basis, being the best estimate of the liability due to the residual interest holders and calculated as the excess in the cash flows at the end of the waterfall, after reserving the required amount of retained profit in accordance with the trust agreement.

The amount due at the reporting date has been shown as an asset/ liability in the financial statements, which will be ultimately settled by payments of cash in accordance with the Mortgage Sale Agreement.

The charge to the Statement of Profit or Loss and Other Comprehensive Income has been disclosed separately as the Directors believe this gives a fairer view of the amounts due to the residual interests. Deferred consideration is distributable after all other obligations have been met.

2.6. INTEREST INCOME/EXPENSES CALCULATED USING EFFECTIVE INTEREST RATE

Interest income and expenses are recognised in profit or loss using the effective interest method. The 'Effective Interest Rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. The methodology applied is discussed in note 4.2.

IBOR reform became effective at the start of the financial year. Mortgage contracts that were initially referencing Libor as the contractual variable rate were converted to reference BBR and Sonia as the floating interest rates. The two benchmark rates are considered to be economically equivalent on transition. The SONIA yield curve adjusted for the average difference in rate between BBR and SONIA was used as the basis of estimating all future cash flows for the underlying mortgage assets commencing April 2022.

The IBOR reform Phase 2 amendments allow as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

2.7. FEES RECEIVABLE AND OTHER INCOME

Fees receivable and other income include administration fees and charges levied to customers which are not part of EIR.

Fees receivable and other income is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Income from these fees and other income is recognised in accordance with IFRS 15 Revenue from Contracts with Customers when the charges are levied on the basis of the point in time when qualifying event occurs.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

ACCOUNTING POLICIES (continued)

2.8. TAXATION

The Company has elected to be taxed as a securitisation company under the Taxation of Securitisation Companies Regulations 2006 ("the permanent regime"). Under the permanent regime, the Company will be taxed on an amount which, broadly, represents its net cash flows as determined by the Facility Documents. This is different from the basis on which the accounting profit is reported in these financial statements.

All differences between the Company's accounting profits and taxable net cash flows are therefore treated as permanent differences and, as no timing differences with future tax consequences arise, no deferred tax is required to be recognised.

Current tax is the expected tax payable or receivable on the taxable income or loss 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. For UK tax rates, 'substantively enacted' means that the Act or other measure legislating that rate has passed through all stages of reading by the House of Commons (i.e. the act has had its third reading).

2.9. MORTGAGE BACKED LOAN NOTES

The Company's main financial liabilities are mortgage backed loan notes (notes) accounted for at amortised cost in accordance with IFRS 9. These are measured at fair value at the date of issuance taking into account issue costs and are subsequently measured at amortised cost using the effective interest rate method. The notes are secured against the underlying mortgage assets. Refer to note 2.10 on Financial Instruments for more details.

2.10. FINANCIAL INSTRUMENTS – IFRS 9

Initial measurement of financial instruments

A financial asset or financial liability is initially measured at fair value plus, (except in the case of financial assets and financial liabilities recorded at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

Subsequent to initial recognition: Measurement categories of financial assets and liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost; and
- Fair Value through profit and loss account (FVPL)

The Company classifies and measures all its financial assets at amortised cost, except for derivatives which are measured at FVPL.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading.

Financial assets are classified on the basis of two criteria:

- The business model within which financial assets are managed; and
- Their contractual cash flow characteristics (whether the cash flows represent solely payments of principal and interest).

An assessment of the Company's business model for managing financial assets is fundamental to the classification of a financial asset. Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets are measured at Fair Value through Other Comprehensive Income (FVOCI) if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Other financial assets are measured at FVPL.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS – IFRS 9 (continued)

At the initial recognition of a financial asset, the Company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Company reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. Management assessed the business model of the Company as of incorporation on initial application of IFRS 9.

The Company classifies and measures all its financial assets at amortised cost.

Impairment.

An impairment loss is a reduction in the recoverable amount of an asset following initial recognition as a result of both past events and expected future events.

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments:

- Deemed loan asset; and
- Trade receivables.

Deemed loan asset

Expected credit losses are determined by projecting the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") for each future period and for each individual exposure in underlying mortgage portfolio. Weighted PD, weighted EAD and weighted LGD of underlying mortgage portfolio are assumed to be PD, EAD and LGD of deemed loan asset and are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This calculates an expected credit loss for each future period, which is then discounted back, using the original effective interest rate, to the reporting date and summed.

This calculation is undertaken for a number of the selected economic scenarios and probability weighted to produce the final loss allowance.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company recognises expected credit losses from default events expected within 12 months of the reporting date if credit risk has not significantly increased since initial recognition (Stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (Stage 2) or which are credit impaired (Stage 3).

Significant increase in credit risk "SICR": When determining whether the risk of default has increased significantly since initial recognition, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment. Deemed loan asset PD (being the weighted PD of underlying mortgage portfolio) as at initial recognition (securitisation date) is compared to PD at reporting date to determine significant increase in credit risk. Thresholds set for movements in score-based PDs that will result in a significant increase in credit risk is set to 75bps representing a doubling of the probability of default since origination PD. Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Definition of credit impaired assets: The Company defines a deemed loan asset as credit impaired, when it meets one or more of the following criteria:

- i. Quantitative criteria: The originator is more than 90 days past due on contractual payments (defaults).
- ii. Qualitative criteria: The originator is less than 90 days past due on contractual payments but is judged to be unlikely to pay, in circumstances such as bankruptcy or IVA (Individual Voluntary Arrangements).

An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria.

The Company assesses whether a financial instrument measured at amortised cost or FVOCI is credit impaired at each reporting date.

Forward-looking information

The Company's calculation of expected credit losses (ECL) incorporates the use of internal and external forward-looking information and key economic variables impacting credit risk and expected credit losses for each asset available as of each period end. This information is used to develop a base case economic scenario and other possible scenarios (downside/mild upside) that are weighted according to management judgement of each scenario's likelihood.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

ACCOUNTING POLICIES (continued)**FINANCIAL INSTRUMENTS – IFRS 9 (continued)**

The assessment of significant increases in credit risk considers forward looking macroeconomic data available as of 31 December 2022 through a management judgement process.

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

Renegotiated financial instruments are included in stage 3 as a significant increase in credit risk since initial recognition is assumed to have occurred.

Write-offs

A portion of deemed loan asset is written off when the Company determines that the underlying mortgage loan borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains.

Trade receivables

The Company has applied IFRS 9 simplified approach for impairment of trade and other receivables where life time losses are recognised for all trade receivables as against stage-based provision discussed above.

De-recognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ("OCI") is recognised in profit or loss. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

2.11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank account balances and deposits held with financial institutions. The cash balance can only be used according to the terms of the issue documents.

2.12. SEGMENTAL ANALYSIS

All activities occur in the United Kingdom and there is only one business segment. Accordingly, no segmental analysis has been provided.

2.13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments, in the form of interest rate swaps, are used by the Company to eliminate exposures to market fluctuations. These are measured at Fair Value through Profit and Loss "FVPL".

Interest rate swaps are used to manage the Company's exposure to interest rate movements on the external debt used to finance the Company's fixed rate mortgage portfolio, and when transactions meet the required criteria for documentation and hedge effectiveness, the Company applies cash flow hedge accounting.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

ACCOUNTING POLICIES (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedge Accounting

The Company designated its interest rate swap derivatives as hedging instruments in respect of interest rate risk in cash flow hedges. The cash flow hedges of interest rate risk arise from the Company's management of the interest rate risk inherent in its floating rate borrowings. This position arises naturally where fixed rate loans are funded with floating or variable rate borrowings.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is effective in offsetting changes in fair values of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured; and
- the hedge is assessed on an ongoing basis and determined to have been effective throughout the financial year.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Company adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income and accumulated under the heading of 'Cash flow hedge reserve', limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss, and is included in the 'Net losses from derivative financial instruments' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Furthermore, if the Company expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to the statement of profit or loss.

The Company discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is terminated. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time which remains in equity and is reclassified to profit or loss.

Ineffectiveness

The Company has identified the following possible sources of hedge ineffectiveness in its hedges of interest rate risk:

- the difference in maturity profile between the hedging instruments and hedged item as these may not always exactly match;
- the use of different discounting curves in measuring fair value changes in the hedged items and hedging instruments;
- derivative counterparties' credit risk which is not matched in the hedged item. This risk is minimised by selecting derivative counterparties with high quality credit rating as well as through collateralisation arrangements; or
- difference in the timing of interest payments on the hedged items and settlements on the hedging instruments.

The above-mentioned sources of ineffectiveness are minimised by the matching process, which seeks to match the terms of the items as closely as possible.

In addition to the hedge ineffectiveness described above, the Company will also be affected by the fair value movements of interest rate swap agreements which were entered into as part of the Company's interest rate risk hedging strategy, but failed to find a match in the hedges.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

ACCOUNTING POLICIES (continued)

2.14. PROVISIONS

Provisions are recognised where there is a present obligation as a result of a past event, it is probable that this obligation will result in an outflow of resources and this outflow can be reliably quantified. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the statement of financial position date, and are discounted to present value where the effect is material.

2.15. SHARE CAPITAL

Shares are classified as equity when there is no obligation to transfer cash or other assets.

3. FINANCIAL RISK MANAGEMENT

Financial risks (including credit risk) relating to the deemed loan asset are considered to be substantially the same as the risk related to the mortgage loans and as such the Directors consider it appropriate to disclose the risks associated with the mortgage backed loans.

The Company's financial instruments comprise of the deemed loan asset, derivatives, borrowings, cash and cash equivalents and various items such as receivables and payables, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations of holding the deemed loan asset. The main financial risks faced by the Company relate to credit risk, market risk (including interest rate) and liquidity risk.

3.1. CREDIT RISK MANAGEMENT

Borrowers whose mortgage loans are in default are subject to active arrears management procedures. The aim is to proactively manage the collection of overdue instalments by gaining an understanding of the customer's individual financial circumstances and future employment prospects to achieve sustainable solutions whilst minimising customer loss and maximising collections. The strategy includes negotiating repayment arrangements, concessions and debt counselling which start where statements of arrears letters have failed and will continue until legal action. If the agreed repayment arrangement is not maintained, legal proceedings may be taken and may result in the property being taken into possession. The Originator sells the repossessed property at market price and uses the sale proceeds, net of costs, to pay off the outstanding mortgage balances underlying the deemed loan asset.

Impairment losses are calculated based on the policy stated in note 2.10.

The tables on the following page(s) highlight the changes in risk profile of the beneficial interest in the underlying mortgages that support the deemed loan asset. There were no material changes to the Company's risk profile which required a change to its policies and procedures.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK MANAGEMENT (continued)****Underlying mortgage loan portfolio by Credit Category within Paratus AMC Limited (Originator)****2022**

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Prime	189,940	3,929	542	194,411
Near prime	-	-	-	-
Gross loan before provision	189,940	3,929	542	194,411
Loss provision				(322)
EIR adjustment				908
Net balance				194,997

2021

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Prime	264,808	1,584	207	266,599
Near prime	-	-	-	-
Gross loan before provision	264,808	1,584	207	266,599
Loss provision				(77)
EIR adjustment				1,628
Net balance				268,150

The credit categories above are based on the mortgage product criteria selected for borrowers based on their credit status and risk profile. The amounts presented are gross of impairment allowances. The Prime category comprises customers with a good credit quality while the Near Prime comprises borrowers with light adverse credit characteristics such as live County Court Judgment and/or self-certification of income.

Composition of the mortgage portfolio and related risks

The Directors note that circa 22% of the mortgage balances within the Company are interest only mortgages whereby only payments of interest are made for the term of the mortgage with the customer being responsible for repaying the principal outstanding at the end of the mortgage term. For existing interest only mortgages, a contact strategy is in place during the term of the mortgage and well ahead of the date of the maturity of the mortgage term to ensure that customers are aware of their obligations to repay the principal amount upon maturity of the mortgage and to discuss the customer's planned repayment strategy. Strategies are in place to assist customers and anticipate their needs and plan for repayment of the principal outstanding at maturity of the loan. This includes discussing a range of options with customers based on their individual needs and circumstances to create fair and sustainable outcomes.

An analysis of mortgage loan balances by repayment type is disclosed below.

	Gross loan balance		Weighted average LTV	
	2022	2021	2022	2021
	£'000	£'000	%	%
Interest only	42,208	75,782	51	47
Capital	152,203	190,817	72	67
Total	194,411	266,599		

Analysis of arrears performance of underlying mortgage loan portfolio

	2022	2021
	£'000	£'000
Not past due	192,991	266,211
Past due up to 1 month	878	388
Past due >3 <=6 months	98	-
Past due >6 <=9 months	444	-
Gross loan balance before provision	194,411	266,599

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK MANAGEMENT (continued)

An analysis of the indexed loan to value ratio ("LTV") of the mortgage loans is set out below. The LTV is indexed using the Land Registry House Price Index at 31 December 2022.

Analysis of LTV of underlying mortgage loan portfolio

	2022	2021
	%	%
Less than 50%	16	23
50-75%	45	56
75-90%	38	20
90-100%	1	1
Over 100%	-	-
Total	100	100

Weighted LTV by stage

	2022			2021		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
	%	%	%	%	%	%
Total	67	62	70	62	60	52

Forbearance arrangements in underlying mortgage loan portfolio

The Company sometimes makes concessions to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan forbore when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Asset Management Team. Forbearance agreements are where a special Arrangement to Pay ("ATP") has been agreed which differs to the Contractual Monthly Subscription ("CMS"). Contractual changes include special repayment arrangements such as Capitalisation and Term extensions. Where such arrangements are agreed, the borrower is managed by a separate section of the Asset Management Team until the loan account is considered cured to ensure that future payments are likely to occur. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before any concessions were given.

When any concessions have been agreed with the customer, the Company also reassesses whether there has been a significant increase in credit risk. The Company also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forbore, it will remain forbore for a minimum 12-month period.

In order for the loan to be reclassified out of the forbore category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The customer should have no overdue payments for a minimum 12 months

No gain or loss is recognised as a result of contractual changes or modifications to a customer's loan accounts or cash flows.

The Company does not have any loans with Court Suspend Order or Contractual Changes as at 31 December 2022 (2021: nil). The total provision relating to loans with forbearance arrangements as at 31 December 2022 is £nil (2021: £nil).

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Notes to the financial statements (continued)

For the year ended 31 December 2022

FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK MANAGEMENT (continued)

Geographic distribution of underlying mortgage loan portfolio

	2022	2021
	%	%
East Anglia	15	16
East Midlands	6	7
Greater London	23	22
North	2	1
North West	8	5
Scotland	4	-
South East	21	24
South West	6	8
Wales	2	3
West Midlands	8	10
Yorkshire & Humberside	5	4
Total	100	100

Deemed loan asset impairment provision

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions. Key management judgements include:

Significant Increase in Credit Risk:

When determining whether the risk of default has increased significantly since initial recognition, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience, risk indicators and credit risk assessment (refer to note 2.10 page 20).

Exposures are moved back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. Underlying assets must remain in stage 3 for a minimum of 12 months where they have been classified as stage 3 for reasons such as forbearance or court actions.

Default and credit impaired assets:

The Company defines a financial instrument as in default, when the borrower is more than 90 days past due on their contractual payments, repossessions, suspended court order in the last 12 months, asset expired term, customer going through bankruptcy, or IVA, or forbearance arrangement.

Forward-looking information:

The calculation of expected credit losses incorporates the use of forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Forecasts of these economic variables (the 'base economic scenario') are sourced externally and provide the best estimate view of the economy in the future.

The impact of these economic variables on the PD, EAD and LGD has been determined through statistical analysis to understand how the changes in these variables historically have affected default rates and the components of LGD and EAD.

The Company uses forecasts of GDP, HPI, unemployment and interest rates as part of the provisioning process. The following is a summary of the scenarios adopted as at 31 December 2022.

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK MANAGEMENT (continued)**

Scenario	Description	Probability of Occurrence
Mild Upside	This can be thought of as an alternative, more optimistic, base case scenario. In this scenario, the UK economy records growth of 1.4% in 2023 and 3% in 2024. The labour market still deteriorates in the near-term, as higher interest rates and lower real incomes take their toll on employment growth, but the unemployment rate recovers swiftly and falls back to its recent decade-low of 3.6% by late 2027. Supported by the turnaround in confidence, incomes and employment, residential house prices only see a mild fall in 2023-24 and recover thereafter. Inflation also accelerates further in the scenario, reflecting cost-push pressures from higher commodity prices and demand-pull forces from stronger demand, inducing the Bank of England to tighten policy faster than assumed in our baseline forecast. The Bank Rate reaches a peak of 5.25% by mid-2023 and converges to a lower terminal rate thereafter of 2.25%.	20%
Baseline	In the base case scenario, the GDP forecast has been revised downwards with contraction of 0.9% in 2023 reflecting the impact of more aggressive money tightening, a weaker global environment and a higher peak in inflation. Longer term forecast for growth to be in the region of 1.5% year on year. Given the downward growth revision and increased pressure on firms from tighter monetary policy and high energy prices, unemployment is expected to rise in the short-term peaking at 4.7% in late 2023. In the longer term the labour market is expected to recover with unemployment falling to the previous long-term average of 3.8%. The Bank of England remains focused on preventing high inflation becoming embedded however it will remain elevated in the near term and will unwind slowly. Softening labour demand leads to the expectation that the MPC will start slowing the pace of tightening and the Bank Rate peaks at 4% in 2023 before rate cuts are deployed in early 2024. House price growth to slow and tip into negative territory in 2023 as falling real incomes and higher interest rates take their toll, adding to the drag from stretched affordability. Correction in house prices in 2023-24 (11.5% peak-to-trough) with growth expected to resume in 2025 at around 2.5%.	50%
Downside	Under this scenario there is a global recession in the near term and risks of higher inflation and interest rates, weakening demand (both local and global) and supply chain disruptions. GDP falls over 5% start to trough as spending is scaled back. Many businesses operate at reduced capacity and unemployment remains high. GDP only returns to pre-pandemic levels in 2026. Unemployment sharply rises as jobs are cut and hiring plans are frozen. The Bank Rate increases sharply through 2024 to peak at over 7% early in 2025. To counter the downturn the MPC swiftly abandons its' tightening cycle and lowers the Bank Rate to reach a rate of 1.25% in mid 2026. Despite the reduced pressure from interest rates when compared to the base case forecast, lower incomes and increased unemployment introduce forced sellers into the residential property market. House prices will fall sharply, seeing a start-to-trough fall of around 23% not too dissimilar to the decrease seen in Global Financial crisis of 2008/09.	30%

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

FINANCIAL RISK MANAGEMENT (continued).

CREDIT RISK MANAGEMENT (continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios. The assessment of significant increases in credit risk takes forward-looking macroeconomic data into account through a management judgement process.

Modelling techniques:

Expected credit losses are determined by projecting the PD, LGD and EAD for each future period. These three components are weighted on a portfolio level, multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier period). This effectively calculates an expected credit loss for each future period, which is then discounted back to the reporting date and summed. The discount rate used in the expected credit loss calculation is the effective interest rate. This calculation is undertaken for each of the selected economic scenarios and probability weighted to produce the final loss allowance.

3.2 LIQUIDITY RISK

The Company's policy is to manage liquidity risk through pre-determined priority of payments. The financing policy substantially reduces the Company's liquidity risk as the Company is expected to make repayments on the loan notes based on available funds received from the deemed loan asset only, as noted in the strategic report on page 2. The notes are redeemed fully or in part upon securitisation. Therefore, there is deemed to be limited liquidity risk facing the Company as the loan note repayments are based on the repayments from the deemed loan asset once the underlying mortgage assets are securitised.

The Company has also entered into a Senior Note Issuance Facility Agreement with the senior noteholder which is subject to negotiation and amendment depending on the Company's liquidity requirements. As at 31 December 2022, the Company had a Note Issuance Facility of up to £250m (2021: £250m) of which £191.9m was utilised (2021: £250m) (representing notes issued to the senior noteholder) and £58.1m (2021: £nil) unutilised. The facility attracts an undrawn commitment fee of 0.5% per annum. The Company also has a reserve fund of £3.5m (2021: £4.7m). Since incorporation, the Company has managed its liquidity position to always to be sufficiently adequate to meet liabilities as they fall due.

3.3 INTEREST RATE RISK

Interest rate risk arises on the new loan originations which includes both fixed and variable loans.

Funding of these assets is short term in nature as the assets are temporarily warehoused to be subsequently securitised. The funding is variable based on Compounded Daily SONIA plus Margin as well as junior notes issued to the originator at a fixed interest rate of 9%.

Fixed interest rate risk is managed on a continuous basis through the use of fixed to floating interest rate swaps. Due to the setup structure of the Company, any losses are borne by the originator, being both the residual holder as well as junior noteholder.

Mortgage loans	2022		2021	
<u>Interest rate details for the year</u>	Average Interest Rate	% of Portfolio	Average Interest Rate	% of Portfolio
Fixed rate loans	4.3	86%	3.7%	80%
Variable rate loans	6.2	14%	3.5%	20%
		<u>100%</u>		<u>100%</u>
Notes	2022 Interest Rate		2021 Interest Rate	
Senior notes	Compounded Daily SONIA + Margin		Compounded Daily SONIA	
Junior notes	9%		9%	

The Company is a warehouse funding vehicle which has been structured in such a way as to avoid, as far as possible, significant financial risk.

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Notes to the financial statements (continued)

For the year ended 31 December 2022

FINANCIAL RISK MANAGEMENT (continued)

INTEREST RATE RISK (continued)

Due to the nature of the Company's business, a change in interest rate would not give rise to material changes to the underlying profit of the Company as the increase/decrease in net interest income would be fully passed on to the holders of the residual interest.

As mentioned in the strategic report, hedge accounting was implemented during the financial year. The nominal amount of derivative instruments and the designated portion subject to hedge accounting is reflected in the table below. Interest rates swaps that were initially referencing LIBOR were converted to reference SONIA as a result of the IBOR reform effective April 2022.

The following amounts represent the notional amount of interest rate swaps, and the related interest rate risks exposure as at 31 December 2022. It also shows the proportion of the notional amount of the swaps which were subject to hedge accounting as at 31 December 2022.

	£m	Average proportion of designated hedge
Compounded Daily SONIA	159.8	100%
Total/ Average	159.8	100%

3.4 CAPITAL DISCLOSURE

The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

It is the Company policy to distribute surplus cash as deferred consideration, whilst maintaining share capital and sufficient retained reserves in accordance with the trust agreement.

3.5 FAIR VALUE HIERARCHY

The valuation technique used to determine the fair values of the financial assets and financial liabilities are categorised as follows:

Level 1: valued by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: valued by reference to observable market data, other than quoted market prices.

Level 3: valuation is based on inputs other than observable market data.

Deemed loan asset

The deemed loan asset underpinned by a portfolio of mortgage loans is recorded at amortised cost. The fair value of deemed loan asset disclosed in note 13 is derived from inputs which are not quoted in active markets, hence classed as Level 3 fair value measurement. The model used to calculate the fair value of mortgage loans that underpin the deemed loan asset uses the discounted cash flow method, maximising the use of observable inputs where possible.

Derivative financial instruments

Derivative financial instruments are valued at each reporting date using a forward pricing model technique, where estimated future cash flows are discounted using an appropriate yield curve, performed by management's experts.

These valuations are based upon observable inputs other than quoted prices in an active market for an identical asset or liability, except for credit spread adjustments which are considered Level 3 inputs. The Level 3 inputs are not considered significant to the valuation of the instrument as a whole therefore the instruments are and accordingly classified as level 2. These are accounted for at fair value through profit or loss.

HACIENDA NO.1 LIMITED
Company Registration No. 12381717

Notes to the financial statements (continued)

For the year ended 31 December 2022

FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE HIERARCHY (continued)

Mortgage backed loan notes

The mortgage backed loan notes are not listed and the fair value as disclosed in note 16 is derived from inputs which are not quoted in an active market. Therefore, these are classed as Level 3 fair value measurement. In determining the fair value the income approach is used to estimate the cashflows which are then discounted to arrive at the fair value. This approach has been applied due to the nature of the financial instruments.

Cash and cash equivalents

Cash and cash equivalents are considered to be a close approximation to fair values as they have short term maturities.

Other receivables and payables

Other receivables and payables are accrued on an amortised cost basis that is considered to be a close approximation to fair values.

4 CRITICAL ACCOUNTING ESTIMATES

Accounting estimates in the financial statements are based wholly or in part on estimates, assumptions and judgements made by the Directors where not all necessary inputs are observable or where factors specific to the Company's holdings and investments need to be considered. There is, therefore, a risk that they may be subject to change in future periods and that the accuracy of the calculations would be affected by unexpected market movements, inaccuracies within the various models when compared to actual outcomes. The most significant of these are as follows:

4.1 IMPAIRMENT LOSSES ON DEEMED LOAN ASSET TO ORIGINATOR

The measurement of impairment losses under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows, cure rate (survival) and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors and changes which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime expected credit loss (LTECL) basis and the qualitative assessment
- Development of ECL models, including the various formulae and the choice of inputs, determination of associations between macroeconomic scenarios and, economic inputs, such as GDP, inflation, bank rate, unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- In instances where there is significant financial instability, and where considered appropriate to ensure that all market risks affecting expected credit losses have been taken into account, an additional overlay is introduced by management to cover any additional expected losses that the model may not predict
- Thresholds set for movements in score-based PDs that will result in a significant increase in credit risk is set to 75bps representing a doubling of the probability of default since origination
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models
- Probability of default and impaired assets curing from stage 3 ("PC")
- Estimation of recoverability rates for defaulted loans in stage 3.

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

CRITICAL ACCOUNTING ESTIMATES (continued)**IMPAIRMENT LOSSES ON DEEMED LOAN ASSET TO ORIGINATOR (continued)**

The Company has sensitised the ECL for increase and decrease in various estimates and assumptions included in impairment loss model. The impact of changes to key variables used in ECL calculation such as house price index "HPI", forced sale discount "FSD" and probability of cure "PC" or likelihood of survival are shown in the tables below:

2022

Scenario (change to variable by)	PC (Decrease)/ Increase in ECL £'000	Scenario (change to variable by)	HPI (Decrease)/ Increase in ECL £'000	FSD (Decrease)/ Increase in ECL £'000
+10%	(80)	+5%	(42)	65
+5%	(40)	+2%	(17)	25
+1%	(8)	+1%	(9)	13
-1%	8	-1%	9	(12)
-5%	40	-2%	18	(24)
-10%	80	-5%	47	(59)

2021

Scenario (change to variable by)	PC (Decrease)/ Increase in ECL £'000	Scenario (change to variable by)	HPI (Decrease)/ Increase in ECL £'000	FSD (Decrease)/ Increase in ECL £'000
+10%	(13)	+5%	(7)	12
+5%	(6)	+2%	(3)	5
+1%	(1)	+1%	(1)	2
-1%	1	-1%	1	(2)
-5%	6	-2%	3	(4)
-10%	13	-5%	8	(10)

4.2 EFFECTIVE INTEREST RATES

The effective interest rate is the rate that exactly discounts estimated future cash flows to the relevant instrument's initial carrying amount. The effective interest rate method calculates the amortised cost of a financial asset or financial liability (or a group of financial assets or liabilities) and allocates the interest income or interest expense over the expected life of the asset or liability. Calculation of the effective interest rate takes into account early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

In order to determine the effective interest rate applicable to loans and loan notes, an estimate must be made of the expected life of the related assets and liabilities and hence the cash flows relating to them. These estimates are based on data from historical patterns which are reviewed regularly and amended when considered necessary. The accuracy of the effective interest rate would therefore be affected by any differences between the actual borrower's behaviour and that predicted.

The IBOR reform Phase 2 amendments allow as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

A 25bps change in the market interest rate will have an annual impact of £122k in the EIR balance.

A 5% change in the weighted average life of the mortgages will have an impact of £114k in the statement of profit and loss.

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

CRITICAL ACCOUNTING ESTIMATES (continued)

4.3 HEDGE ACCOUNTING

The Company has applied hedge accounting and designated the hedge relationship as a cash flow hedge. The Company's accounting policies include significant accounting judgements and estimates in relation to the projected cash flows of mortgage prepayments. The hedge accounting model also includes estimates of future interest rates and the impact of the various assumptions on hedge effectiveness. See note 2.13 for detailed accounting policies

5 OTHER AREAS OF JUDGEMENT AND ESTIMATES

Fair value of deemed loan assets and loan notes

The fair value of the deemed loan underpinned by mortgage assets and loan notes is the price that would be received to sell the assets or paid to transfer the liabilities respectively in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities disclosed in the notes cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. Details of the fair value of the mortgage assets and the loan notes is disclosed in note 13 and 16 respectively.

6 ACCOUNTING DEVELOPMENTS

New and amended standards and interpretations

New accounting standards which came into effect during the period but had no significant impact on the Company's financial statements:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

New accounting standards which are coming into effect in the near future are:

- Definition of Accounting Estimates – Amendments to IAS 8
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Sale or Contribution of Assets between an investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16

Standards and amendments listed above which apply for the first time in 2022 and beyond have had no material impact on the financial statements. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

7. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD

	2022	2021
	£'000	£'000
Interest income from deemed loan asset	8,470	6,139
Other interest receivable	82	-
Total	8,552	6,139

8. INTEREST EXPENSE CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD

	2022	2021
	£'000	£'000
Interest expense on senior notes	4,605	1,898
Interest expense on junior notes	1,805	1,427
Total	6,410	3,325

9. EMPLOYEE INFORMATION

The Company has no employees and services required are contracted from related and third parties.

10. DIRECTORS' EMOLUMENTS

The Directors received no remuneration from the Company in respect of qualifying services rendered during the year ended 31 December 2022. See note 23 for fees paid or accrued to Intertrust Management Limited in respect of corporate services provided to the Company, including the provision of Directors.

11. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2022	2021
	£'000	£'000
This is stated after charging:		
Auditor's remuneration; statutory audit fees (excluding VAT)	18	17
Trustee fees	3	6
Net unrealised (gain) /losses on interest rate swaps	2,019	(2,534)
Net realised losses on interest rate swaps	552	379
Other cash flow hedge gains	170	-
Administration fees paid for servicing mortgage loans	281	171
Provision for impairment losses:		
- Movement in provision for impairment losses	245	51

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

12. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2022	2021
	£'000	£'000
(a) Analysis of tax charge for the year:		
Current Tax	-	-
Tax charge	-	-
	<hr/>	<hr/>
Effective tax rate	19%	19%
(b) Factors affecting current tax charge for the year		
Profit on ordinary activities before tax	1	1
Tax on profit on ordinary activities at the standard UK corporation tax rate of 19% (2021: 19%)		
Effects of:		
Accounting profit not subject to taxation	-	-
Tax on profits under SI 2006/3296	-	-
	<hr/>	<hr/>
Total tax charge	-	-

The actual tax charge is £190 (2021: £190). The numbers have been rounded for presentational purposes.

On 3 March 2021, it was announced that the UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This change in rate was enacted as part of Finance Act 2021 on 10 June 2021. Accordingly, from 1 April 2023, any future profits will be taxed at 25%.

The Company has elected to enter the permanent tax regime for securitisation companies. The Directors are satisfied that the Company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. The Directors are satisfied that the Company currently satisfies the conditions to be taxed under the permanent regime.

13. DEEMED LOAN ASSET

	2022	2021
	£'000	£'000
Gross carrying balance	194,411	266,599
EIR Adjustment	908	1,628
Loss provision	(322)	(77)
	<hr/>	<hr/>
	194,997	268,150

The EIR adjustment relates to the accretion of differences between the contractual interest rate and effective interest rate on mortgage assets underpinning deemed loan asset (see note 2.4).

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

DEEMED LOAN ASSET (continued)

An analysis of the gross carrying amount and the corresponding ECL allowances in relation to deemed loan asset is, as follows:

Deemed loan asset – Gross Carrying Balance	2022 Stage 1 and Total £'000	2021 Stage 1 and Total £'000
At 1 January	266,599	33,702
Deemed loan at purchase	188,153	238,573
New assets originated or purchased	(260,190)	(5,012)
Repayments	(151)	(664)
At 31 December	194,411	266,599

As discussed in notes 2 and 3, Financial risks (including credit risk) and returns relating to the deemed loan asset is considered to be substantially the same as the risks and returns related to the of underlying mortgage loan assets portfolio. As at 31 December 2022, the deemed loan is not in default and there are no indicators of significant increase credit risk (SICR) since origination, hence it is classified as a stage 1 / performing asset. Included in redemptions and write-offs in the table above is write-offs amounting to £533k (2021: £nil).

As set out in note 2.10 Financial Instruments, SICR was assessed by comparing deemed loan asset PD (being the weighted PD of underlying mortgage portfolio) as at 31 December 2022 with deemed loan asset PD as at initial recognition (securitisation date).

Deemed loan asset - ECL allowance / loss provision	2022 Stage 1 and Total £'000	2021 Stage 1 and Total £'000
At 1 January	77	26
New financial assets originated or purchased	315	22
Redemptions, write offs and disposals	(76)	(1)
Changes due to modifications that did not result in derecognition (other)	-	(13)
Model overlays	4	20
Changes to model and methodology	1	23
Other changes	1	-
At 31 December	322	77

At 31 December 2022 there were no properties in repossession (2021: £nil) which is included in the Deemed Loan Asset.

The Directors consider it appropriate to disclose the below analysis of the gross carrying amount and the corresponding ECL allowances in relation to the underlying mortgage loan portfolio, as the deemed loan asset is considered to carry substantially the same risks and returns.

The below tables are consistent with the records of the originator – Paratus AMC Limited.

Gross Carrying Balance – as Recorded by originator

2022	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Mortgage assets at 1 January	264,808	1,584	207	266,599
New mortgage assets originated or purchased during the year	185,629	2,080	444	188,153
Redemptions, write offs and disposals	(258,669)	(1,314)	(207)	(260,190)
Changes due to modifications that did not result in derecognition	(141)	(11)	1	(151)
Transfer between stages	(1,687)	1,590	97	-
At 31 December	189,940	3,929	542	194,411

HACIENDA NO.1 LIMITED
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Notes to the financial statements (continued)

For the year ended 31 December 2022

DEEMED LOAN ASSET (continued)

2021	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Mortgage assets at 1 January	31,136	2,453	113	33,702
New mortgage assets originated or purchased during the year	236,953	1,412	207	238,572
Redemptions, write offs and disposals	(5,011)	-	-	(5,011)
Changes due to modifications that did not result in derecognition	(658)	(6)	-	(664)
Transfer between stages	2,388	(2,275)	(113)	-
At 31 December	264,808	1,584	207	266,599

2022

ECL allowance / loss provision as recorded by originator	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
At 1 January	76	2	1	79
Transfer between stages	-	-	-	-
Redemptions, write offs and disposals	(74)	(1)	(1)	(76)
Changes to model and methodology	-	-	-	-
Changes to macro-economic variable assumptions	-	1	-	1
Other changes	1	-	-	1
New financial assets originated or purchased	225	21	72	318
Model overlays	(1)	5	-	4
At 31 December	227	28	72	327

2021

ECL allowance / loss provision as recorded by originator	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
At 1 January	16	4	7	27
Transfer between stages	-	-	(6)	(6)
Redemptions, write offs and disposals	(1)	-	-	(1)
Changes to model and methodology	22	1	1	24
Changes to macro-economic variable assumptions	(5)	-	-	(5)
Other changes	(2)	-	-	(2)
New financial assets originated or purchased	22	-	-	22
Model overlays	23	(3)	-	20
At 31 December	75	2	2	79

Model and Methodology: This relates to the additional modelled ECL recognised as a result of changes in the model and methodology. The model has remained largely unchanged from prior year.

Model Overlays: This relates to the net movement in management overlays recognised in addition to model outputs. The management overlays have been introduced with the ultimate objective of identifying any additional increases in credit risk. Factors driving these overlays include increased time from default to sale and the impact on LGD, additional overlays for probability of default given the current cost of living crisis as well as additional legal overlays.

Deemed loan asset maturity profile

	2022	2021
	£'000	£'000
Due in less than one year	2,993	4,102
Due in more than one year but not more than two years	2,993	3,963
Due in more than two years but not more than five years	9,778	17,980
Due in more than five years	178,647	240,554
	194,411	266,599

The fair value of the deemed loan asset as at 31 December 2022 is £192.8m (2021: £267.2m).

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Notes to the financial statements (continued)

For the year ended 31 December 2022

14. TRADE AND OTHER RECEIVABLES

	2022	2021
	£'000	£'000
Trade and other receivables	14,209	2,482
Prepayments and sundry receivables	3	6
Total	14,212	2,488

Trade and other receivables comprise of £14,212k (2021: £2,488k) due within one year and £nil (2021: £nil) due in more than one year and also include £14,197 (2021: £2,482k) of receivables from a related party, Paratus AMC Limited.

15. TRADE AND OTHER PAYABLES

	2022	2021
	£'000	£'000
Accruals	527	201
Other payables	638	4,236
Total	1,165	4,437

Other payables comprise of £1,165k (2021: £4,437k) due within one year and £nil (2021: £nil) due in more than one year and also include £638k (2021: £4,236k) payable to a related party, Paratus AMC Limited.

16. LOAN NOTES

	2022	2021
	£'000	£'000
Senior notes - mortgage backed	191,905	249,956
Junior notes due to a related party (Originator)	21,559	27,169
Total	213,464	277,125

Other creditors include amounts payable to a related party, Paratus AMC Limited.

Maturity profile of the senior mortgage backed loan notes inclusive of interest:

	2022	2021
	£'000	£'000
- Due within one year	8,236	6,153
- in more than one year but not more than two years	2,955	3,716
- in more than two years but not more than five years	9,652	16,858
- in more than five years	176,343	225,535
Total	196,186	252,262

Interest on all notes accrues daily based on the SONIA rate. The Company has never, since its incorporation, defaulted on payment of principal and interest on the Notes or any other terms of the Facility Documents.

The mortgage backed loan notes are secured over a portfolio of mortgage assets.

The fair values of the notes as at the end of the year are £192.5m (2021: £250.2m) for the senior and £25.6m (2021: £27.1m) for the junior notes respectively.

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Notes to the financial statements (continued)

For the year ended 31 December 2022

17. DERIVATIVE FINANCIAL INSTRUMENTS

Hedge accounting is applied predominantly for interest rate risk, which arises due to a mismatch between fixed interest rates and floating interest rates. In order to hedge these risks, the Company uses interest rate derivatives to swap the variable interest rate exposures into fixed rates.

The hedged item creates an interest rate exposure through the quarterly interest payments of Compounded Daily SONIA.

The Company has designated the benchmark interest rate (SONIA or the "Risk-Free Rate") as the component of interest rate risk. Using the benchmark interest rate risk results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship. SONIA is considered the predominant interest rate risk and therefore the hedged items change in fair value on a fully proportionate basis with reference to this risk.

As mentioned in note 2.13 under the hedge accounting section, the hedging instruments share the same risk exposures as the hedged items. Hedge effectiveness is determined with reference to quantitative tests, predominantly regression testing, but to the extent hedging instruments are exposed to different risks than the hedged items, this could result in hedge ineffectiveness or hedge accounting failures. An analysis of derivatives is set out below:

	2022
	£'000
Derivatives in accounting hedge relationships (cash flow hedges)	
- Interest rate swaps asset	2,928
Total derivative asset	2,928

Accounting impacts

Movements affecting the cash flow hedge relationships in the year/period are set out below.

	2022
	£'000
<i>Hedging Instrument (derivative financial liability)</i>	
Weighted average hedged rate	3.46%
Notional principal	159,768
Change in fair value of hedging instrument used in calculating hedge ineffectiveness	3,141
<i>Hedged Item (hypothetical derivative)</i>	
Notional principal	159,718
Change in fair value of hedged item in the year used for ineffectiveness measurement	3,123
Cumulative ineffectiveness component gain being any excess of the 'Hedged instrument gains' over 'Hypothetical derivative (losses)'	18

The hypothetical derivative is GBP Compounded Daily SONIA floating to fixed interest rate swap constructed on designation date to model the change in the present value of the Floating Rate Loan notes.

The table below summarises the amounts which have affected the statement of profit or loss as a result of the cash flow hedges described above.

	2022
	£'000
Net realised losses from interest rate swaps	569
Net movement in interest rate swaps accruals	(18)
Net unrealised (gain) /losses on interest rate swaps	2,019
Other losses on interest rate swaps	189
Cumulative ineffectiveness component loss	(18)
Net losses from derivative financial instruments	2,741

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Notes to the financial statements (continued)

For the year ended 31 December 2022

DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The net unrealised gain arising in the year of £933k and the net realised loss of £551k have been recognised directly in the statement of profit or loss and other comprehensive income. Numerical disclosures are set out below. Additional disclosures are set out in note 3 Financial Risk Management.

The net aggregate notional principal amount of the outstanding interest rate swap contracts at 31 December 2022 was £159.8m.

The derivative financial instruments are disclosed in the statement of financial position at fair value. They are not traded on an active market; therefore, their fair value is obtained using valuations provided by third parties as at the reporting date.

We have sensitised the fair value of interest rate swaps for an increase or decrease in Compounded Daily SONIA by 200 basis points and noted that the fair value of interest rate swaps as at 31 December 2022 would decrease by £8.9m and increase by £8.3m respectively.

Compounded Daily SONIA is based upon currently observed overnight rates from actual transactions, which are published at the end of the overnight borrowing period.

Derivative financial instruments maturity profile	2022 £'000
Due in less than one year	1,159
Due in more than one year but not more than two years	1,362
Due in more than two years but not more than five years	594
	<u><u>3,115</u></u>

18. CALLED UP SHARE CAPITAL

	2022	2021
	£	£
Issued allotted and fully paid	-	-
1 ordinary share of £1	<u>-</u>	<u>-</u>

All shares carry equal voting, dividend and capital distribution rights. There are no specific restrictions attached to these shares.

The issued share capital consists of 1 fully paid ordinary share of £1 nominal value, issued on incorporation.

19. RETAINED EARNINGS

	£'000
At 31 December 2020	1
Profit after tax for the year	1
At 31 December 2021	<u>2</u>
Profit after tax for the year	1
At 31 December 2022	<u><u>3</u></u>

The underlying distributable reserves as depicted in the Facility Documents are £2,228 (2021: £1,417).

20. CASH FLOW HEDGE RESERVE

	2022 £'000
Other comprehensive income	3,123
At 31 December 2022	<u><u>3,123</u></u>

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Notes to the financial statements (continued)

For the year ended 31 December 2022

21. CAPITAL COMMITMENTS

There were no outstanding capital commitments as at 31 December 2022 (2021: nil).

22. EVENTS AFTER THE REPORTING DATE

There are no subsequent events after the reporting date as at the date of approving the financial statements.

23. RELATED PARTY TRANSACTIONS

Paratus AMC Limited is a related party to the Company due to it being the servicer and Originator of the mortgage loans.

During 2022, the Company incurred an amount of £0.28m (2021: £0.17m) payable to Paratus AMC Limited for administering the Company's mortgage loans. The deferred consideration and interest on junior notes incurred for the year ended 31 December 2022 is £1.35m (2021: £4.71m) and £1.81m (2021: £1.43m) respectively. The total net amount due to Paratus is £8.0m (2021: £28.92m) all of which is unsecured. Mortgage assets of £195.3m (2021: £268.2m) are held with Paratus on a deemed loan basis as they do not meet the derecognition criteria under IFRS 9.

During the year fees of £17,582 (2021: £25,927) were paid or accrued to Intertrust Management Limited in respect of corporate services provided to the Company, including the provision of Directors.

24. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2022.

25. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

Intertrust Corporate Services Limited, a wholly owned subsidiary of Intertrust Management Limited, holds the entire share capital of the Company on a discretionary trust basis for charitable purposes.

In accordance with IFRS 10 Consolidated Financial Statements, the Directors consider that Paratus AMC Limited has effective control over the Company. This is due to the fact that Paratus AMC Limited is exposed to and has rights to variable returns from its involvement in the Company and has the ability to affect those returns through its delegated power over the business of the Company.

The Company's financial statements are therefore consolidated within the financial statements of Paratus AMC Limited. Paratus AMC Limited is the parent undertaking of the largest Company of undertakings to consolidate these financial statements at 31 December 2022. Copies of financial statements for consolidated Paratus AMC Limited may be obtained from the Company Secretary at its registered office at No. 5 Arlington Square, Downshire Way, Bracknell, Berkshire, RG12 1WA.