

Registration number: 14128888

Datil Funding Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2023

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Datil Funding Limited

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Datil Funding Limited

Company Information

Directors

Mark Filer

LDC Securitisation Director No.1 Ltd

LDC Securitisation Director No.2 Ltd

Company secretary and registered office

Law Debenture Corporate Services Ltd

8th Floor

100 Bishopsgate

London

EC2N 4AG

Company number

14128888

(England and Wales)

Independent auditor

Deloitte LLP

Statutory Auditor

4 Brindley Pl

Birmingham

B1 2HZ

Bankers

Barclays Bank

Citigroup Centre

Level 11

1 Churchill Place

London

E14 5HP

Datil Funding Limited

Strategic Report for the year ended 31 December 2023

Introduction

The Board of Directors (the "Board") present their Strategic Report of Datil Funding Limited (the "Company") for the year ended 31 December 2023.

Principal activities and business review

The Company was incorporated as a special purpose vehicle on 24 May 2022 to act as a warehousing vehicle for residential mortgages and as a procurer of financing for this activity. Its principal activity is to acquire mortgage loans secured on residential properties located in England and Wales. Loans are acquired from UK Mortgage Lending Limited (formerly Optimum Credit Limited) ("UKMLL" - the Originator), recognised as the Company's controlling party in accordance with IFRS 10 - Consolidated Financial Statements. UKMLL is also the Seller of mortgage loans acquired by the Company.

The beneficial ownership of the underlying loans and advances to customers sold to the Company by the Originator fail the derecognition criteria in IFRS 9 - Financial instruments, because all the risks and rewards of ownership are still retained by UKML. This is because, UKML acquired the Class C Notes from the Company and, also retains the right to receive any residual interest from the mortgages. Consequently, these loans remain on the Statement of Financial Position of the Seller. IFRS 9 therefore requires the Seller to recognise a Deemed loan financial liability on its Statement of Financial Position, and the resulting Deemed loan financial asset is held on the purchasing company's Statement of Financial Position.

The Loan notes are listed on the Vienna Stock Exchange.

The Directors do not anticipate any changes to the present level of activity, or the nature of, the Company's business in the foreseeable future. The loss incurred in the current period is primarily due to the change in the fair value of the financial derivative.

Results

The Statement of Comprehensive Income of the Company is set out in page 18 and shows a loss of £210,786 for the period (2022: Profit of £212,795). The Company is reporting a net asset position of £2,009 (2022: £212,296).

Key performance indicators ("KPI")

The Mortgage Loans (being the primary assets of the Company are accounted for as a Deemed loan) are secured by second charge over residential properties in England and Wales. As such, credit risk is monitored and managed on a regular basis through preparation and review of monthly investor reports which are reviewed in detail by senior management.

As at 31 December 2023 there were no loans in arrears greater than 1 month (2022: 69 loans).

The Directors have not identified any other KPIs to disclose.

Datil Funding Limited

Strategic Report for the year ended 31 December 2023 (continued)

Principal risks and uncertainties

There are a number of internal and external risks and uncertainties that could have a material impact on the Company's performance and could cause actual results to differ materially from previous or expected results. The Company is also exposed to credit risk, liquidity risk, interest rate risk and market risk. The principal nature of such risks is summarised below and quantified in note 15 of the financial statements.

Liquidity risk

Liquidity risk reflects the risk that the Company will encounter difficulty in raising funds to meet commitments when they fall due.

Mortgage loans are financed principally by the issuance of Loan notes. The financing policy substantially mitigates the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the assets being funded. In addition, the Company is able to defer the payment of interest on non-class A Loan notes (classes B, C, D, E and L) should there be insufficient available revenue funds. The liability faced by the Company reduces each month since the notes are subject to mandatory redemption at each interest payment date ("IPD") in an amount equal to the principal received or recovered in respect of the mortgage loans underlying the Deemed loan.

Credit risk

Credit risk reflects the risk that the counterparties (underlying mortgage borrowers or other transaction parties) will not meet their obligations as they fall due. The primary financial asset of the Company is Deemed loan asset with beneficial interest in underlying mortgage portfolio.

Credit risk on the Deemed loan asset is partly mitigated by the Originator and Seller applying a strict underwriting criterion which is set out in transaction documents and partly mitigated by the credit enhancement provided by the Originator including junior notes, and additional funding for accounts in default etc. The Company's approach to the management of credit risk and the systems in place to mitigate the risk are described in note 15.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. There is then the possibility that changes in interest rates will result in higher financing costs or reduced income from the Company's interest-bearing financial assets and liabilities. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

Interest rate risk arises on fixed rate mortgages as these assets are funded by variable mortgage backed Loan notes. Interest rate risk is managed through the use of interest rate swaps. Refer to note 15 of the financial statements.

Datil Funding Limited

Strategic Report for the year ended 31 December 2023 (continued)

Climate risk

Climate change creates financial risks that are far-reaching in breadth and scope through two primary channels: the physical effects of climate change and the impact of changes associated with the transition to a net zero emissions economy.

The strategy in respect of climate risk is determined by the Company's controlling party and considers areas in which climate change could impact the business as well as uncertainty around the time horizon over which climate risks will materialise.

At present, the Directors do not consider climate risk to be material to the Company.

Future business development and strategy

The Directors do not anticipate any change to the nature of the Company's business in the near future and will continue to finance mortgage loans acquired.

Datil Funding Limited

Strategic Report for the year ended 31 December 2023 (continued)

Directors' statement of compliance with Section 172(1) of the Companies Act 2016

As an SPV 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:

(a) The likely consequences of any decision in the long term

The transaction documents 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 as disclosed in note 1 in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit;

(b) The interests of the Company's employees

The Company has no employees;

(c) The need to foster the Company's business relationships with suppliers, customers and others

The Company is a securitisation vehicle and fosters its relationships with suppliers and others via professional third parties who have been assigned operational roles with their roles strictly governed by the transaction documents and fee arrangements agreed in advance. The Company has no customers;

(d) The impact of the Company's operations on the community and the environment

As a securitisation vehicle the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment;

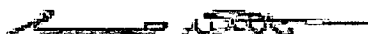
(e) The desirability of the Company maintaining a reputation for high standards of business conduct

The Company maintains a reputation for high standards of business conduct via professional third parties who have been assigned operational roles. Fee arrangements have been agreed in advance and supplier invoices paid strictly in accordance with the transaction documents including a priority of payments, if applicable; and

(f) The need to act fairly as between members of the Company

The Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purpose.

This report was approved by the Board and signed on its behalf by:



Mark Flier

Director

Date: 28 June 2024

**Emma White representing
L.D.C Securitisation Director No. 1 Limited as Director**

Datil Funding Limited

Directors' Report for the year ended 31 December 2023

The Directors present their report and the financial statements for the year ended 31 December 2023. For the Directors' disclosures in relation to future developments and financial risk management please see the Strategic Report on page 2 to 5.

The Company previously prepared financial statements in accordance with IFRS, for the year ending 31 December 2023, the Company has elected to prepare the financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The financial statements are prepared on the historical cost basis.

Principal activity

The Company is a special purpose vehicle established to act as a warehousing vehicle for residential mortgages and as a procurer of financing for this activity. Its principal activity is to acquire mortgage loans secured on residential properties located in England and Wales from UK Mortgage Lending Limited (UKMLL the "Seller"). All activities of the business are performed in England and Wales.

The beneficial ownership of the underlying loans and advances to customers sold to the Company by the Originator fail the derecognition criteria in IFRS 9 - Financial instruments, because all the risks and rewards of ownership are still retained by UKML. This is because, UKML acquired the Class C Notes from the Company and, also retains the right to receive any residual interest from the mortgages. Consequently, these loans remain on the Statement of Financial Position of the Seller. IFRS 9 therefore requires the Seller to recognise a Deemed loan financial liability on its Statement of Financial Position, and the resulting Deemed loan financial asset is held on the purchasing company's Statement of Financial Position.

Review of business

The Company is a special purpose vehicle set up to acquire and fund a portfolio of residential mortgages loans in England and Wales. The mortgage loans in the portfolio are secured by freehold or leasehold properties. The properties are charged as security for the repayment of the respective mortgage loans. The Company purchases the mortgage loans from UK Mortgage Lending Limited ("UKMLL" - the "Seller"), a Company being registered in England and Wales. Pepper (UK) Limited has been engaged to act as the Servicer of the portfolio.

Results for the period and dividends

The results for the period are set out on page 18. The Company has a surplus on Shareholders' funds of £2,009 as at 31 December 2023, mainly driven by the change in fair value of derivatives (2022: £212,796). Total Comprehensive Loss for the financial period was £210,786 (2022: Profit £212,795). The Directors do not recommend the payment of a dividend.

Called up share capital

There were no allotted, called up and paid Ordinary share of £1 each in issuance at the end of the year (2022: 1).

Directors and Company shareholdings

The Directors, who held office during the year, were as follows:

Mark Filer

LDC Securitisation Director No.1 Ltd

LDC Securitisation Director No.2 Ltd

Datil Funding Limited

Directors' Report for the year ended 31 December 2023 (continued)

Law Debenture Corporate Services Ltd was appointed Company secretary on 24 May 2022 and continued to act as secretary for the year ended 31 December 2023.

The Company does not have any employees.

Directors' interest in contracts

None of the Directors held any beneficial interest in the ordinary share capital of the Company during the period, nor did they have any material contracts or arrangements with the Company.

Third party indemnities

Adequate qualifying third-party indemnity provisions for the benefit of the Directors were in place during the period and remain in force at the date of this report.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors have assessed the likelihood the Company will be able to meet its debts as they fall due for the period of 12 months from signing of the financial statements (the "Going Concern Assessment"). The Going Concern Assessment included consideration of the uncertainty in the UK economy as a result of high interest rates and high inflation and their impact on the Company. Notwithstanding this, the Directors are confident that, with ongoing support from Pepper Global MidCo Limited, the business will have enough capital and liquidity to achieve business goals and be able to meet its debts as they fall due for the foreseeable future. The current facility agreement is due to expire within 12 months. If the facility is not renewed within the initial period, the agreement moves into the amortisation period, with no additional drawdowns allowed and loans repaid over the amortisation period. The Directors have noted as part of the Going Concern Assessment, that they have considered the Facility Agreement potential to be utilised over the next 12 months resulting in the Company remaining a going concern.

The Company is obliged to redeem the Loan notes at their principal amount outstanding upon maturity of the Deemed loan. However, due to the nature of the Loan notes, the Company's ability to pay amounts due on the Loan notes is, in substance, limited to the application of the receipts from the Deemed loan under the terms of the priority of payments as set out in the terms and conditions of the Loan notes.

It is the intention of the Directors of the Company to continue operations until such a time as the amounts due from the Deemed loan has been fully realised. Ultimately due to the nature of the Loan notes, any shortfall in the proceeds of the Deemed loan will be a risk to the holders of the Loan notes. If the proceeds from the Deemed loan are insufficient to pay amounts due to the note holders of the Loan notes, such amounts will cease to be due and payable by the Company.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Datil Funding Limited

Directors' Report for the year ended 31 December 2023 (continued)

Reappointment of auditors

Under section 487(2) of the Companies Act 2006, Deloitte LLP will be deemed to be re-appointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date for filing the accounts with the registrar, whichever is the earlier.

Political donations

The Company did not make any political or charitable donations or incur any political expenditure during the period (2022: £Nil).

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Please refer to page 5 of the Strategic Report for reference to Section 172(1) Statement.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 financial statements, International Accounting Standard 1 requires that Directors:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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 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.

This report was approved by the Board on and signed on its behalf.



Emma White representing
L.D.C Securitisation Director No. 1 Limited as Director

Date: 28 June 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DATIL FUNDING LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Datil Funding Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 18 .

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" .

2. 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was loan Impairment. Within this report, key audit matters are identified as follows: ⌞ Similar level of risk
Materiality	The materiality that we used in the current year was £512k (2022: £1,020k) which was determined on the basis of 1.5% of the average balance of deemed loan receivable.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There are no other significant changes in our approach compared to the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the Company's going concern assessment and challenging the key judgements made by the directors, by comparing the judgements to obligations stipulated in the securitisation transaction documents;
- reviewing the investor reports to identify any breaches of rating and non-rating based triggers that could have an impact on the Company's ability to continue as going concern;
- considering the limited recourse features of the senior class notes and the impact of this on the liquidity requirements; and
- assessing the appropriateness of the going concern disclosures made in the financial statements.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Loan Impairment <>

Key audit matter description	As disclosed in note 10 of the financial statements, the Company recognises a deemed loan receivable of £236,723 (2022: £68,007,022) from UK Mortgage Lending Limited ("UKMLL"), relating to mortgage loans in which the Company has acquired a beneficial interest but UKMLL has retained substantially all of the risks and rewards of ownership. The deemed loan receivable decreased significantly due to principal repayments during the year. The deemed loan receivable is measured at amortised cost as disclosed in notes 2.5 and 3.1 of the financial statements. The impairment assessment involves assessing the credit risk associated with the deemed loan receivable and therefore the recoverability of the underlying mortgages. This assessment considers the available credit enhancement provided by the residual noteholders which suffer any first loss incurred on the underlying mortgage loans in the case of a loss event. Given the degree of estimation involved in determining the impairment assessment, we also identified that there is a potential risk of fraud through possible manipulation of this balance. The value of the impairment at year end is £nil (2022: £nil).
How the scope of our audit responded to the key audit matter	In response to the key audit matter regarding loan impairment we have: • Performed walkthroughs of the business processes involved in the incurred loss calculation and obtained an understanding of the relevant controls in place; • Involved our credit risk specialists to evaluate Management's methodology for adherence with the technical requirements of the accounting standard and we also tested the underlying data used in the model; • Assessed performance of the underlying mortgages against the level of available credit enhancement; and • Performed a stand back assessment and assessed Management's aggregated judgements.
Key observations	Based on the evidence obtained, we conclude that the loan loss provisioning on the deemed loan asset is appropriate.

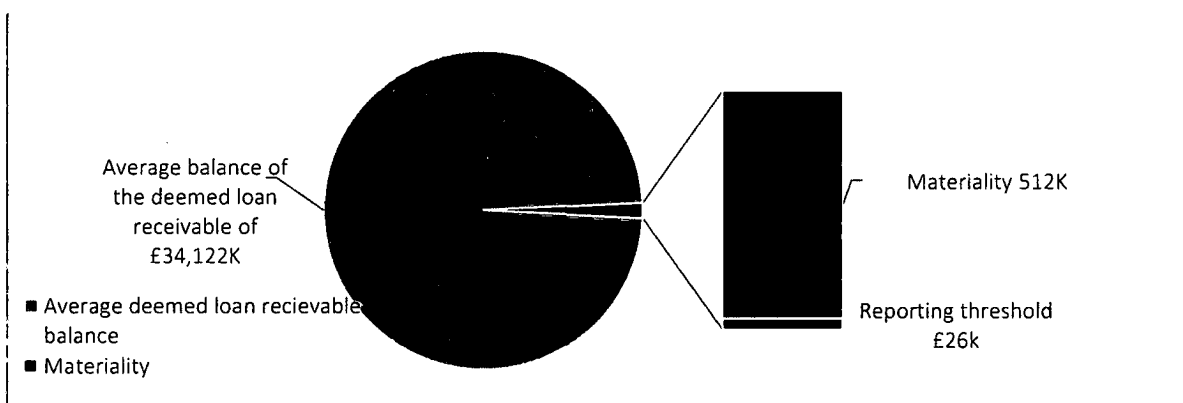
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£512k (2022: £1,020k)
Basis for determining materiality	1.5% of the average balance of deemed loan receivable (2022: 1.5% of the closing deemed loan receivable).
Rationale for the benchmark applied	The performance of the underlying pool of securitised assets is a key metric for the noteholders as the repayment to noteholders is driven by collections on the underlying portfolio. In the current year, we changed the basis from the closing balance to the average balance of the deemed loan receivable due to a significant drop in the closing deemed loan receivable balance.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Company's overall control environment;
- our past experience of other similar entities under the same management and governance; and
- the low level of uncorrected misstatements identified in previous years.

6.3. Error reporting threshold

We agreed with those charged with governance that we would report all audit differences in excess of £26k (2022: £51k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

We assessed the control environment including the use of service organisations. We performed walkthroughs with management to understand the process and relevant controls that address the risk of material misstatement in financial reporting.

7.3. Our consideration of climate-related risks

In planning our audit, we made inquiries of management to understand the extent of the potential impact of climate change risk on the entity's financial statements. Management concluded that there was no material impact on the financial statements. Our evaluation of this conclusion included challenging key judgments and estimates in areas where we considered that there was the greatest potential for climate change impact. We also considered the consistency of the climate change disclosures included in the Strategic Report with the financial statements and our knowledge from our audit.

8. 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 our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

10. 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.

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

11. Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance;
- results of our enquiries of management, about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's sector;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including credit risk, financial instrument and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in loan impairment of the deemed loan receivable. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan impairment as a key audit matter related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

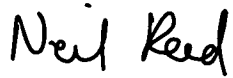
13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. 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.



Neil Reed, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

28 June 2024

Datil Funding Limited

Statement of Comprehensive Income for the year ended 31 December 2023

			For the period 24 May 2022 to 31 December
	Notes	2023 £	2022 £
Interest receivable and similar income	4	3,128,640	283,747
Interest payable and similar expense	5	(2,732,561)	(283,339)
Net interest income		396,079	408
Other operating expenses	6	(392,997)	(158)
Change in fair value of derivatives		(213,556)	212,593
(Loss)/profit before tax		(210,474)	212,843
Income tax expense	7	(312)	(48)
(Loss)/profit for the year		(210,786)	212,795
Other comprehensive income			
Total other comprehensive income		-	-
Total comprehensive (loss)/income for the period		(210,786)	212,795

All amounts relate to continuing activities. All recognised gains or losses in the current period are included in the Statement of Comprehensive Income for the year ended 31 December 2023.

The notes on pages 21 to 41 form an integral part of these financial statements.

Datil Funding Limited

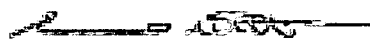
Statement of Financial Position as at 31 December 2023

		2023	2022
	Notes	£	£
			*Restated
Assets			
Cash and cash equivalents	8	13,668	29,571,068
Deemed loan receivable: amounts within one year	10	-	2,741,761
Deemed loan receivable: amounts after one year	10	236,723	65,265,261
Derivative financial instruments: amounts within one year	9	-	185,486
Derivative financial instruments: amounts after one year	9	-	27,108
Other receivables	11	16,915	1
Total assets		267,306	97,790,685
Liabilities			
Loan notes: amounts within one year	13	5,253	1,006,688
Loan notes: amounts after one year	13	51,893	96,571,152
Trade and other payables	12	208,150	49
Total liabilities		265,296	97,577,889
Equity			
Share capital	14	1	1
Retained earnings		2,009	212,795
Total Equity		2,010	212,796
Total equity and liabilities		267,306	97,790,685

*See note 2.1 for details regarding the adoption of FRS 101.

The notes on pages 21 to 41 form an integral part of these financial statements.

The financial statements on pages 18 to 20 were approved and authorised for issue by the Board on 28 June 2024 and were signed on its behalf by:



Emma White representing
L.D.C Securitisation Director No. 1 Limited as Director

.....
~~Mark Filer~~
Director

Datil Funding Limited

Statement of Changes in Equity for the Year Ended 31 December 2023

	Share capital £	Retained earnings £	Total £
At 1 January 2023	1	212,795	212,796
Total comprehensive loss for the period	-	(210,786)	(210,786)
At 31 December 2023	1	2,009	2,010

	Share capital £	Retained earnings £	Total £
At 24 May 2022	1	-	1
Total comprehensive income for the period	-	212,795	-
At 31 December 2022	-	212,795	212,796

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023

1 Accounting policies

General information

Datil Funding Limited ("the Company") was incorporated on 24 May 2022. The Company is a privately owned Company limited by shares and registered in England and Wales. The registered office in 8th Floor, 100 Bishopsgate, London, EC2N 4AG, UK, registration number 14128888.

2 Basis of preparation

2.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The financial statements are prepared on the historical cost basis.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Reporting Standards as adopted by the UK ("Adopted IFRSs") but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The following principal accounting policies have been applied.

Presentation Change and Restatement of Comparatives

This year, due to transition from IFRS to FRS 101, the Company has adopted a revised format for presenting the Statement of Financial Position. This revised format aligns with the requirements set forth by UK Company Law. As a result, comparative balances for assets and liabilities have been restated to reflect the new presentation format. This restatement is solely for presentation purposes and does not impact the underlying financial statement balances or disclosures.

2.2 Financial reporting standard 101 reduced disclosure exemptions

Despite not having legal ownership, Pepper Global TopCo Limited has a right to variable returns from its involvement with the Company and has the ability to affect those returns through its power over the Company and has the ability to affect those returns through its power over the Company. Therefore, under IFRS 10 and for accounting purposes, the Company's ultimate parent and controlling party is Pepper Global TopCo Limited.

The consolidated financial statements of Pepper Money Group Limited are prepared in accordance with international Financial Reporting Standards and can be obtained from the Company Secretary at the registered office - 4 Capital Quarter, Tyndall Street, Cardiff, CF10 4BZ.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

2.2 Financial reporting standard 101 reduced disclosure exemptions (continued)

- FRS 101.8 (g): the requirements of paragraphs 10 (d), 10 (f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements to produce a cash flow statement , a third Statement of Financial Position, to make an explicit and unreserved statement of compliance with IFRSs, and to disclose the entity's objectives, policies and processes for managing capital.
- FRS 101.8 (h): the requirements of IAS 7 Statements of Cash Flows to produce a cash flow statement.
- FRS 101.8 (i): the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to include a list of new IFRSs that have been issued but that have yet to be applied.
- FRS 101.8 (j): the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures to disclose key management personnel compensation information.
- FRS 101.8 (l): the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets to disclose details of valuation techniques and assumptions used for assets held at fair value less cost to sell categorised as Level 2 and Level 3 in accordance with the IFRS 13 fair value hierarchy (where equivalent disclosures are made in the Group's consolidated financial statements).

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2.3 Going concern

The financial statements have been prepared on a going concern basis. The Directors have assessed the likelihood the Company will be able to meet its debts as they fall due for a period of 12 months from signing of the financial statements (the "Going Concern Assessment"). Notwithstanding this, the Directors are confident that, with ongoing support from Pepper Global MidCo Limited, the business will have enough capital and liquidity to achieve business goals and be able to meet its debts as they fall due for the foreseeable future.

The Company is obliged to redeem the Loan notes at their principal amount outstanding upon maturity of the Deemed loan. However, due to the nature of the Loan notes, the Company's ability to pay amounts due on the Loan notes is, in substance, limited to the application of the receipts from the Deemed loan under the terms of the priority of payments as set out in the terms and conditions of the Loan notes.

It is the intention of the Directors of the Company to continue operations until such a time as the amounts due from the Deemed loan has been fully realised. Ultimately due to the nature of the Loan notes, any shortfall in the proceeds of the Deemed loan will be a risk to the holders of the Loan notes. If the proceeds from the Deemed loan are insufficient to pay amounts due to the note holders of the Loan notes, such amounts will cease to be due and payable by the Company.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

2.3 Going concern

The Directors have considered a range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of profitability, cash flows, capital resources and the longer-term strategy of the business. The cashflow forecasts prepared in support of the Going Concern Assessment included a base case scenario. The Directors also considered a reverse stress scenario, to identify events that could endanger the Company's going concern status.

The forecasts and projections show that the Company will be able to operate with adequate levels of both liquidity and capital in all stressed scenarios, and so the Directors believe that the Company has sufficient resources to continue its activities and meet its obligations for the period assessed.

The current facility agreement is due to expire within 12 months. If the facility is not renewed within the initial period, the agreement moves into the amortisation period, with no additional drawdowns allowed and loans repaid over the amortisation period. The Directors have noted as part of the Going Concern Assessment, that they have considered the Facility Agreement potential to be utilised over the next 12 months resulting in the Company remaining a going concern.

2.4 Interest income and expense

Interest income and expense are recognised in profit and loss using the effective interest rate method ("EIR"). The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When estimating the expected interest rate, the Company estimates future cash flows considering all contractual terms of the financial asset or liability, but not future credit losses.

The calculation of the effective interest rate includes all relevant transaction costs and fees paid or received that are integral to the contract. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. The methodology applied is discussed in note 3.2.

Interest income and expense are measured at amortised cost. Income is recognised on an EIR basis, except in the case of any mortgage loan balance with the Deemed loan asset that is:

- purchased or originated as credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- not originated credit impaired but has since become credit impaired (residing within stage 3 of the expected credit loss ("ECL") table - see note 10) Interest income is recognised by applying the EIR to the net loan balance (i.e after deducting the ECL provision.)

2.5 Financial instruments

a) Recognition

Financial assets and liabilities are initially recognised in the Statement of Financial Position at fair value when the Company becomes party to the contractual provisions of the instrument. Deemed loan is initially recognised when it is advanced to Originator. Sales of financial assets are recognised on the trade date at which the commitment to sell is made.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

b) Derecognition of financial assets

Financial assets are de-recognised when the rights to receive cash flows from them has expired or where the Company has transferred substantially all the risks and rewards of ownership.

c) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

d) Classification and measurement

The three classification categories for financial assets are amortised cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit or loss ("FVTPL").

Financial assets at amortised cost

Financial assets measured at amortised cost are those for which the business model objective is to hold and collect the contractual cash flows, and the cash flows are solely payments of principal and interest ("SPPI"). These assets are initially measured at fair value (including directly attributable transaction costs and fees integral to the contract). Initial measurement of the asset is based on the business model test (to collect and hold) and the contractual cash flows test (SPPI). Subsequent measurement is based on the requirements of IFRS 9 for assets held at amortised cost.

Amortised cost financial assets are subsequently measured at the amount at which the financial instrument was measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and the maturity amount and adjusted for any loss allowance. Deemed loans, trade and other receivables and cash and cash equivalents are measured at amortised cost.

The IFRS 9 business models reflect how financial assets are managed in order to generate cashflows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Past experience and future plans will be factors in determining the business model for a group of assets.

The payment of principal and interest is consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risk (including liquidity risk), costs and a profit margin that is consistent with a basic lending arrangement. If the SPPI test is not passed, then the asset is measured at fair value through the Statement of Comprehensive Income.

Financial assets at fair value through other comprehensive income (FVTOCI)

No assets are currently measured at FVTOCI. Financial assets recorded at FVTOCI are measured at their fair value, with all movements in fair value recognised through other comprehensive income on the Statement of Comprehensive Income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets that are not measured at amortised cost or at FVTOCI are measured at FVTPL. The derivative financial instrument is measured at FVTPL.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

2 Financial instruments (continued)

e) Impairment of financial assets

The only asset held by the Company that is at risk of material impairment is the Deemed loan asset due from UK Mortgage Lending Limited ("UKMLL"), the repayment of which is dependent upon the performance of the underlying mortgage loans, the Company has credit enhancements which reduces the credit risk (please refer to section 3.1 on page 26).

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

Credit enhancement is provided to the securitisation structure in a number of ways. The interest income on the mortgage loans is expected to exceed the interest payable on the Loan notes. This excess spread is available to make good any reductions in the principal balance of the mortgage loans as a result of defaults by customers. In addition, the risk of impairment is mitigated by the credit enhancement collateral within the Company securitisation structure (e.g. reserve fund and Junior Loan notes). The performance of the mortgage portfolio is continually assessed by UKMLL.

As a result of the available credit enhancement at 31 December 2023, impairment losses on the underlying mortgage portfolio will not result in an impairment loss on the Deemed loan as they do not exceed the credit enhancement. Therefore, no impairment provision was made as at 31 December 2023.

Below is the detailed accounting policy used in assessment of impairment of underlying mortgage portfolio:

Under IFRS 9, expected credit losses ("ECL") is assessed on a forward-looking basis for debt instruments and financial assets and carried at amortised cost by a three stage approach. The ECL values are derived from statistical models and are adjusted to reflect probability-weighted forward-looking information. An external model from Standard's and Poor's is used to calculate the probability of default ("PD") while internally developed models are used to calculate the loss given default ("LGD"), exposure at default ("EAD") and ECL. In calculating the ECL provision, the mortgage book is treated as homogenous and the loan portfolios are not segmented.

The key inputs used for measuring ECL are PD, LGD and EAD. These three components are multiplied together to produce an ECL for each future month which is then discounted back to the reporting date using the effective interest rate and summed. This calculation is undertaken for several selected macro-economic scenarios and probability weighted to produce the final loss allowance/ ECL.

- PD is an estimate of the likelihood of default over a given time horizon and uses data points available from Standard & Poor's. The Company's PDs are estimated considering the contractual maturities of exposures and estimated repayment rates. The impairment methodology that is applied depends on whether there has been a significant increase in credit risk ("SICR") or the asset is a credit impaired asset.
- LGD is an estimate of the loss arising on default. The LGD models for secured assets consider forecasts of future collateral valuation considering forced sale discounts, time to realisation, and cost of realisation of collateral.
- EAD is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date including repayments of principal and interest.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

2.5 Financial instruments (continued)

e) Impairment of financial assets (continued)

Stage classification

IFRS 9 calculations and related disclosures require loan assets to be divided into three stages. The three classes comprise:

Stage 1 - performing: Those assets where there has been no SICR since origination e.g. loans that are less than 30 days past due. Financial instruments are classified within stage 1 on initial recognition. A loss provision is required equal to the expected loss over the next 12 months.

Stage 2 - assets with SICR: Stage 2 is defined as when a significant increase in credit risk has occurred, but the asset is not credit impaired. When determining whether the risk of default has increased significantly since initial recognition, the Company considers both qualitative and quantitative information. The Company utilises the 30-day rebuttable backstop and considers that significant increase in credit risk occurs when the borrower is more than 30 days past due on their contractual payments. The Company also considers other qualitative indicators such as past arrears, arrears above set threshold etc. This stage requires a loss provision equal to the expected loss over the expected lifetime of the asset.

Stage 3 - Credit impaired assets (or at default): The Company defines an asset to be credit impaired (or at default) and classifies it as stage 3 for ECL calculation, when the borrower is more than 90 days past due on contractual payments, where there is a loss on security on the loan balance, where there is actual or suspected customer fraud impacting recoverability or where there are legal or contractual issues preventing recoverability.

As of 31 December 2023, none of the assets are credit impaired on initial recognition.

Calculation of the ECL

This is calculated as the discounted multiple of PD, EAD and LGD, which are all based on historical analysis and forward-looking future economic assumptions.

Forward looking information

The calculation of loan loss provision incorporates the use of external and internal forward looking information comprising relevant economic data, macro-economic scenarios and key economic variables impacting credit risk. Economic data and forecasts published by the UK government bodies and the Bank of England's Monetary Policy Committee ("MPC") are used in the development of macroeconomic scenarios.

The Company has applied probability weightings to the forecast scenarios identified in its measurement of loan loss provision. Post model adjustments (management overlays) are applied for assets with a specific risk characteristic which is not captured within the models.

Write-offs: Loans are written off when the Company determines that, following exercise of its security over underlying assets, the borrower has insufficient assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a de-recognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in a reversal of impairment loss.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

2.5 Financial instruments (continued)

f) Financial liabilities

Financial liabilities are initially recognised at fair value, net of transaction costs, and are subsequently measured at amortised cost at the effective interest rate (EIR). Derivatives are measured at fair value through profit or loss from inception and through to subsequent re-measurement.

g) Loan notes

The Loan notes are classified as financial liabilities and are initially recognised at fair value at the date of the issuance of the liability net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand and deposits held with banks.

2.7 Deemed loan asset

In accordance with IFRS 9, where a transfer of a financial asset does not qualify for derecognition, the Company (being the transferee) derecognises the cash or other consideration paid and recognises a receivable from the transferor (being the Originator). In relation to the mortgage portfolios transferred to the Company, derecognition is considered to be inappropriate for the Originator's own financial statements as the Originator has retained significant risks and rewards of ownership of that financial asset. The Company's financial statements are therefore prepared on the basis that the acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised loan (Deemed loan) to the Seller or Originator.

The Deemed loan asset held by the Company has a credit enhancement, equal to the amount of the issued Junior Loan notes, and as such impairment losses on the underlying assets will not result in an impairment loss on the Deemed loan asset as long as they do not exceed the credit enhancement. The definition of default and the significant increase in credit risk of the Deemed loan asset is based on the underlying mortgage loan definition of default and significant increase in credit risk as defined in the financial instruments note above.

2.8 Deferred purchase consideration

Under the terms of the mortgage sale agreement for the purchase of the mortgage loans, 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 cash flows at the end of the waterfall, after reserving the required amount of retained profit in accordance with the trust agreement.

The deferred consideration can be either an asset or liability depending on the cash proceeds or payments made by the company, in both cases the asset or liability is netted against the Deemed loan asset. The deferred consideration will ultimately be settled by payments of cash in accordance with the mortgage sale agreement and is distributable after all other obligations have been met.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

2 Trade and other receivables

9

Other assets are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. These are earned in the ordinary course of business and the simplified approach as allowable under IFRS 9 has been applied. As such, a lifetime ECL has been assessed for these assets. Due to the short-term nature and credit risk of the counterparties, the ECL has been assessed as immaterial and no provision is recognised.

2.10 Derivative financial instruments

The Company uses derivative financial instruments to economically hedge the possible variance between the fixed and floating interest flows received from the underlying mortgage pool and the floating interest rate payable on the issued debt security notes. Derivative financial instruments with external counterparties are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

2.11 Trade and other payables

Other liabilities are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest rate method.

2.12 Expenses

Expenses incurred have been recognised on an accrual's basis.

2.13 Corporate tax

The Company is a "Securitised Company" for the purposes of corporation tax. Tax is charged in accordance with the Taxation of Securitisation Companies Regulations 2006/3296, Regulation 14. As a securitisation vehicle, the Company is only subject to current tax on the profits that it is required to retain per transaction documents (see note 7). This is different from the basis on which the accounting profit is reported in the financial statements.

All differences between the Company's accounting profits and taxable net cash flows are therefore treated as permanent differences 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 period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in previous years.

2.14 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The provision amount is the best estimate of the consideration required to settle at the date of the Statement of Financial Position.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

2 Basis of preparation (continued)

2.15 Functional/ Presentation currency and Foreign currency transactions

The financial statements are presented in thousands in Pounds Sterling (£) the primary, and trading, currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

2.16 Climate change

Climate change is a global challenge and an emerging risk to businesses, people and the environment. Therefore, in preparing the financial statements, the Company has considered the impact of climate-related risks on its financial position and performance, including the impact on expected credit losses and redemption profiles included in EIR. While the effects of climate change represent a source of estimation uncertainty, the Company does not consider there to be a material impact on its judgements and estimates from the physical or transition risks in the short to medium term.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the use of judgment, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values may change, impacting the net assets and income of the Company. These estimates and assumptions are reviewed on an ongoing basis. The nature of significant estimates and judgements made are noted below.

3.1 Securitisation accounting

In a securitisation transaction, the securitised loan, which in this case is the Mortgage Loans, may be recognised in the financial statements of the Seller, which in this case is UKMLL or the securitisation entity, in this case the Company. This depends on whether the sale of the securitised assets from the Seller to the securitisation entity meets the derecognition criteria of IFRS 9. If the securitisation entity has the practical ability to sell the securitised assets in their entirety to an unrelated third party and is able to exercise that ability unilaterally and without the imposition of additional restrictions on the transfer, the securitisation entity would control the loans and therefore would recognise on the Statement of Financial Position. In this case, the Company does not have the practical ability to sell the loans to an unrelated party.

As a result, the Company does not control the Mortgage Loans, hence the underlying loans remain on the Statement of Financial Position of the Seller. Instead of recognising the Mortgage Loans, the Company recognises a collateralised 'Deemed loan' to the Seller to represent the Company's acquisition of the beneficial interests in the Mortgage Loans.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

4 Interest receivable and similar income

	2023	For the period 24 May 2022 to 31 December 2022
	£	£
Interest income and similar income	1,661,884	306,200
Residual Distribution to UKMLL	1,466,756	(22,453)
	3,128,640	283,747

Interest income includes interest and fees due on the Deemed loan.

5 Interest payable and similar expenses

	2023	For the period 24 May 2022 to 31 December 2022
	£	£
Interest payable and similar expense	2,732,561	283,339

6 Other operating expenses

	2023	For the period 24 May 2022 to 31 December 2022
	£	£
Servicer fees	204,130	-
Trustee fees	(713)	-
Other expenses	189,580	158
	392,997	158

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

6 Other operating expenses (continued)

	2023 £	For the period 24 May 2022 to 31 December 2022 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts (including expenses and excluding VAT)	34,052	38,000

The Company has no employees and services required are contracted from third parties. The Directors received no remuneration from the Company in respect of qualifying services rendered during the period.

7 Corporation Tax

	2023 £	For the period 24 May 2022 to 31 December 2022 £
Corporation tax		
Current tax on (Loss)/Profit for the period 25% (2022: 19%)	(312)	(48)
Taxation on (Loss)/Profit	(312)	(48)
Factors affecting tax charge for the period		
The tax assessed for the period is the same as the standard rate of corporation tax in the UK of 25% (2022: 19%) as set out below:		
(Loss)/profit on ordinary activities before tax	(210,474)	212,843
Cash retained profit taxed in accordance with SI 2006/3296	1,000	250
	(312)	(48)
Tax charge at 25% (2022: 19%)		
Total tax charge for the period	(312)	(48)

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

7 Corporation Tax (continued)

For UK corporation tax purposes, the Company has been considered as a Securitisation Company under the 'Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)'. Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the transaction. Under the terms of the securitisation, the Company is permitted to retain £100 per month. From 1 April 2023, the Corporation tax main rate for non-ring fenced profits will be increased to 25% applying to profits over £250,000. A small profits rate will also be introduced for Companies with profits of £50,000 or less so that they will continue to pay Corporation Tax at 19%. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective Corporation Tax rate.

8 Cash and cash equivalents

	2023	2022
	£	£
Cash and cash equivalents	13,668	29,571,068

9 Derivative financial instrument

	2022
	£
Interest rate swaps	212,593
Current	185,484
Non-current	27,109
	212,593

During the period none of the interest rate swaps are designated for hedge accounting. During 2022 net realised gains or losses on interest rate swaps recorded in income statement of £212,593.

This is a level 2 financial instrument. The notional amount of the swap at 31st December 2022 was £69,809,672.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

10 Deemed loan

	2023 £	2022 £
Opening Balance	68,029,475	-
Deemed loan advanced to UKMLL during the period	47,147,784	67,814,872
Principal collections on Deemed loan advanced	(114,908,896)	-
Interest received	(2,503,652)	(110,573)
Accrued interest during the year	2,230,894	325,176
Closing balance of the gross Deemed loan asset	(4,395)	68,029,475
	241,118	(22,454)
Credit enhancement provided by UKMLL: Deferred consideration	236,723	68,007,021
Closing balance of Deemed loan asset		
Receivable within 12 month	-	2,741,761
Receivable after 12 months	236,723	65,265,260
Closing balance of Deemed loan asset	236,723	68,007,021

The underlying mortgage loans have been originated in England and Wales. The purchase of the mortgage loans has been funded by the issue of Loan notes. The credit enhancement consists of UKMLL ownership of the junior Loan notes.

Analysis of credit risk of underlying mortgage loans

The principal credit risk to the Company is if borrowers are unable or unwilling to meet their interest and principal repayment obligations as they fall due. The Company mitigates this risk by only acquiring Mortgage Loans that satisfy specific underwriting and due diligence standards as outlined in the Datil Funding Sale Agreement that the Company has with the Seller and other parties. Refer to note 15 for credit risk management policy.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

11 Trade and other receivables

	2023	2022
	£	£
Trade and other receivables	16,915	1

There has been no ECL provision during the year.

12 Trade and other payables

	2023	2022
	£	£
Trade and other payables	208,150	49

13 Loan notes

This note provides information about the contractual terms of the Company's notes.

	2023	2022
	£	£
Opening balance	97,445,293	-
Drawdowns	25,507,798	-
Redemptions	(121,728,500)	-
Issued Loan notes during the period	-	97,445,293
Closing Notes balance	1,224,591	97,445,293
Adjusted for:		
Accrued interest	62,399	132,547
Unamortised discount on Notes issue	(1,224,591)	-
Unamortised capitalised deal costs	(5,253)	-
	57,146	97,577,840
Current	5,253	1,006,688
Non-current	51,893	96,571,152
	57,146	97,577,840

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

13 Loan notes (continued)

The Loan notes are limited recourse obligation of the Company and hence only payable to the extent of funds received from the Deemed loan. Payment of interest and principal on Class A Notes rank senior to those payments relating to the other Loan notes. Once the Deemed loan has fully matured, the principal balance is repaid in accordance with the class of the Loan note.

A summary of the Loan notes is outlined in the table below:

	Opening balance 2023	Drawdowns 2023	Repayments 2023	Closing balance 2023
Class of Loan notes issued	£	£	£	£
Note Class A	86,750,000	19,000,000	(105,750,000)	-
Note Class B	4,838,000	4,770,000	(9,608,000)	-
Note Class C, E & L	5,857,293	1,737,798	(6,370,500)	1,224,591
	<u>97,445,293</u>	<u>25,507,798</u>	<u>(121,728,500)</u>	<u>1,224,591</u>

	Loans Issued 2022	Repayments 2022	Closing balance 2022
Class of Notes issued	£	£	£
Note Class A	86,750,000	-	86,750,000
Note Class B	6,338,000	-	6,338,000
Note Class C, E & L	4,357,293	-	4,357,293
	<u>97,445,293</u>	<u>-</u>	<u>97,445,293</u>

Interest

Interest on the Loan notes is paid monthly in arrears. The payment of interest on the Loan notes is dependent on the receipt of income from the underlying mortgage loans. The Loan notes are limited recourse obligations of the Company so that if the Company has insufficient funds to make payment in full of all amounts of interest available in respect of any class of Loan notes, after having paid for items according to the priority of payments, then that amount shall not be due and payable, and the Company will be entitled to defer payment until the following Interest Payment Date (IPD). To the extent that there are insufficient funds on the following IPD, the deferral of interest shall continue until the maturity date or any earlier date on which the Loan notes are redeemed.

Redemption

Redemption of the Loan notes will be made from the principal proceeds received from the underlying mortgage loans on the relevant payment date, in accordance to the seniority of the Loan notes and availability of funds.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

14 Called up share capital

	2023	2022
	£	£
Authorised, allotted, called up and paid Ordinary shares of £1 each	1	1

The Law Debenture Intermediary Corporation P.L.C. is the sole member of the Company. All shares were issued at par; 1 share was issued on incorporation.

15 Financial risk management

The Company's exposure to risks on its financial instruments and the management of such risks are largely determined from the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction, and is required by the rating agencies to establish appropriate rating levels for the Loan notes. Following initial set up, the Directors monitor the Company's performance, reviewing reports on the performance of the Deemed loan. Such review is designed to ensure that the terms of the transaction documentation have been met, that no unforeseen risks have arisen and that the Loan noteholders have been paid on a timely basis.

Financial risks (including credit risk) of the Deemed loan asset is considered to be substantially the same as the risk related to mortgage loans and as such Directors consider it appropriate to disclose the risks associated with underlying mortgage loans.

Credit risk

Credit risk is the risk of suffering financial loss should the Company's counterparties fail to fulfil their contractual obligations to the Company. The Company has mitigated the risk of financial loss by dealing only with creditworthy counterparties. The Company's main activities during the current period comprised the origination of mortgage loans. The Company's maximum exposures to credit risk were the amounts reported in the Statement of Financial Position. The principal external credit risk to the Company is that mortgage loan borrowers will not be able to meet their obligations as they fall due. The mortgage loans are secured on UK residential properties.

Maximum credit exposure

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

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Financial risk management (continued)

	As at 31 Dec 23 £ Carrying Value	As at 31 Dec 23 £ Maximum Exposure	As at 31 Dec 22 £ Carrying Value	As at 31 Dec 22 £ Maximum Exposure
Deemed loan	236,723	236,723	68,007,022	68,007,022
Trade and other receivables	16,914	16,914	1	1
Cash and cash equivalents	13,668	13,668	29,571,068	29,571,068
Derivative financial instrument	-	-	212,593	212,593
	267,305	267,305	97,790,684	97,790,684

All cash and cash equivalents are held on accounts with Barclays Bank Plc which holds a long-term credit rating of A from Standard and Poors.

Credit quality of underlying mortgages

The Originator and Seller credit policy defines all types of property loans it will accept. Policy is principally dictated by the credit committee of the Company and include maximum loan terms, loan to value ("LTV") and single borrower limits. The credit quality of the mortgage loans is controlled through the application of the Company's underwriting criteria which includes an assessment of the property, the borrower's background and affordability measures.

Management assesses the ongoing credit quality of its mortgage loan portfolio based on days past due. Arrears management activities commence as soon an instalment becomes past due and are designed to take into consideration of individual circumstances. In the event of default, when all other options are exhausted with the borrower, the underlying property provides collateral for the loan.

The primary exit strategy for underlying mortgages is the sale of the underlying collateral, therefore management assess the credit quality of these mortgages based on the LTV.

Liquidity risk

Liquidity risk is defined as the risk of being unable to fulfil current or future payment obligations in full on the due date.

The Company's assets are financed primarily by the issuance of the Loan notes. The financing policy substantially reduces the Company's liquidity risk by matching the payment profile of the Company's funding to the payment profile of the assets being funded.

Due to the limited recourse obligations of the Company in respect of the Loan notes, the Company is only obliged to make payments of interest and principal on the Loan notes to the extent that payments are received from the Deemed loan or from any security over the underlying loans being realised. In the event that the Company has insufficient funds available to pay interest and/or principal on the Loan notes the ultimate Loan note holders will incur a loss of interest and/or principal which would otherwise be due.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Financial risk management (continued)

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. There is then possibility that changes in interest rates will result in higher financing costs or reduced income from the Company's interest-bearing financial assets and liabilities.

The Company minimises its exposures to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. The Company has a portfolio of fixed interest rate mortgage loans. Interest rate risk on fixed mortgages is managed on continuous basis through the use of interest rate swaps.

Fair value measurement

At the 2023 year end the Company had no interest rate swap contracts compared to the year ended 2022 (£212,593) that hedged the risk of fixed interest rates on the Loan notes. The fair values of such interest rate cap contracts are calculated by discounting future cash flows using appropriate and observable market data. Financial instruments that are measured in the Statement of Financial Position at fair value are required to be put into a fair value measurement hierarchy based on fair value measurement as detailed below:

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

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The only financial instruments included in the Company's Statement of Financial Position that are measured at fair value are derivative transactions. As the fair value of such derivatives is calculated by discounting future cashflows using appropriate and observable market data, these fall within level 2 of the hierarchy, being an interest rate cap. The fair values together with the carrying amounts shown in the Statement of Financial Position of the financial assets and financial liabilities are as follows:

	Carrying amount £	Quoted market price Level 1 £	Using observable inputs Level 2 £	With significant unobservable inputs Level 3 £	Total fair value £
As at 31 Dec 23					
Deemed loan	236,723	-	-	236,723	236,723
Trade and other receivables	16,914	16,914	-	-	16,914
Cash and cash equivalents	13,668	13,668	-	-	13,668
	267,305	30,582	-	236,723	267,305
Loan notes	57,146	-	-	57,146	57,146
Trade and other payables	208,150	-	-	208,150	208,150
	265,296	-	-	265,296	265,296

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Financial risk management (continued)

	Carrying amount £	Quoted market price Level 1 £	Using observable inputs Level 2 £	With significant unobservable inputs Level 3 £	Total fair value £
As at 31 Dec 22					
Deemed loan	68,007,022	-	-	72,664,747	72,664,747
Trade and other receivables	1	-	-	1	1
Cash and cash equivalents	29,571,068	29,571,068	-	-	29,571,068
Derivative financial instruments	212,593	-	212,593	-	212,593
	97,790,684	29,571,068	212,593	72,664,748	102,448,409
Loan Notes	97,577,839	-	-	97,577,839	97,577,839
Trade and other payables	49	-	-	49	49
	97,577,888	-	-	97,577,888	97,577,888

Fair value estimation techniques

Fair values in the table above are estimated using the valuation techniques below.

Cash and cash equivalents

This is considered to be a close approximation to fair value.

Deemed loan

This represents secured mortgage lending to customers. The fair value of fixed rate mortgages has been estimated by discounting future cash flows at current market rates of interest. Future cash flows include the impact of future credit losses.

Trade and other receivables

These are short term in nature so fair value is equal to the carrying value.

Trade and other payables

These are short term in nature so fair value is equal to the carrying value.

Loan notes

Although the Loan notes are listed, the quoted price for an individual Loan note may not be indicative of the fair value of the issue due to the specialised nature of the market in instruments of this type. Furthermore, there are limited investors participating in the market and trading occurs infrequently. The fair value of mortgage backed Loan notes are not considered to be different to carrying value. The fair value is derived from inputs which are not quoted in active markets, hence classified as level 3.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Financial risk management (continued)

Fair value estimation techniques (continued)

The Directors consider capital to comprise issued share capital and reserves. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is not subject to any externally imposed capital requirements and aims to maintain sufficient capital resource to support the Company's risk appetite and economic capital requirements.

16 Related party transactions

The Deemed loan asset balance of £236,723 (2022: £68,007,022) is due from UKMLL (UK Mortgage Lending Limited) at 31 December 2023. Of the associated Deemed loan interest income in 2023: £3,128,640 is attributable to UKMLL (2022: £283,747)

The Junior Loan notes issued by the Company are held by UKMLL, which is controlled by Pepper Money Group Limited ("PMG"). The Company incurred interest on these notes of £62,399 to UKMLL during the period (2022: £64,538). At 31 December 2023 the outstanding principal on the Junior Loan notes due to UKMLL amounted to £1,224,591 (2022: £10,695,293), with accrued interest of £62,399 (2022: £132,547). The Junior Loan notes rank below the senior Loan notes in terms of settlement, are unsecured with no guarantee given or received from the parent PMG.

Law Debenture Corporate Services Limited provide Directors and corporate services to the Company.

Pepper (UK) Limited acts as servicer for the Mortgage loans portfolio for the Company and received £204,130 during the period (2022: Nil). As at 31 December 2023, servicer fees of £15,862 (2022: Nil) were accrued.

17 Ultimate parent undertaking

The entire share capital of the Company is held by The Law Debenture Intermediary Corporation Plc ("LDIC") on a discretionary trust basis for the benefit of certain charities. LDIC is a Company incorporated in England and Wales and is a wholly owned subsidiary of the Law Debenture Corporation PLC. The results of the Company are not consolidated by LDIC.

Pepper Global TopCo Limited ("Topco") is the ultimate parent Company of the Company and is the largest group into which the Company was consolidated for the year ended 31 December 2023. Copies can be obtained from the registered office address 22 Grenville Street, St Helier, Jersey, JE4 8PX. The smallest group into which the Company is consolidated for the year ended 31 December 2023 is Pepper Money Group Limited, a Company registered in the United Kingdom. Copies can be obtained from the registered office address Carrington House, Regent Street, London, W1B 5SE.

Datil Funding Limited

Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

18 Post balance sheet events

There have been no post balance sheet events to note.