

Registration number: 13781663

Polaris 2022-1 Plc
Annual Report and Financial Statements
for the Year Ended 31 December 2023

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Polaris 2022-1 Plc

Table of Contents

Company Information	1
Strategic Report	2
Directors' Report	6
Independent Auditor's Report	10
Statement of Comprehensive Income	19
Statement of Financial Position	20
Statement of Changes in Equity	21
Notes to the Financial Statements	22

Polaris 2022-1 Plc

Company Information

Directors

Ms Aline Sternberg
CSC Directors (No.1) Limited
CSC Directors (No.2) Limited

Company secretary and registered office

CSC Corporate Services (UK) Limited
5 Churchill Place
10th Floor
London
England
E14 5HU

Company number

13781663
(England and Wales)

Independent auditor

Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom

Bankers

Citibank N.A. London Branch
Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB

Trustee

Citigroup Trustee Company Ltd
Canada Square
Canary Wharf
London
United Kingdom
E14 5LB

Polaris 2022-1 Plc

Strategic Report for the year ended 31 December 2023

Introduction

The Board of Directors (the "Board") present their Strategic Report of Polaris 2022-1 Plc (the "Company") for the year ended 31 December 2023.

Principal activities and business review

The Company was incorporated as a Special Purpose Vehicle (SPV) on 3 December 2021 to raise funding by the issuance of £468,000,000 mortgage-backed floating rate Loan notes comprising of £384,750,000 Class A Loan notes, £24,750,000 Class B Loan notes, £15,750,000 Class C Loan notes, £11,250,000 Class D Loan notes, £9,000,000 Class E Loan notes, £4,500,000 Class Z Loan notes, £18,000,000 Class X Loan notes with a maturity date of October 2059 (the "Loan notes"). The proceeds from the issuance were used to acquire the beneficial title in mortgage loans (the "Mortgage Portfolio") from Pepper Money Limited (the "Seller"). The Mortgage Portfolio is secured against residential real estate in England and Wales.

The Company's functions and business activities are set out in the prospectus dated 7 February 2022 (the "Prospectus") which also documents the terms and conditions of the Loan notes.

The Mortgage Loans acquired by the Company fails the de-recognition criteria within the Seller's financial statements. Therefore, the Company has recognised a Deemed loan receivable from the Seller due to the Seller retaining all the risks and rewards to the Mortgage Loans, with any cash generated by the Company being forwarded to the Seller through deferred consideration after settling liabilities towards the noteholders and its administrative expenses, together with the Seller's interest in the Loan notes. The Company's obligation to pay principal and interest on the Loan notes and its operating and administrative expenses will be met primarily from payments of principal and interest received from the Deemed loan.

The Loan notes are listed on the Irish 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.

Results

The audited financial statements for the period ended 31 December 2023 are set out on pages 19 to 40. The underlying cash retained in the Company is pre-determined under the terms of the issue documentation, which is £100 on each Interest Payment Date (IPD). The Statement of Comprehensive Income of the Company is set out in page 13 and shows a profit after tax of £900 for the period (2022: £972).

Key performance indicators, principal risks, and uncertainties

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. Key performance indicators at the Statement of Financial Position date are:

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

	2023 £	2022 £
Outstanding balance of the Mortgage Portfolio	328,622,622	430,778,188
Outstanding balance of the Mortgage Portfolio more than three months in arrears	8,876,569	2,995,538
Mortgage Portfolio three months in arrears	2.70%	0.66%

The continuing uncertainty of the UK economy and sustained high inflation has reflected in an increase in the mortgage portfolio more than 3 months in arrears.

Other key performance indicators are the credit ratings assigned to the Class A Loan notes. There have been no changes in the credit rating of these Loan notes since their original rating of AAA by Moody's and S&P agencies.

The Company's activities expose it to a number of risks and uncertainties as summarised below and discussed in more detail in the prospectus under the risk factors section. Risk management is, in the main, predetermined based on the terms of the Prospectus and is also summarised below under *Financial Instruments* (note 15).

Principal risks and uncertainties

Whilst the Directors have overall responsibility for the establishment and oversight of the Company's risk management framework, this obligation has been allocated and managed in accordance with the transaction documents. Further details of financial risk management are outlined in note 15 of the financial statements.

Credit risk

Credit risk is the risk of impairment and partial or total loss of a receivable due to the deterioration of credit quality on the part of the counterpart.

The primary asset of the Company is the Deemed loan. The Company's principal business objective rests on the purchase of the Mortgage Loans portfolio. Although the Mortgage Loans are secured by second charges over residential properties in England and Wales, the Company considered the evaluation of a borrower's ability to meet the contractual obligations to be the principal factor in assessing the credit risk.

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.

The Directors have considered the latest credit risk information of the underlying mortgage loans including loan loss provisioning. The incurred loss basis on the underlying mortgage portfolio is absorption by the credit enhancement at the Deemed loan level in the form of the subordinated junior note and the deferred consideration.

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

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.

Market risk

Market risk refers to the potential loss arising from changes in interest rates and foreign currency rates. The Company's financial instruments are mainly denominated in GBP and therefore the Company has minimal exposure to foreign currency risk. The Company is exposed to market risk in the form of interest rate risk.

Interest rate risk

Interest rate risk exists where the interest rates on assets and liabilities are either set according to different bases or reset at different times. The Company is exposed to interest rate risk because the Deemed loan is subject to variable and fixed interest rates while the Loan notes are based on the Compounded Daily Sterling Over Night Index Average ("SONIA").

Interest rate risk is managed through the use of interest rate swaps (IRS). Refer to note 15 of the financial statements for further details.

Capital risk management

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.

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:



Sukanthapriya Jeyaseelan, per pro CSC Directors (No.1) Limited

Director

Date: 28 June 2024

Polaris 2022-1 Plc

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 financial risk management please see the Strategic Report on pages 2-5.

Directors and Company shareholdings

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

Ms Aline Sternberg

CSC Directors (No.1) Limited

CSC Directors (No.2) Limited

CSC Corporate Services (UK) Limited was appointed Company secretary on 3 December 2021 and continued to act as secretary for the year ended 31 December 2023.

The Directors and their immediate relatives and the Company secretary did not hold an interest in any shares, share options, deferred shares or loan stock of the Company as at 31 December 2023 or at any time during or since the year end.

The Directors do not recommend payment of a dividend.

Directors' interest in contracts

The Company has no employees. CSC Corporate Services (UK) provides corporate services to the Company at arm's length commercial rates. CSC Corporate Services (UK) receives fees in the amount of £13,530 (2022: £21,782) for corporate administrative services which includes the provision of directorship services by its employees. The Directors provided are not remunerated directly by the Company for their services.

Third party indemnities

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

Business relationships

The Strategic Report summarises how the Directors have considered the Company's business relationships with key stakeholders.

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

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 inflation and their impact on the Company. Notwithstanding this, the Directors are confident that, 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 Directors have, therefore, adopted the going concern basis of accounting in preparing the financial statements. Refer to Note 2 Accounting Policies for further details on going concern assessment.

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.

Future developments

The Directors do not anticipate any changes to the nature of the Company's business in the near future and will continue to repay Loan notes using proceeds from the repayment of Deemed loan asset.

Streamlined Energy and Carbon Reporting

The Company does not meet the Streamlined Energy and Carbon Reporting (SECR) criteria and is therefore not required to comply with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018.

Political donations

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

Post balance sheet events

There are no post balance sheet events.

Financial instruments

The Company's operations are financed primarily by means of issuance of the Loan notes. The Company issued such Loan notes to finance the acquisition of the Deemed loan as explained in the business review above. The risk profile of the Company is such that all risks of the Deemed loan are ultimately borne by the Loan note holders to the extent it is not covered by credit enhancement provided.

Polaris 2022-1 Plc

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

Following initial set-up, the Directors monitor the Company's performance, reviewing monthly reports on the performance of the Deemed loan. Such review is designed to ensure that the terms of the transaction documentation have been complied with, that no unforeseen risks have arisen and that the holders of the Loan notes have been paid on a timely basis.

Called up share capital

The issued share capital consists of 50,000 ordinary shares of £1, 49,999 of which are quarter paid-up, and 1 fully paid ordinary share of £1.

Disclosure of information to auditors

Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are 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.

Reappointment of auditors

Deloitte LLP has indicated its willingness to continue in office and pursuant to section 489 of the Companies Act 2006, the Directors have re-appointed Deloitte LLP for this financial period.

Polaris 2022-1 Plc

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

Directors' Responsibilities Statement

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

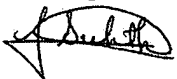
Please refer to page 5 of the Strategic Report for reference to Section 172(1) Statement.

Company law requires the Directors to prepare financial statements in compliance with FRS 102 for each financial year. Under that law the Directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements also comply with the financial reporting framework. Under Company law the Directors must not approve the accounts 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, FRS 102 requires that Directors:

- select suitable accounting policies and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 102 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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.



Sukanthapriya Jeyaseelan, per pro CSC Directors (No.1) Limited
Director

Date: 28 June 2024

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

Opinion

In our opinion the financial statements of Polaris 2022-1 plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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.

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

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 £4,575k (2022: £6,028k) which was determined on the basis of 1.5% of the deemed loan asset.
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 have been no significant changes in our approach since last year.

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.

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

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.

Loan Impairment

Key audit matter description	As disclosed in note 10 of the financial statements, the Company recognises a deemed loan receivable of £304,993k (2022: £401,912k) 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 is measured at amortised cost as disclosed in notes 2.9 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.

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

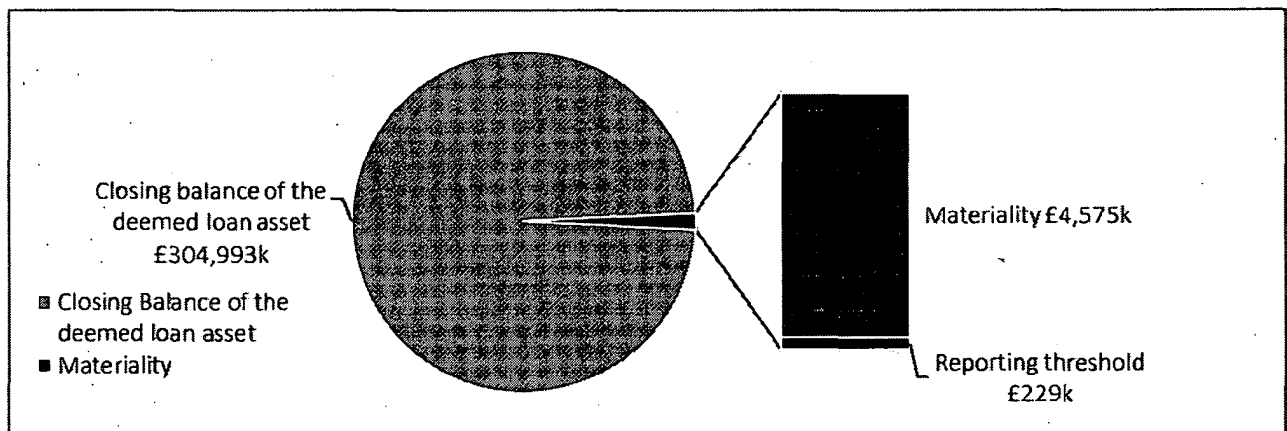
Our application of materiality

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	£4,575k (2022: £6,028k)
Basis for determining materiality	1.5% of the deemed loan asset (2022: 1.5% of the deemed loan asset)
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.



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: 65%). In determining performance materiality, we considered the following factors:

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

- 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.

Error reporting threshold

We agreed with those charged with governance that we would report all audit differences in excess of £229k (2022: £243k), 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.

An overview of the scope of our audit

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.

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.

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 notes 2.13 to the financial statements and our knowledge from our audit.

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.

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

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.

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.

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.

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.

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:

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

- 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.

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;

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

- 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

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.

Matters on which we are required to report by exception

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.

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.

Polaris 2022-1 Plc

Independent Auditor's Report to the Members of Polaris 2022-1 Plc

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

Polaris 2022-1 Plc

Statement of Comprehensive Income for the year ended 31 December 2023

		For the period 3 December 2021 to 31 December	
	Notes	2023 £	2022 £
Interest receivable and similar income	5	27,198,656	11,017,171
Interest payable and similar expense	6	(22,912,329)	(10,139,055)
Net interest income		4,286,327	878,116
Other operating expenses	7	(888,478)	(735,156)
Change in fair value of derivatives		(3,396,649)	(141,760)
Profit before tax		1,200	1,200
Income tax expense	8	(300)	(228)
Profit for the year		900	972
Other comprehensive income			
Other comprehensive income/(loss)		-	-
Total comprehensive income for the year		900	972

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 22 to 40 form an integral part of these financial statements.

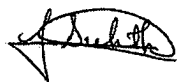
Polaris 2022-1 Plc

Statement of Financial Position as at 31 December 2023

(Registration number: 13781663)

	Notes	2023 £	2022 £
Non-current assets			
Deemed loan receivable	10	253,144,348	323,562,313
Derivative financial instrument	13	6,732,245	14,781,439
		<u>259,876,593</u>	<u>338,343,752</u>
Current assets			
Cash and cash equivalents	9	21,392,903	6,710,257
Other receivables	11	334,224	541,253
Derivative financial instrument	13	7,739,274	13,963,804
Deemed loan receivable	10	51,849,061	78,350,134
		<u>81,315,462</u>	<u>99,565,448</u>
Current liabilities			
Trade and other payables	12	114,081	101,142
Loan notes	14	96,314,211	10,713,205
		<u>96,428,292</u>	<u>10,814,347</u>
Net current assets		<u>(15,112,830)</u>	<u>88,751,101</u>
Total assets less current liabilities		244,763,763	427,094,853
Non current liabilities			
Loan notes	14	244,749,390	427,081,380
Net assets		<u>14,373</u>	<u>13,473</u>
Capital and reserves			
Called up share capital	16	12,501	12,501
Retained earnings		1,872	972
Total shareholders' funds		<u>14,373</u>	<u>13,473</u>

The financial statements on pages 19 to 40 were approved and authorised for issue by the Board on 28 June 2024 and were signed on its behalf by:



Sukanthapriya Jeyaseelan, per pro CSC Directors (No.1) Limited
Director

Polaris 2022-1 Plc

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

	Share capital £	Retained earnings £	Total £
At 1 January 2023	12,501	972	13,473
Profit for the year	-	900	900
At 31 December 2023	12,501	1,872	14,373

	Share capital £	Retained earnings £	Total £
Shares issued on incorporation	12,501	-	12,501
Profit for the year	-	972	972
At 31 December 2022	12,501	972	13,473

Polaris 2022-1 Plc

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

1 Accounting policies

General information

Polaris 2022-1 Plc (the 'Company') is a public limited Company limited by shares incorporated in England and Wales on 03 December 2021 under the Companies Act 2006. The address of the registered office is 10th Floor, 5 Churchill Place, London, E14 5HU, UK. The Company's registered number is 13781663.

2 Basis of preparation

2.1 Basis of preparation of financial statements

The financial statements have been prepared under historical cost convention, modified to include certain items at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The preparation of financial statements in compliance with the FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. In accordance with Section 11 of FRS 102, the provisions of International Accounting Standards 39: Financial Instruments: Recognition and Measurement have been adopted with respect to the recognition and measurement of financial instruments.

The Company has taken advantage of exemptions available to qualifying entities and has not prepared a statement of cash flows on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

2.2 Functional/Presentation currency and Foreign currency transactions

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

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"). The Going Concern Assessment included consideration of the uncertainty in the UK economy as a result of high interest rates and inflation and their impact on the Company. Notwithstanding this, the Directors are confident that, 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 Directors have, therefore, adopted the going concern basis of accounting in preparing the financial statements.

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.

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

2 Basis of preparation (continued)

2.3 Going concern (continued)

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.

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.

2.4 Interest income and expense

Interest income on financial assets is classified as loans and receivables and interest expense on financial liabilities is determined using the effective interest rate method (EIR). The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. In calculating the effective interest rate the Company estimates the cash flows considering all contracted terms but not future credit losses.

Bank interest is classified as interest income. Interest is paid to Noteholders monthly during the period and is recognised on an effective interest rate basis.

2.5 Taxation

The tax expense for the period comprises current tax and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an income recognised directly in other comprehensive income or directly in equity respectively.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date. The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profits.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

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

2 Basis of preparation (continued)

2.5 Taxation

Under the powers conferred by the Finance Act 2005 (the "Act"), secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'Securitisation Company' will be calculated by reference to the profit of the Securitisation Company required to be retained in accordance with the relevant capital market arrangement. The Directors are satisfied that this Company meets the definition of a 'Securitisation Company' as defined by both the Act and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise.

2.6 Cash and cash equivalents

Cash is represented by cash in hand, deposits with financial institutions repayable without penalty on notice of not more than 24 hours and cash restricted for use. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Cash restricted for use comprise cash and cash equivalents which are not available for general use by the Company, including amount held in escrow, trust or other separate bank accounts.

2.7 Trade and other payables

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.8 Trade and other receivables

Short term debtors are measured at the transaction price. Other financial assets are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.9 Financial instruments

a) Deemed loan asset

In relation to the mortgage portfolios transferred to the Company, derecognition is considered to be inappropriate for the transferor/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 Originator.

The Deemed Loan asset is a right to receive cashflows to meet cash outflows required on Loan notes, interest rate swap and admin/operating expenses. At inception, the Deemed loan asset is recorded at fair value which is the sum of the cash and other consideration paid to the Originator. Subsequent to initial recognition, the Deemed loan asset is recorded at amortised cost using the effective interest (EIR) method. Any difference between the fair value of mortgages and the Deemed loan asset at inception including the fair value of the interest rate swap are amortised using EIR method.

Although a single net cash flow takes place on each settlement date, the investor report clearly identifies the individual components outlined above. Obligations under the Deemed loan asset fluctuate with interest rate changes due to a mismatch in the notional for interest rate swaps and floating Loan notes. As a result, the Deemed loan asset is considered to be a hybrid (combined) instrument which contain non-derivative host contract and an embedded derivative.

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

2 Basis of preparation (continued)

2.9 Financial instruments

a) Deemed loan asset (continued)

Therefore:

- The host contract is a prepayable floating rate financial asset; and
- There is a separated embedded derivative representing the mirror of the cash flows on the interest rate swap.

The embedded derivative and interest rate swaps are accounted at fair value. Any changes to fair value are recorded through the Statement of Comprehensive Income.

b) Impairment of financial assets

The recoverability of the Deemed Loan is dependent on the collections from the underlying mortgage loans and credit enhancement available in the structure. The Deemed Loan is considered impaired when it is considered probable that the Company will be unable to collect all amounts due in accordance to the relevant contractual terms.

The Company uses models and makes various assumptions to measure the impairment provision. There is estimation uncertainty in determining the assumptions used in these models, including assumptions that relate to key drivers of default rates, probability of cure and forced sales discount to be applied to the underlying mortgage loan collateral value.

In the estimation of LGD, a number of estimated inputs are used such as cure rates (i.e. the probability of defaulted loans curing) and the valuation of the mortgage loan collateral reflecting the impact of changes in the House Price Indices, forced sale discounts and the time to sale.

Sensitivity

The Company sensitised the underlying mortgage loan on a loan loss provisioning model and note that no impairment provision is required on Deemed loan asset due to sufficient credit enhancement.

c) 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.

2.10 Deferred consideration

The deferred sale consideration is recognised in line with FRS 102 and calculated as a percentage of carrying value. The receivable is settled by receipts from the acquirer of the loan assets over the term of the loans. The receivable does not bear interest, but is held at a discounted value. The deferred sale consideration is recognised as an asset held at fair value with changes going through the fair value through profit or loss (FVTPL).

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

2 Basis of preparation (continued)

2.11 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 Loan 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. The Company recognises any changes to fair value of derivatives through the Statement of Comprehensive Income.

2.12 Servicing fee

Fees incurred under loan servicing are reflected in the Statement of Comprehensive Income in the period the servicing is carried out.

2.13 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. The judgements and assumptions around loan impairment provisions and effective interest rate are the most important in the portrayal of the Company's financial condition and impact the results of current and future reporting periods.

3.1 Securitisation accounting

In a securitisation transaction, the securitised loan, which in this case is the Mortgage Portfolio, may be recognised in the financial statements of the Seller, which in this case is PML 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 FRS 102. 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.

Polaris 2022-1 Plc

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

4 Employees

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.

5 Interest receivable and similar income

	For the period 3 December 2021 to 31 December	
	2023	2022
	£	£
Interest income and similar income	26,479,604	10,918,555
Bank Interest	719,052	98,616
Interest receivable and similar income	27,198,656	11,017,171

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

6 Interest payable and similar expenses

	For the period 3 December 2021 to 31 December	
	2023	2022
	£	£
Interest expense on Notes	22,902,005	10,128,723
Amortisation of deal costs	10,324	10,332
	22,912,329	10,139,055

7 Other operating expenses

	For the period 3 December 2021 to 31 December	
	2023	2022
	£	£
Servicer fees	621,782	521,301
Trustee fees	34,588	24,757
Other expenses	232,108	189,098
	888,478	735,156

Polaris 2022-1 Plc

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

7 Other operating expenses (continued)

During the period the Company incurred fees of £13,350 (2022: £21,782) to CSC Corporate Services (UK) Limited.

8 Corporate tax expense

	For the period 3 December 2021 to 31 December	
	2023	2022
	£	£
Corporation tax		
Current tax on profit for the period	(300)	(228)
Taxation on profit for the period	(300)	(228)
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:		
Profit on ordinary activities before tax	1,200	1,200
Cash retained profit taxed in accordance with SI 2006/3296	(1,200)	(1,200)
Tax charge at 25% (2022: 19%)	(300)	(228)
Total tax charge for the period	(300)	(228)

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 Statement of Comprehensive Income. 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 April 2023 the main rate of Corporation Tax changed to 25% for Companies with profits greater than £250,000.

Polaris 2022-1 Plc

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

9 Cash and cash equivalents

	2023 £	2022 £
Cash and cash equivalents	21,392,903	6,710,257

The fair value of cash and cash equivalents is the same as the book value due to the nature of the asset.

10 Deemed loan receivable

	2023 £	2022 £ *Restated
Deemed loan asset	315,286,671	423,233,069
Embedded derivative	(10,293,262)	(21,320,622)
Net Deemed loan asset	304,993,409	401,912,447
Of which:		
Current	51,849,061	78,350,134
Non-current	253,144,348	323,562,313
	304,993,409	401,912,447

The Company purchased the beneficial title to and interest in a mortgage portfolio, in order to provide funding by issuing residential mortgage backed securities ("Loan notes"). While the beneficial title to the mortgage portfolio is sold to the Company pursuant a sale transaction, it did not meet the IAS 39 de-recognition criteria therefore the Seller/Originator continue to record mortgage assets and the Company recorded a Deemed loan asset receivable from the Seller/Originator.

As at 31 December 2023, the Company had financial assets exposed to credit risk with a total carrying amount of £328,622,622 (2022: £430,657,690). No impairment provision made against the Deemed loan asset receivable as at 31 December 2023. Refer Note 2.7.(b) for Company's impairment policy and refer to note 15 for credit risk assessment.

* Restatement

In order to correct for an incorrect allocation included in the 2022 financial statements, the comparative value of the embedded derivative has been restated from (£10,498,881) to (£21,320,622), with a corresponding change in the deemed loan asset from £412,411,328 to £423,233,069. This correction solely impacts the allocation between the deemed loan asset balance and embedded derivative, with no effect on the overall deemed loan asset or any primary statement balances.

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

11 Trade and other receivables

	2023 £	2022 £
Other receivables	334,224	541,253

12 Trade and other payables

	2023 £	2022 £
Other creditors	114,081	101,142

13 Derivative financial instruments

	2023 £	2022 £
Interest rate swaps	14,471,519	28,745,243
Of which:	-	-
Current	7,739,274	13,963,804
Non-current	6,732,245	14,781,439

This is a level 2 financial instrument. The notional amount of the swap at 31 December 2023 is £275,166,422 (2022: £434,160,729).

Derivatives are marked to market.

14 Loan notes

To fund the purchase of the Deemed loan portfolio, the Company issued £468,000,000 mortgage-backed floating rate Loan notes. The Loan notes have a maturity date of October 2059. Total Loan notes outstanding at 31 December 2023 were £345,792,532 (2022 :£441,879,555). The movement is due to repayments on the Deemed loan portfolio and the application of the credit enhancement (see table below).

During the financial year the Company made redemption and interest payments of £96,087,023 (2022: £26,120,445) on the Loan notes.

The table below shows a reconciliation of the cash movements of the Loan notes:

Polaris 2022-1 Plc

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

14 Loan notes (continued)

	2023 £	2022 £
Opening Loan note balance	441,879,555	-
Issued Loan notes	-	468,000,000
Redemptions and interest payments	(96,087,023)	(26,120,445)
Closing Loan notes balance	345,792,532	441,879,555
Adjusted for:		
Reclassifications of Junior Loan notes to deemed loan asset receivable	(4,950,000)	(4,950,000)
Unamortised discount on Loan notes issue	(5,200)	9,111
Unamortised capitalised deal costs	14,446	(24,770)
Accrued interest	230,315	880,689
	341,063,601	437,794,585
Of which:		
Current:	96,314,211	10,713,205
Non-current	244,749,390	427,081,380

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 Loan 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:

	Loans Issued 2023 £	Repayments 2023 £	Closing balance 2023 £
Class of Loan notes issued			
Note Class A	368,172,965	(87,869,288)	280,303,677
Note Class B	24,750,000	-	24,750,000
Note Class C	15,750,000	-	15,750,000
Note Class D	11,250,000	-	11,250,000
Note Class E	9,000,000	-	9,000,000
Note Class Z	4,500,000	-	4,500,000
Note Class X1	1,706,590	(1,706,590)	-
Note Class X2	6,750,000	(6,511,145)	238,855
	441,879,555	(96,087,023)	345,792,532

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

14 Loan notes (continued)

Class of Loan notes issued	Loans Issued 2022 £	Repayments 2022 £	Closing balance 2022 £
Note Class A	384,750,000	(16,577,035)	368,172,965
Note Class B	24,750,000	-	24,750,000
Note Class C	15,750,000	-	15,750,000
Note Class D	11,250,000	-	11,250,000
Note Class E	9,000,000	-	9,000,000
Note Class Z	4,500,000	-	4,500,000
Note Class X1	11,250,000	(9,543,410)	1,706,590
Note Class X2	6,750,000	-	6,750,000
	<u>468,000,000</u>	<u>(26,120,445)</u>	<u>441,879,555</u>

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 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.

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

15 Financial risk management (continued)

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:

	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	304,993,409	304,993,409	401,912,447	401,912,447
Trade and other receivables	334,224	334,224	541,253	541,253
Cash and cash equivalents	21,392,903	21,392,903	6,710,257	6,710,257
Derivative financial instrument	14,471,519	14,471,519	28,745,243	28,745,243
	341,192,055	341,192,055	437,909,200	437,909,200

The cash at bank is held with Citibank N.A London Branch. Citibank N.A London Branch currently holds an Aa3/P-1 credit rating by Moody's. The other debtors are made up of prepaid expenses.

Credit quality of underlying mortgages

The Deemed loan may become impaired in case of a significant deterioration in the performance of the mortgage loans as a result of economic conditions. If a borrower defaults on the loan agreement, the Company will receive asset realisation proceeds equivalent to the value of the asset at the time of sale. If it is difficult to find a purchaser for the assets, this may affect the value.

The Directors estimate that the performance of the mortgage loans underlying the Deemed loan would have to deteriorate substantially from the level as at 31 December 2023 before the credit losses would exceed the amount of credit enhancement provided by the Seller.

Polaris 2022-1 Plc

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

15 Financial risk management (continued)

Analysis of loans by payment due status

The following table summarises the arrears position as at the year end:

	2023		2022	
	Gross loans and advances £000	Percentage of total %	Gross loans and advances £000	Percentage of total %
Arrears				
Not past due	303,020	92.2%	416,405	96.7%
>0 <1 month in arrears	6,896	2.1%	4,917	1.1%
=>1 <2 month in arrears	6,381	1.9%	3,723	0.9%
=>2 <3 month in arrears	3,449	1.1%	2,737	0.6%
=>3 <6 month in arrears	6,110	1.9%	2,050	0.5%
=>6 month in arrears	2,766	0.8%	946	0.2%
Total Gross Loans and advances	328,622	100.0%	430,778	100.0%

Collateral held as security for underlying mortgages

All the mortgage loans are secured by a first charge over residential property in England and Wales. The following table provides an analysis of underlying mortgages by Loan to Value (LTV):

	2023		2022	
	Gross loans and advances £000	Percentage of total %	Gross loans and advances £000	Percentage of total %
Indexed loan to value (ILTV)				
0% - 50%	36,919	11.2%	53,536	12.4%
50% - 60%	37,200	11.3%	60,971	14.2%
60% - 75%	231,393	70.4%	301,497	70.0%
75% +	23,110	7.0%	14,774	3.4%
Total Gross Loans and advances	328,622	100.0%	430,778	100.0%

The LTV is indexed using the Land Registry House Price Index ("HPI") close to year end.

Weighted average LTV	64.25%	63.00%
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Notes to the Financial Statements for the Year Ended 31 December 2023 (continued)

15 Financial risk management (continued)

Concentration of exposure

Credit concentration risk arises where any single exposure, or group of exposures based on common risk characteristics, has the potential to produce sufficiently large losses such that it threatens the Company's ability to maintain its core operations. Exposure to groups of loans that share the same characteristics is reduced through the underwriting process. The Company's management of concentration risk includes monitoring the following ratios:

	As at 31 Dec 23	As at 31 Dec 22
Maximum percentage of mortgage loan portfolio balance in Greater London and South East England	48%	45%
Percentage of mortgage loan portfolio balance – self employed	37%	41%

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.

If not otherwise repaid, the Loan notes will follow the profile of the Deemed loan and will therefore be repaid at their principal amount outstanding on the final interest payment date in October 2059.

The Company has additional credit enhancement in the form of a reserve fund to ensure the Company is able to meet its obligations as they fall due.

The following tables set out the remaining contractual maturities of the Company's financial assets and financial liabilities by type.

	Carrying amount £	Gross cash flows £	Within 1 year £	Greater than 1 year but within 5 years £	After 5 years £
2023					
Trade and other payables	114,081	114,081	114,081	-	-
Loan notes	341,063,601	512,877,682	19,562,915	58,250,342	435,064,425
Total non-derivative financial instruments	341,177,682	512,991,763	19,676,996	58,250,342	435,064,425

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

15 Financial risk management (continued)

	Carrying amount £	Gross cash flows £	Within 1 year £	Greater than 1 year but within 5 years £	After 5 years £
2022					
Trade and other payables	101,142	101,142	101,142	-	-
Loan notes	437,794,585	820,339,892	31,550,946	119,279,134	669,509,812
Total non-derivative financial instruments	437,895,727	820,441,034	31,652,088	119,279,134	669,509,812

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.

	2023 %	2022 %
Fixed rate loans	81	100
Variable rate loans	19	-

Fair value measurement

At the year end the Company has an interest rate swap contracts with fair value of £14,471,519 (2022: £28,745,243) to hedge the risk of fixed interest rates on the Loan notes. The fair values of such interest rate swap 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:

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

15 Financial risk management (continued)

	Carrying amount £	Total fair value £	Quoted market price Level 1 £	Using observable inputs Level 2 £	With significant unobservable inputs Level 3 £
As at 31 Dec 23					
Deemed loan	304,993,409	330,963,004	-	-	330,963,004
Cash and cash equivalents	21,392,903	21,392,903	21,392,903	-	-
Trade and other receivables	334,224	334,224	-	-	334,224
Derivative financial assets	14,471,519	14,471,519	-	14,471,519	-
	341,192,055	367,161,650	21,392,903	14,471,519	331,297,228
Loan notes	341,063,601	341,063,601	-	-	341,063,601
Trade and other payables	114,081	114,081	-	-	114,081
	341,177,682	341,177,682	-	-	341,177,682
	Carrying amount £	Total fair value £	Quoted market price Level 1 £	Using observable inputs Level 2 £	With significant unobservable inputs Level 3 £
As at 31 Dec 22					
Deemed loan	401,912,447	441,622,375	-	-	441,622,375
Cash and cash equivalents	6,710,257	6,710,257	6,710,257	-	-
Trade and other receivables	541,253	541,253	-	-	541,253
Derivative financial assets	28,745,243	28,745,243	-	28,745,243	-
	437,909,200	477,619,128	6,710,257	28,745,243	442,163,628
Loan notes	437,794,585	437,794,585	-	-	437,794,585
Trade and other payables	101,142	101,142	-	-	101,142
	437,895,727	437,895,727	-	-	437,895,727

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.

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

15 Financial risk management (continued)

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 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.

Derivative assets

The valuation is calculated by discounting future cashflows using appropriate and observable market data.

Interest rate sensitivity analysis

	2023 -0.25%	2023 +0.25%	2022 -0.25%	2022 +0.25%
	£	£	£	£
Change in interest rate (Reduction)/Increase to interest income	(719,000)	719,000	(996,000)	996,000
Reduction/(Increase) to interest expense	851,000	(851,000)	1,079,000	(1,079,000)

The capital managed by the Company comprises of ordinary shares outstanding and the Loan notes issued and outstanding as at year end. The Company is not subject to externally imposed capital requirements.

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to noteholders through the optimisation of debt and equity balances.

Polaris 2022-1 Plc

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

16 Called up share capital

	2023 £	2022 £
Called up, allotted and issued Ordinary shares of £1 each: 49,999 - quarter paid	12,500	12,500
1 ordinary share of £1 each: fully paid	1	1
	12,501	12,501

The 49,999 ordinary shares of £1 each were issued on 9 December 2021.

Polaris 2022-1 Holdings Limited is the sole member of the Company. All authorised shares were issued at par; 1 share was issued on incorporation and 49,999 partly paid shares were issued.

17 Related party transactions

CSC Capital Markets UK Limited entered into an agreement with the Company to provide certain corporate administrative services, bookkeeping and accounting services to the Company. CSC Corporate Services (UK) Limited also acted as Company Secretary. CSC Corporate Services (UK) Limited is a wholly owned subsidiary of CSC Capital Markets UK Limited. During the period the Company incurred fees of £13,350 (2022: £21,782) from CSC Capital Markets UK Limited. There were no fees paid to Directors by the administrator as a Directors' fee.

The Deemed loan asset balance of £304,993,409 (2022: £401,912,447) is due from UKMLL (UK Mortgage Lending Limited) at 31 December 2023. Of the associated Deemed loan interest income in 2023, £26,479,603 (2022: £10,918,555) is attributable to UKMLL. Pepper (UK) Limited, a Company under common control, acts as servicer for the receivable portfolio for the Company and received £621,782 (2022: £521,301) net of VAT during the period.

18 Contingent liabilities and commitments

There were no contingent liabilities or commitments as at 31 December 2023. Contingent liabilities are assessed continually to determine whether transfers of economic benefit have become probable. Where future transfers of economic benefits charge from previously disclosed contingent liabilities, provisions are recognised in the period in which the changes in probability occur.

Polaris 2022-1 Plc

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

19 Ultimate parent undertaking

The entire share capital of the Company is held by Polaris 2022-1 Holdings Limited ("Holdings"), a Company incorporated in the United Kingdom and registered in England and Wales. The entire share capital of the Holdings is held in a discretionary trust basis under a share trust deed by the legal parent Company, CSC Corporate Services (UK) Limited, a Company incorporated in the United Kingdom and registered in England and Wales. The registered address of CSC Corporate Services (UK) Limited is 10th Floor, 5 Churchill Place, London, E14 5HU.

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.

20 Post balance sheet events

There have been no post balance sheet events to note.