RESIDENTIAL MORTGAGE SECURITIES 19 PLC

Report and Financial Statements

31 March 2016

Company Registration No. 05227228

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Company Registration No. 05227228

OFFICERS AND PROFESSIONAL ADVISERS

Directors
Capita Trust Corporate Services Limited
Capita Trust Corporate Limited
S Martin

Company Secretary
Capita Trust Corporate Limited

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Bankers
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Company Registration No. 05227228

STRATEGIC REPORT

The Directors present their strategic report for the year ended 31 March 2016.

Principal activities
Residential Mortgage Securities 19 Plc (the "Company") is a special purpose vehicle which acts as issuer in a residential mortgage backed securitisation transaction. The principal activity of the Company is the investment in mortgage assets secured by first charges over properties within the United Kingdom. This is achieved by the Company purchasing beneficial interest in portfolios of mortgage assets from an originating company.

The purchase of the portfolios of mortgage assets was financed by the issuance of a series of mortgage backed floating rate notes, listed on the Irish Stock Exchange, secured on the mortgage portfolio. The Company pays interest and repays the principal due on the mortgage backed floating rate notes from interest and principal payments received from the mortgage assets until all the mortgage backed floating rate notes have been redeemed. Further, deferred consideration may be payable dependent on the future performance of the mortgage assets.

During the year the Company transitioned from previously extant UK GAAP to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The transition to FRS 101 has resulted in increased disclosures as contained within note 8, note 15 and a split between the carrying amounts of derivatives to current and non current. Details of the changes and the exemptions taken under the reduced disclosure framework are disclosed in note 20.

The Company's parent undertaking and controlling party, Residential Mortgage Securities Limited, and the consolidating entity, Kayl Holdco S.à.r.l., were notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions. Details of the recognition or measurement differences arising on the adoption of FRS 101 are included in note 20 to these financial statements.

The Company is de facto controlled by Koala (Cayman) Limited and its subsidiaries (the "Group") through a wholly owned subsidiary, Kayl Residuals S.à r.l, that retains an interest in the cashflows and profits of the company. The largest group in which the results of the Company are consolidated is Koala (Cayman) Limited (note 16). Koala (Cayman) Limited is wholly owned by Koala 2 LP, a partnership registered in the Cayman Islands, which is ultimately owned by funds managed by Blackstone Tactical Opportunities Advisors LLC and TPG Special Situations Partners.

There have been no significant changes to the Company's principal activities during the year under review and, as at the date of this report, the Directors are not aware of any major changes in the Company's activities in the coming year.

Review of the business
The Statement of Comprehensive Income for the year ended 31 March 2016 is set out on page 11. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory.

At the year end, the gross mortgage balance was £46,138,000 (2015: £51,206,000). The estimated weighted average life of the mortgage assets is 5.02 years (2015: 6.8 years).

	2016		**2015**	
	Current balance £'000	**Number of loans**	**Current balance £'000**	**Number of loans**
As at 31 March				
First charge mortgages	46,138	494	51,206	536
Total	46,138	494	51,206	536

STRATEGIC REPORT (continued)

Review of the business (continued)
After considering property values, anticipated bad debts and future income streams associated with the mortgage assets, over and above the principal figure shown above, the Directors consider the mortgage assets, together with other related assets of the Company such as cash and derivatives, to be adequate collateral against the mortgage backed loan notes in issue. The weighted average funding costs are 1.25% (2015: 1.25%) above LIBOR and the weighted average spread on mortgage assets is 5.87% (2015: 5.31%).

The mortgage assets exhibited the following quarterly arrears profile.

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Repossessed Mortgage Book
Delinquencies days	%	%	%	%	%	%
Current	66.00	68.63	70.32	68.83	71.76	0.00
>30<=60	9.00	5.93	9.38	10.35	7.25	0.00
>60<=90	4.00	5.24	2.88	4.02	4.99	0.00
>90<=120	3.00	2.50	1.90	2.31	2.11	0.00
>120	18.00	17.70	15.52	14.49	13.89	0.00
Total	100.00	100.00	100.00	100.00	100.00	0.00

The level of arrears in the mortgage portfolio has largely stabilised, which the Directors consider consistent with the improvement in the market conditions experienced in the past few years in the UK mortgage market.

Interest accrued for the year in relation to impaired financial assets is 7.75% (2015: 2.32%) of the principal balance.

A monthly accrual is made in the Statement of Comprehensive Income for deferred consideration that will ultimately become payable. Under the terms of the waterfall of payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Cash flow projections have been prepared to determine the extent to which deferred consideration will be payable. Based on these projections, the Directors have determined that the full £19,450,000 (2015: 19,717,000) as recorded in Note 12 was payable as at 31 March 2016 to Kayl Residuals S.à r.l., a fellow group company.

Principal risks and uncertainties
Risks specific to the Company's activities are associated with its financial instruments. The financial instruments held by the Company comprise the mortgage assets, borrowings, cash and various other items (such as trade debtors, trade creditors, etc) that arise directly from its operations.

The Company also enters into derivative transactions where necessary (principally interest rate and currency swaps) to manage its interest rate risk and currency risk.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, foreign exchange risk and liquidity risk. None of the hedge relationships held by the Company qualify for hedge accounting.

The Directors review and agree policies for managing each of these risks.

Credit risk

Credit risk is the risk that borrowers of the mortgage assets will not be able to meet their obligations as they fall due. All mortgage assets are required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage assets. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored through an extensive assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

The level of arrears in the mortgage portfolio has largely stabilised, which the Directors consider consistent with the improvement in the UK mortgage market. Low re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes have continued with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the Directors acknowledge that the improved market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance.

On 23 June 2016, the UK voted to leave the European Union. The impact of this unprecedented decision is currently unknown as the UK government is yet to agree the terms and conditions upon which the UK will leave the European Union. Until such time as formal terms are agreed, there is a high degree of uncertainty and consequently market volatility is expected.

As a stimulus to the economy, on 5 August 2016, the Bank of England reduced its base rate to 0.25%. This interest rate reduction has been passed onto borrowers whose mortgage interest rate is linked to the Bank of England base rate; there are also certain mortgages that are linked to LIBOR which has also reduced as a result of the change in base rate. These changes reduce monthly repayment amounts and, as such, reduce credit risk in the short term.

With this in mind, the Directors continue to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or interest rates which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible, the Company considers the use of derivative financial instruments, such as basis rate swaps, to mitigate any residual interest rate risk.

The change in LIBOR will also reduce the amounts paid on mortgage backed loan notes, thereby reducing the interest rate risk of the Company.

Foreign exchange risk

Foreign exchange risk exists where the mortgage backed loan notes are denominated in a currency which is different to the underlying Sterling mortgage assets. The Company minimises its exposure to foreign currency risk by ensuring that the currency characteristics of its assets and liabilities are similar. Where this is not possible, the Company considers the use of derivative financial instruments to mitigate any foreign exchange risk.

As a consequence of the Brexit referendum result, Pound Sterling has depreciated against the US Dollar. The Company does not have any outstanding notes denominated in US Dollar. The depreciation against the Euro has been less significant and therefore deemed immaterial. As detailed in note 15(d), the Company is fully hedged against currency fluctuations by the use of cross currency swaps which will change in value by an equal and opposite amount meaning there is no profit and loss impact to the Company.

Liquidity risk

The Company's policy is to manage liquidity risk by matching cash payments due on the mortgage backed loan notes to cash receipts from mortgage assets. In addition, the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances

Approved by the Board of Directors on 30 September 2016. Signed on behalf of the Board.

David Osborne

Capita Trust Corporate Limited
Director

Date 30 September 2016

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 March 2016.

Directors
The Directors who held office during the year and up to the date of signing of these financial statements were as follows:

Capita Trust Corporate Services Limited
Capita Trust Corporate Limited
S Martin

None of the above mentioned Directors are directors of Koala (Cayman) Limited or had beneficial interests in the share capital of the Company. There are no directors' interests requiring disclosures under Companies Act 2006.

Company secretary
Capita Trust Corporate Limited continued to act as Company Secretary for the year ended 31 March 2016.

Dividend
The Directors do not recommend the payment of a dividend (2015: £Nil).

Future business developments
The Directors expect the business will continue in its principal activities described above for the foreseeable future and will ensure that customers continue to be serviced on a business as usual basis.

The Company is in the process of reassessing the outsourced service provider arrangement and this may change in the next 12 months. A change is not expected to have a significant impact on the financial position or results of the Company.

Going concern
On the basis of current financial projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and as noted previously the Directors consider the mortgages and related assets of the Company to provide adequate collateral against the mortgage backed loan notes in issue. Funding for the Company is provided by mortgage backed loan notes, which are committed until 2038 (see Note 13). A call option exists over the Notes which may be exercised at the sole discretion of the Issuer (with the approval of the Trustee) once the outstanding mortgage backed loan notes reach 20% of the original issued amount. Although the threshold conditions have now been met, the Directors do not anticipate winding up the Company within the next 12 months from the date of approval of the financial statements. Accordingly, the going concern basis is adopted in the preparation of the financial statements.

Principal risks and uncertainties
The business is subject to a number of risks, described in the Strategic Report under the Principal Risks and Uncertainties section, which could adversely affect the business in future years and the Directors will continue to monitor and manage those risks.

DIRECTORS' REPORT (continued)

Fair value
Note 15(E) discloses the fair values of the Company's mortgage assets and non-recourse mortgage backed loan notes. The fair value of the Notes has been based upon their quoted prices, where available, or prices interpolated using latest available market data where not. The fair value of the mortgage assets has been based upon the fair value of the associated mortgage backed loan notes and expected residual cash flows.

Directors' indemnity and Directors' and Officers' liability insurance
Capita Trust Corporate Limited has made qualifying third party indemnity provisions for the benefit of S Martin, Capita Trust Corporate Limited and Capita Trust Corporate Services Limited. These indemnity provisions remain in force at the date of this report.

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

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

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority disclosure and transparency rules 7.1 Audit committee and 7.2 Corporate governance statements (apart from 7.2.5). This would otherwise require the Company respectively, to have an Audit Committee in place, and to include a corporate governance statement, including all requirements of the disclosure and transparency rules, in the report of the Directors.

The Directors are therefore satisfied that there is no requirement for an Audit Committee, or a supervisory body entrusted to carry out the functions of an Audit Committee or to publish a corporate governance statement which includes all requirements of the disclosure and transparency rules.

Employees
The Company does not have any employees (2015: none). Primary and Special servicing of the mortgage assets is carried out by Homeloan Management Limited ("HML"), a subsidiary of Computershare Limited, a third party. Kensington Mortgage Company Limited acts as the cash bond administrator and its parent, The Northview Group Limited (previously known as Kensington Group Limited) has overall responsibility for oversight of HML.

DIRECTORS' REPORT (continued)

Directors' statement as to the disclosure of information to the auditors
The Directors who were members of the board at the time of approving the Directors' Report are listed on page 5. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

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

Appointment of auditors
In accordance with section 489 of the Companies Act 2006, a resolution to re-appoint Ernst & Young LLP as auditor will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 30 September 2016. Signed on behalf of the Board.

David Osborne

Capita Trust Corporate Limited
Director

Date: 30 September 2016

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed including FRS 101, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RESIDENTIAL MORTGAGE SECURITIES 19 PLC

We have audited the financial statements of Residential Mortgage Securities 19 Plc for the year ended 31 March 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements
In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its result 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.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, 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.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF RESIDENTIAL MORTGAGE SECURITIES 19 PLC (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Michael-John Albert (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 30 September 2016.

Company Registration No. 05227228

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2016

	Notes	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Interest receivable and similar income	2	2,626	2,919
Interest payable and similar charges	3	(849)	(924)
Net interest receivable		**1,777**	**1,995**
Net fair value gain / (loss) on derivatives	15	2,276	(4,028)
Unrealised exchange (loss) / gain on retranslation of mortgage backed loan notes		(2,009)	3,986
Other operating (loss)/income	4	(8)	67
Total operating income		**2,036**	**2,020**
Operating expenses		(2,036)	(2,020)
Profit on ordinary activities before taxation	5	-	-
Tax on profit on ordinary activities	6	-	-
Profit for the financial year		-	-

The transactions in the current year and in the prior year were derived from continuing operations.

There was no other comprehensive income during the current year and in the prior year other than those passed through the Statement of Comprehensive Income.

The notes on pages 14 to 33 form an integral part of these financial statements.

Company Registration No. 05227228

STATEMENT OF FINANCIAL POSITION
At 31 March 2016

	Notes	31 March 2016 £'000	31 March 2015 £'000
Non-current assets			
Debtors: amounts falling due after one year	10	44,490	48,945
Derivative financial instruments	15	3,477	1,223
		47,967	50,168
Current assets			
Debtors: amounts falling due within one year	11	1,338	1,750
Cash at bank and in hand	9	23,946	22,101
		25,284	23,851
Current liabilities			
Derivative financial instruments	15	-	(22)
Creditors: amounts falling due within one year	12	(25,810)	(24,305)
Net current assets		**(526)**	**(476)**
Non-current liabilities			
Creditors: amounts falling due after one year	13	(47,428)	(49,679)
Net assets		13	13
Capital and reserves			
Called up share capital	14	13	13
Retained earnings		-	-
Total equity		13	13

The notes on pages 14 to 33 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 September 2016 and were signed on its behalf by:

David Osborne

Capita Trust Corporate Limited
Director

Date: 30 September 2016

Company Registration No. 05227228

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2016

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Opening balance 1 April 2014	13	-	13
Profit for the year	-	-	-
As at 31 March 2015	13	-	13
Profit for the year	-	-	-
As at 31 March 2016	13	-	13

The notes on pages 14 to 33 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 March 2016

1. ACCOUNTING POLICIES

Basis of preparation and statement of compliance with FRS 101
The Company transitioned from previously extant UK GAAP to FRS 101 for all periods presented. The financial statements have therefore been prepared in accordance with FRS 101. This transition is not considered to have had a material impact on the recognition and measurement of balances in these financial statements. The Company has opted to take advantage of disclosure exemptions under FRS 101 outlined below.

The Company has taken advantage of the following disclosure exemptions under FRS 101:
(a) the requirements of IAS 7 Statement of Cash Flows;
(b) the requirements of paragraphs 10(d), 10(f), 38(c) and 134-136 of IAS 1 Presentation of Financial Statements;
(c) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
(d) the requirements in IAS 24 Related Party Disclosures to disclose compensation related to key management personnel and related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Where relevant, equivalent disclosures have been given in the group accounts of Koala (Cayman) Limited. The group accounts of Koala (Cayman) Limited are available to the public and can be obtained as set out in note 16.

The financial statements have been prepared on a going concern basis. No new standards apart from FRS 101 have been applied. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2016.

The Company's financial statements are presented in Pounds Sterling, which is also the functional currency and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated. The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

Interest and similar income and expense
Interest income on mortgage assets, together with the interest expense on the mortgage backed loan notes, is recognised in the Statement of Comprehensive Income on an Effective Interest Rate ("EIR") basis. The EIR recognises revenue and expenses equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the mortgage assets or mortgage backed loan notes.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the Statement of Financial Position date where transactions or events that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions:

(i) Deferred tax assets are recognised only to the extent that the Directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(ii) Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the Statement of Financial Position date.

Notes to the financial statements
for the year ended 31 March 2016

Financial Instruments

(a) Recognition
The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Company commits to purchase or sell the asset.

(b) Classification and measurement

Financial assets and liabilities are initially recognised at fair value and may be held at fair value or amortised cost. The Company determines the classification of its financial instruments at initial recognition. All financial assets are recognised initially at fair value plus directly attributable costs for those not at fair value through profit and loss.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings payables, net of directly attributable transaction costs.

(c) De-recognition
When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Financial Assets

(a) Debtors
Debtors with no stated interest rate and receivable within one year are recorded at transaction price less provisions made for doubtful debts.

Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic condition.

(b) Mortgage assets
The mortgage assets are classified within Debtors. The initial measurement is at fair value with subsequent measurement being amortised cost using the Effective Interest Rate ("EIR") method. The effective interest on the mortgage assets is calculated with reference to the interest earned on the mortgage assets.

Mortgage assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable and similar income in the Statement of Comprehensive Income.

Notes to the financial statements
for the year ended 31 March 2016

Financial Assets (continued)

(c) Impairment of mortgage assets

The Company assesses at each Statement of Financial Position date whether there is evidence that a mortgage asset or a portfolio of financial assets is impaired. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Statement of Financial Position date ("a loss event"), and that loss event or events has had an impact on the estimated future cash flows of the mortgage assets or the portfolio that can be reliably estimated.

The Company assesses whether objective evidence of impairment exists individually for mortgage assets. Mortgage assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a individual evaluation of impairment, mortgage assets are based on individual loan risk characteristics, taking into account asset type, borrower, loan scores, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the Statement of Comprehensive Income.

Any impairment in the mortgage assets will be reflected in the Company's accounts by adjusting the carrying amount of the mortgage assets in the Statement of Financial Position.

Financial Liabilities

(a) Trade and other creditors - Current

Creditors with no stated interest rate and due within one year are recorded at transaction price.

(b) Mortgage backed loan notes

The mortgage backed loan notes were initially recognised at fair value, which was their par value at the date of issue. The mortgage backed loan notes are subsequently remeasured at amortised cost taking into account repayments at Interest Payment Dates where applicable.

(c) Deferred consideration

Deferred considerations are initially recognised at the fair value of the consideration paid.

At each subsequent Statement of Financial Position date an accrual is made for deferred consideration within the financial statements as amounts are expected to become payable as a result of the performance of the mortgage assets.

Notes to the financial statements
for the year ended 31 March 2016

1. ACCOUNTING POLICIES (continued)

Offsetting of financial assets and liabilities

In accordance with IAS 32 Financial Instruments, the presentation of financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the date in the principal or, in its absence, measurement the most advantageous market to which the Company has access at that date.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The following methods are used to estimate the fair values of the financial instruments:

(i) cash, trade receivables and payables – the carrying value is a good approximation of the fair value;

(ii) variable rate borrowings – valued as detailed in note 15(E);

(iii) forward exchange contracts, currency swaps and interest rate instruments – net present value of the future cash-flows, calculated using market data at the Statement of Financial Position date (principally exchange rates and yield curves); and

(iv) mortgage assets - valued as detailed in note 15(E).

The Company, where appropriate, classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy when the inputs have changed or there has been a change in the valuation method.

These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 – quoted (unadjusted) prices 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 (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements
for the year ended 31 March 2016

1. ACCOUNTING POLICIES (continued)

Derivative financial instruments
The Company uses derivative financial instruments to hedge its exposure to interest rate risk and foreign exchange risk arising from financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes. None of the hedge relationships held by the Company qualify for hedge accounting.

All derivative financial instruments are held at fair value through profit or loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Subsequent to initial recognition, derivatives are remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Comprehensive Income. The fair value of the derivative financial instruments is the estimated amount that the Company would receive or pay to terminate the derivative contract at the Statement of Financial Position date. Where derivative contracts contain collateral agreements which reduce counterparty risk. The collateral is held in cash and recorded within Creditors: due in less than one year (see note 12).

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA). The Company's own risk of default is also incorporated into the fair value of derivative positions. This adjustment is known as the debit value adjustment (DVA). Neither adjustment has a material impact on the fair value of derivative positions.

Basis rate swaps
A series of amortising basis rate swaps were entered into in order to manage the Company's basis rate exposure arising from the difference in reset dates of the mortgage backed loan notes and the mortgage assets. The net interest payable and receivable on the swaps is recorded on an accruals basis and included within interest payable and receivable within the Statement of Comprehensive Income.

Currency swaps
A series of currency swaps were entered into in order to manage the Company's currency exposure in relation to non-Sterling denominated mortgage backed loan notes. The net interest payable and receivable on the swaps is recorded on an accruals basis and included within interest payable and receivable within the Statement of Comprehensive Income.

Foreign currencies
The financial statements are presented in Pounds Sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). Transactions in foreign currencies are translated into Sterling using the spot exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Sterling at the rate of exchange ruling at the Statement of Financial Position date. All differences are taken to the Statement of Comprehensive Income.

Issue costs
Initial issue costs incurred in arranging funding facilities are amortised over the expected average life of the facility. Unamortised initial issue costs are deducted from the associated liability in accordance with IAS 39 and costs amortised in the year are included in interest payable.

Segmental analysis
The Company's income and trade are wholly within the UK and within a single market sector and therefore no segmental analysis has been presented.

Cash and short-term deposits
Cash and short-term deposits in the Statement of Financial Position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Share capital and capital contributions
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Notes to the financial statements
for the year ended 31 March 2016

1. ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The Company has identified the following significant accounting policies that involve critical accounting estimates:

(a) Impairment of mortgage assets
Impairment losses on mortgage assets are calculated based on statistical models. The key assumptions relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the properties. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition the Directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect current conditions.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided. The change in estimate has been applied prospectively.

(b) Effective Interest Risk ("EIR") (note 2)
The Effective Interest Rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The book value of the mortgage assets is measured at amortised cost using the EIR method, with a provision made for impairment. The current model used to estimate future cash flows in the EIR are sensitive to certain key assumptions, including the constant prepayment rate ("CPR"), the expected future house price index ("HPI"), the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred.

During the year, the method by which the cash flows were estimated was changed. The biggest driver of changes in amortised cost is the CPR which was changed from a flat rate of 10% per annum to a month on month rate ranging between 2.88% and 7.44%. The impact of the changes in estimate are shown in Note 2. The change in estimate has been applied prospectively.

(c) Deferred consideration
These are accruals and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

(d) Fair value measurement
The Company measures financial instruments, such as derivatives, at fair value at each Statement of Financial Position date (note 15 - fair value of financial assets and liabilities). For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation, and is constructed by benchmarking to generic instruments in the market that are sensitive to Overnight Index Swap ("OIS") movements.

Notes to the financial statements
for the year ended 31 March 2016

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
On mortgage assets	2,594	2,893
Other interest	32	26
	2,626	2,919

In the current year, the estimated weighted average life of the mortgage assets is 5.02 years (2015: 6.8 years). The EIR adjustment on mortgage assets was an income of £185,000 (2015: expense of £149,000). The method by which the cash flows for the EIR adjustment have been calculated has changed in the year. The impact of the change is a decrease in EIR of £434,000 as a result of changes in the key assumptions, particularly CPR, which moved from a flat rate of 10% per annum to a month on month rate ranging between 2.88% and 7.44%.

Interest accrued for the year in relation to impaired financial assets is £14,000, 7.75% (2015: 2.32%) of the principal balance.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
On mortgage backed loan notes	849	906
Interest payable – other	-	18
	849	924

Within interest payable on mortgage backed loan notes £nil (2015: £nil) relates to amounts due to group companies.

4. OTHER OPERATING (LOSS)/INCOME

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Sundry fee (expense)/income	(8)	67

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 March 2016 £'000	Year ended 31 March 2015 £'000
Profit on ordinary activities before taxation is stated after charging /(crediting) the following within operating expenses:		
Deferred consideration	1,561	1,868
Auditors' remuneration – audit services (audit of the Company's financial statements)	14	17
Impairment charge for the year on mortgage assets	(228)	(219)
Amounts written off in relation to mortgage assets	47	16

Notes to the financial statements
for the year ended 31 March 2016

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)

Statutory information on remuneration for other services provided by the Company's auditors to the Koala (Cayman) Limited Group is given in the consolidated financial statements of Koala (Cayman) Limited, which is the largest group into which the results of this Company are consolidated. There are no non audit services specifically related to the Company.

The Company's operations are managed by The Northview Group Limited (previously called Kensington Group Limited), an affiliate company.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

For UK corporation tax purposes, the Company is subject to tax in accordance with the interim regime for securitisation companies. As set out in Section 83 of Finance Act 2005, this requires that its tax is calculated based on the accounts as if they have been prepared in accordance with UK Generally Accepted Accounting Practice as it applied for a period of account ending on 31 December 2004.

The Company's profit before tax for the year, calculated by reference to UK Generally Accepted Accounting Practice as it applied for a period of account ending on 31 December 2004, is £Nil (2015: £Nil). As such, no corporation tax charge arises on the result for the current year.

The Finance Act (No. 2) 2015, substantively enacted on 26 October 2015 and enacted on 18 November 2015, included a decrease in corporation tax rates to 19% from 1 April 2017 and 18% from 1 April 2020. On 16 March 2016, the Chancellor of the Exchequer announced a further reduction to the corporation tax rate to 17% effective from 1 April 2020; this change has not yet been substantively enacted.

On 3 July 2016 the Chancellor pledged to further reduce the corporation tax rate to less than 15%. No details were given by the Chancellor as to when the proposed rate reduction would take effect from.

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The Company has no employees (2015: None). The Directors' remuneration for the year was £10,000 (2015: £10,000).

8. MORTGAGE ASSETS – NET OF IMPAIRMENT

The performance of the mortgage assets is as follows:

	Mortgage assets £'000	Impairments to expected cash flows £'000	Mortgage assets, net of impairments £'000
At 1 April 2014	56,148	(808)	55,340
Movement in the year	(4,942)	219	(4,723)
At 31 March 2015	51,206	(589)	50,617
Movement in the year	(5,068)	228	(4,840)
At 31 March 2016	46,138	(361)	45,777

See below for the movements in the provision for impairment of receivables.

	Individually impaired £'000	Collectively impaired £'000	Total £'000
At 1 April 2014	(120)	(688)	(808)
Charge for the year	(62)	-	(62)
Utilised	16	-	16
Unused amounts reversed	-	265	265
At 31 March 2015	(166)	(423)	(589)
Charge for the year	(242)	-	(242)
Utilised	47	-	47
Unused amounts reversed	-	423	423
At 31 March 2016	(361)	-	(361)

Notes to the financial statements
for the year ended 31 March 2016

8. MORTGAGE ASSETS – NET OF IMPAIRMENT (continued)

Included within the pool of mortgage assets are first charge mortgage loans. The remaining loan periods on the first charge loans range between 1 to 223 months (2015: 1 to 235 months) with current interest rates ranging from 3.8% to 8.05% (2015: 3.8% to 9.05%).

The mortgage assets are held as security against the mortgage backed loan notes referred to in Note 13.

The book value of the mortgage assets is measured at amortised cost using the EIR method, with a provision made for impairment. The impairment provision includes a specific provision of £361,000 (2015: £166,000). The impairment model used to estimate future cash flows in the impairment calculation are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. The method of estimation of the cash flows has been changed in the year which has had the impact of increasing the provision by £127,000.

Administration of the mortgage assets is outsourced to HML, a subsidiary of Computershare Limited, a third party.

9. CASH AT BANK AND IN HAND

	2016 £'000	2015 £'000
Cash at bank and on hand	23,946	22,101
	23,946	22,101

Cash at banks earn interest at the rates specified in note 15(B).

10. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2016 £'000	2015 £'000
Mortgage assets, net of impairment (Note 8)	44,490	48,945
	44,490	48,945

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Mortgage assets, net of impairment (Note 8)	1,287	1,672
Prepayments and accrued income	51	17
Amounts due from group companies	-	61
	1,338	1,750

Amounts due from group companies are interest free and repayable on demand.

Mortgage assets, net of impairment represent the portion of the mortgage book contractually receivable over the next 12 months.

Notes to the financial statements
for the year ended 31 March 2016

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016	2015
	£'000	£'000
Accruals and deferred income	115	168
Deferred consideration	19,450	19,717
Collateral accounts	6,060	4,329
Other creditors	133	45
Amounts due to group companies	52	46
	25,810	24,305

Amounts due to group companies are interest free and repayable on demand.

A monthly accrual is made in the Statement of Comprehensive Income for deferred consideration that will ultimately become payable. Under the terms of the waterfall of payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Deferred consideration is paid on a quarterly basis based on available revenue funds.

At 31 March 2016, the Company held £6,060,000 (2015: £4,329,000) of cash, including interest, as collateral as a result of the downgrading of certain swap counterparties' credit ratings. The right to the cash remains with the swap counterparty and a collateral creditor has thus been recognised. Collateral accounts accrue interest at published overnight currency interest rates and are repayable in the event the swap counterparty's credit rating exceeds pre-determined thresholds.

13. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2016	2015
	£'000	£'000
GBP Denominated Mortgage backed loan notes due 2038 – Class A2a	5,292	5,798
EUR Denominated Mortgage backed loan notes due 2038 – Class A2c	3,765	3,772
GBP Denominated Mortgage backed loan notes due 2038 – Class M1a	10,466	11,479
EUR Denominated Mortgage backed loan notes due 2038 – Class M1c	7,699	7,721
GBP Denominated Mortgage backed loan notes due 2038 – Class M2a	2,370	2,599
EUR Denominated Mortgage backed loan notes due 2038 – Class M2c	8,590	8,613
GBP Denominated Mortgage backed loan notes due 2038 – Class B1a	4,542	4,981
EUR Denominated Mortgage backed loan notes due 2038 – Class B1c	4,704	4,716
	47,428	49,679

The mortgage backed floating rate notes due in 2038 are secured over a portfolio of mortgage assets secured by first charge over residential properties in the United Kingdom (Note 8).

Notes to the financial statements
for the year ended 31 March 2016

13. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR (continued)

Whilst the mortgage backed floating rate notes are subject to mandatory redemption in part at each Interest Payment Date in an amount equal to the principal received or recovered in respect of the mortgage assets, the mortgage backed floating rate notes are classified and presented as amounts falling due after one year in accordance with the contractual maturity dates due to the uncertainty in the expected principal repayments or recoveries of the mortgage assets. If not otherwise redeemed or purchased and cancelled, the mortgage backed loan notes will be redeemed at their principal amount outstanding on the Interest Payment Date falling in December 2038.

Interest on the mortgage backed loan notes is payable quarterly in arrears at the following annual rates for three month Sterling LIBOR/EURIBOR:

Class A2a	Sterling LIBOR + 0.40%
Class A2c	EURIBOR + 0.38%
Class M1a	Sterling LIBOR + 0.80%
Class M1c	EURIBOR + 0.70%
Class M2a	Sterling LIBOR + 1.40%
Class M2c	EURIBOR + 1.20%
Class B1a	Sterling LIBOR + 2.20%
Class B1c	EURIBOR + 2.00%

A call option exists over the Notes which may be exercised at the sole discretion of the Issuer (with the approval of the Trustee) once the outstanding mortgage backed loan notes reach 20% of the original issued amount. Although the threshold conditions have now been met, the Directors do not anticipate winding up the Company within the next 12 months from the date of approval of the financial statements.

14. CALLED UP SHARE CAPITAL

At incorporation, 49,999 ordinary shares of £1 with aggregate nominal value of £49,999 were allotted and part paid at 25p each. In addition, 1 ordinary shares of £1 were allotted and fully paid at £1 each.

	2016 £	2015 £
Authorised:		
Ordinary shares of £1 each	50,000	50,000
Allotted and called up:		
49,999 (2015: 49,999) ordinary shares of £1 each, 25p paid	12,500	12,500
1 (2015: 1) shares 100% called up and fully paid	1	1
	12,501	12,501

Notes to the financial statements
for the year ended 31 March 2016

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As explained in the Strategic Report, the Company uses financial instruments in its normal course of business. The following analysis gives an indication of the significance of these instruments to the Company.

(A) FAIR VALUE OF DERIVATIVES

	2016 Notional amount £'000	2016 Assets £'000	2016 Liabilities £'000	2015 Notional amount £'000	2015 Assets £'000	2015 Liabilities £'000
Interest rate						
Basis rate swaps	44,174	-	-	48,433	-	22
Foreign exchange						
Currency swaps	21,504	3,477	-	23,576	1,223	-
		3,477	-		1,223	22

The Company recognised a gain on fair value of derivatives of £2,276,000 during the year (2015: loss of £4,028,000). IFRS 7 "Financial Instruments: Disclosures", requires that an entity classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in the measurement. For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation, and is constructed by benchmarking to generic instruments in the market that are sensitive to Overnight Index Swap ("OIS") movements. Consequently, the Company deems all its derivative financial instruments to be Level 2 per IFRS 7. The Company does not have other financial instruments held at fair value. There have been no transfers between Level 1 and Level 2 in both periods and the Company has no Level 3 financial instruments.

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the non-Sterling denominated mortgage backed loan notes, are set with reference to the London Interbank Offer Rate ("LIBOR"). The rates of interest payable on the mortgage backed loan notes are set as detailed in Note 13.

The basis rate swap has a contractual maturity of 1 December 2038.

Notes to the financial statements
for the year ended 31 March 2016

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(B) INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AS AT 31 MARCH 2016 AND 2015

	Total £'000	Total variable rate £'000	Total fixed rate £'000	Weighted average interest rate %	W. avg time for which rate is fixed Years
2016					
Mortgage assets	46,138	46,138	-	5.87	-
Cash in call account	23,946	-	23,946	0.19	0.25
2015					
Mortgage assets	51,206	51,206	-	5.31	-
Cash in call account	22,101	-	22,101	0.16	0.25

INTEREST RATE SENSITIVITY ANALYSIS ON FINANCIAL ASSETS

	Increase/ decrease in basis points	Effect on equity £'000	Effect on result before tax £'000
2016			
Mortgage assets	(25)	(119)	(119)
Cash in call account	(25)	(58)	(58)
2015			
Mortgage assets	(25)	(131)	(131)
Cash in call account	(25)	(42)	(42)

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market conditions.

In assessing the effect on financial assets of interest rate sensitivity, management have used a benchmark of 25bps in light of the interest rate cut in the UK from 0.50% to 0.25%.

Notes to the financial statements
for the year ended 31 March 2016

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(C) INTEREST RATE RISK PROFILE OF FINANCIAL LIABILITIES AS AT 31 MARCH 2016 AND 2015

	Total £'000	Total variable rate £'000	Swap paying rate %	Swap receiving rate %	Weighted average interest rate %
2016					
Mortgage backed loan notes	47,428	47,428	-	-	1.25
Basis rate swaps*	-	-	0.59	0.59	-
2015					
Mortgage backed loan notes	49,679	49,679	-	-	1.37
Basis rate swaps*	22	22	0.56	0.56	-

Basis rate swaps are used to manage the interest rate risk on the mortgage book.

Interest payable on the mortgage backed loan notes and receivable on mortgage assets are both based on LIBOR while basis rate swaps hedge differences in timing. Whilst certain mortgage backed loan notes are denominated in foreign currency and incur interest based on EURIBOR (EUR notes) the Company has entered into currency swap agreements which allows the Company to settle its note liability obligations with reference to LIBOR/EURIBOR. The Company thus has limited exposure to interest rate risk.

The interest rate risk profile of the mortgage backed loan notes in issue can be found in Note 13 and in the principal risks and uncertainties section of the Strategic Report.

* The derivatives are shown at fair value. The corresponding notional amounts are disclosed in Note 15 (A).

INTEREST RATE SENSITIVITY ANALYSIS ON FINANCIAL LIABILITIES

	Increase/ decrease in basis points	Effect on equity £'000	Effect on result before tax £'000
2016			
GBP	(25)	60	60
EUR	(25)	57	57
2015			
GBP	(25)	79	79
EUR	(25)	48	48

In assessing the effect on financial liabilities of interest rate sensitivity, management have used a benchmark of 25bps in light of the interest rate cut in the UK from 0.50% to 0.25%.

Notes to the financial statements
for the year ended 31 March 2016

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(D) FOREIGN CURRENCY RISK

With the exception of certain mortgage backed loan notes and cross currency swaps, all financial instruments are denominated in Sterling. The outstanding mortgage backed loan notes include the following foreign currency denominated balances:

	2016 Notional amount	2015 Notional amount
EUR Denominated Mortgage backed loan notes due 2038 – Class A2c	€ 4,762,134	€ 5,217,000
EUR Denominated Mortgage backed loan notes due 2038 – Class M1c	€ 9,738,223	€ 10,679,000
EUR Denominated Mortgage backed loan notes due 2038 – Class M2c	€ 10,865,250	€ 11,914,000
EUR Denominated Mortgage backed loan notes due 2038 – Class B1c	€ 5,948,061	€ 6,521,000

A series of currency swaps have been entered into, in order to manage the Company's currency rate exposure in relation to non-Sterling denominated mortgage backed loan notes.

The following is the profile of the Company's currency swaps:

	2016 Notional amount	2015 Notional amount
Euro denominated currency swaps	€ 31,313,668	€ 34,331,000

The Company is not materially exposed to foreign exchange risk as the currency swap notional matches the notional of the Euro denominated mortgage backed loan notes.

The fair value of the currency swaps are disclosed in Note 15(A). The maturity profile of the currency swaps is consistent with the mortgage backed loan notes.

(E) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

	Book value 2016 £'000	Fair value 2016 £'000	Book value 2015 £'000	Fair value 2015 £'000
On Statement of Financial Position				
Mortgage assets	45,777	53,784	50,617	57,823
Cash at bank and in hand:				
Reserve and contingency funds	16,250	16,250	16,250	16,250
Other cash balances	7,696	7,696	5,851	5,851
	23,946	23,946	22,101	11,345
Mortgage backed loan notes due 2038	(47,428)	(49,054)	(49,679)	(50,147)

Except for derivative financial instruments that are held at fair value, all other financial assets and liabilities are held at amortised cost. There were no transfers between categories in both periods.

Management have assessed all other assets and liabilities and consider book value to be equal to fair value.

Management does not expect any losses from non-performance by the counterparties holding cash and short-term deposits. There are no material differences between their book values and fair values.

The Directors have considered the fair values of the Company's main financial assets and liabilities, which are mortgage assets and non-recourse mortgage backed loan notes.

The fair value of the mortgage backed loan notes has been based upon their quoted prices, where available, or prices interpolated using latest available market data. The fair value of the mortgage assets has been based upon the fair value of the associated mortgage backed loan notes, and expected residual cash flows. It is the opinion of the Directors that this methodology, which was the same in the prior year, is appropriate as the market is more liquid than in prior years.

As part of the process of assessing fair value, management have refined the assumptions used. This has been achieved using a combination of macro environmental factors including market observable data and individual borrower data resulting in a more accurate reflection of the estimated cash flows used for computing fair value.

Mortgage backed loan notes and mortgage assets are classified as Level 2 and Level 3 respectively.

Notes to the financial statements
for the year ended 31 March 2016

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(F) CREDIT RISK

Credit risk is the risk that borrowers of the mortgage assets will not be able to meet their obligations as they fall due. All mortgage assets are required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage assets. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the Directors.

The level of arrears in the mortgage portfolio has largely stabilised, which the Directors consider consistent with the improvement in the market conditions experienced in the past few years in the UK mortgage market. Re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes have continued with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the Directors acknowledge that the easing of market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance. With this in mind, the Directors continue to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

Credit quality of the mortgages is assessed by an extensive assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

The maximum exposure to credit risk, without taking into account collateral, is £46,138,000 (2015: £51,206,000).

Collateral accounts

At 31 March 2016, the Company held £6,060,000 (2015: £4,329,000) of cash, including interest, as collateral as a result of the downgrading of certain swap counterparties' credit ratings. The right to the cash remains with the swap counterparty and a collateral creditor has thus been recognised. Collateral accounts accrue interest at published overnight currency interest rates and are repayable in the event the swap counterparty's credit rating exceeds pre-determined thresholds.

Mortgage assets and asset credit quality

All loans and advances are categorised as either 'neither past due nor impaired', 'past due but not impaired', or 'past due and impaired.

A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.

As at 31 March, the aging analysis of mortgage assets is, as follows:

			Past due but not impaired					
	Total	Neither past due nor impaired	< 30 days	30-60 days	61-90 days	91-120 days	>120 days	Impaired
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2016	46,138	19,959	6,758	1,037	414	-	-	17,970
2015	51,206	2,604	572	194	324	-	349	47,162

Notes to the financial statements
for the year ended 31 March 2016

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(G) LIQUIDITY ANALYSIS

Liquidity analysis of financial liabilities based on undiscounted cash flows:

	< 1 mth £'000	1-3 mths £'000	3-12 mths £'000	1-5 yrs £'000	5+ yrs £'000	Total £'000
2016						
Mortgage backed loan notes	-	1,610	4,410	18,205	26,973	51,198
Derivative financial instruments	-	-	-	-	-	-
	-	1,610	4,410	18,205	26,973	51,198
2015						
Mortgage backed loan notes	-	2,750	5,495	21,350	24,919	54,514
Derivative financial instruments	-	22	-	-	-	22
	-	2,772	5,495	21,350	24,919	54,536

There is no contractual obligation to pay down the loan notes other than as set out in note 13.

In addition, the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances. The undiscounted cash flows have been estimated by previously applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans underlying the Company and using the weighted average interest rate prevailing at the Statement of Financial Position date.

The estimated future cash flows are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. The method of estimation of the cash flows has been refined during the year using a combination of macro environmental factors including market observable data and individual borrower data resulting in a more accurate reflection of the estimated cash flows used for computing liquidity. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

The mortgage backed loan notes in the above table will not agree to the liability on Statement of Financial Position as the table incorporates both principal and interest payments on an undiscounted basis (see Note 13 for maturity dates).

The Company's policy is to manage liquidity risk by matching cash payments due on the mortgage backed loan notes to cash receipts from mortgage assets.

(H) MATURITY ANALYSIS

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

31 March 2016	Carrying amount £'000	Repayable on demand £'000	<1mth £'000	1-3 mths £'000	3mths-1 year £'000	1-5 years £'000	More than 5 years £'000
Financial asset by type							
Non-derivative assets							
Mortgage assets	45,777	-	71	143	1,073	4,356	40,134
Cash in call account	23,946	23,946	-	-	-	-	-
Other debtors	51	51	-	-	-	-	-
	69,774	23,997	71	143	1,073	4,356	40,134
Derivative assets							
Currency swaps	3,477	-	-	-	-	-	3,477
	3,477	-	-	-	-	-	3,477
Financial liability by type							
Non-derivative liabilities							
Mortgage backed loan notes	47,428	-	-	-	-	-	47,428
Other creditors	6,360	6,360	-	-	-	-	-
	53,788	6,360	-	-	-	-	47,428
Derivative liabilities							
Basis rate swaps	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

In the current year, the Company transitioned from UK GAAP to FRS 101 – *Reduced Disclosure Framework*. Disclosures of the maturity analysis of the Company's assets and liabilities as at 31 March 2015 are included as part of the group risk management disclosures in the consolidated financial statements of Koala (Cayman) Limited, the ultimate parent.

(I) OPERATIONAL RISK

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Company operates under a robust controls and governance framework, within the Company structure. This includes regulatory and compliance functions and internal audit. The business is covered by the Group's business continuity management capability.

16. PARENT UNDERTAKING AND CONTROL

The Company's parent undertaking is Residential Mortgage Securities Limited, which is registered and operates in England and Wales.

The entire issued share capital of Residential Mortgage Securities Limited is held by Capita Trust Nominees No. 1 Limited who holds the shares on Trust for charitable purposes.

An affiliate company, Kayl Residuals S.à.r.l., retains an interest in the cashflows and profits of the company, having purchased the deferred consideration receivable from subsidiaries of The Northview Group Limited on 30 January 2015.

The Company's operations are managed by The Northview Group Limited, an affiliate company. On 30 January 2015, Investec Plc, a company registered in England and Wales, sold The Northview Group Limited to Koala Bidco Limited, a company whose ultimate parent is Koala 2 L.P., a partnership registered in the Cayman Islands. Koala 2 L.P. is owned by funds managed by Blackstone Tactical Opportunities Advisors L.L.C. and TPG Special Situations Partners.

The largest group in which the results of the Company are consolidated is Koala (Cayman) Limited, a company incorporated in the Cayman Islands. The consolidated financial statements of Koala (Cayman) Limited are available to the public and may be obtained from 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. The smallest group in which the results of the Company are consolidated is Kayl Holdco S.à.r.l. which is incorporated in Luxembourg. The consolidated financial statements of Kayl Holdco S.à.r.l. are available to the public and may be obtained from 6, rue Eugene Ruppert, L-2453, Luxembourg.

17. RELATED PARTY TRANSACTIONS

The transactions and outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. None of the outstanding balances have been impaired.

	Amount charged 2016 £'000	Amount outstanding 2016 £'000	Amount charged 2015 £'000	Amount outstanding 2015 £'000
2016				
Kayl Parent S.à.r.l. and its subsidiaries				
Deferred consideration expense	1,561	-	269	-
Deferred consideration balance	-	(19,450)	-	(19,717)
Other services expenses	23	-	4	-
Other services balance	-	(3)	-	12
Capita Trust				
Other services expenses	23	-	17	-
Other services balance	-	(1)	-	(18)
	1,607	(19,454)	290	(19,723)

Notes to the financial statements
for the year ended 31 March 2016

18. CAPITAL MANAGEMENT

The Company's capital consists of share capital contributed by investors. Due to the structural features of the securitisation process, where cash paid out to noteholders cannot exceed cash received, and where the holder of the deferred consideration certificate is entitled to any excess deferred consideration, the amount of share capital is not expected to fluctuate over time. Accordingly, the objective of capital management is to hold constant the amount of share capital, and this objective is achieved by the structural features of the securitisation transaction documented in the offering circular and other legal documentation of the Residential Mortgage Securities 19 Plc transaction.

19. CONTINGENT LIABILITIES AND COMMITMENTS

During the year end there were no contingent liabilities and commitments (2015: £nil).

20. TRANSITIONING FROM OLD UK GAAP TO FRS 101

For all periods up to and including the year ended 31 March 2015, the Company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 March 2016, are the first the Company has prepared in accordance with FRS 101.

During the year the Company transitioned from previously extant UK GAAP to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The transition to FRS 101 has resulted in increased disclosures contained within note 8 and note 15.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 April 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening Statement of Financial Position as at 1 April 2014, the Company's date of transition to FRS101, and made those changes in accounting policies required for the first-time adoption of FRS 101. As a result of transition to FRS 101, the derivative financial instruments classified as current and non-current accordingly are based on expected or contractual maturities. There were no other material changes in the primary statements from 1 April 2014 to 31 March 2016.

Notes to the financial statements
for the year ended 31 March 2016

20. TRANSITIONING FROM OLD UK GAAP TO FRS 101 (continued)

Exemptions Applied
IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2014 year ends retrospectively. The Company has taken advantage of the following exemptions:

Presentation of Financial Statements
The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of i. paragraph 79(a)(iv) of IAS 1. On first-time adoption of FRS 101, a qualifying entity shall apply the requirements of paragraphs 6 to 33 of IFRS 1 except for the requirement of paragraphs 6 and 21 to present an opening Statement of Financial Position at the date of transition.

The requirement of paragraphs 134-136 of IAS 1 Presentation of Financial Statements to disclose information that enables users to evaluate the entity's objectives, policies and processes for managing capital.

The requirements of IAS 1 including paragraph 10 (d) and paragraph 111 - a statement of cash flows for the period.

The requirements of IAS 1 including paragraph 10 (f) and paragraph 39 (c) - a Statement of Financial Position retrospectively stating the comparative figures under IFRS.

Accounting Policies
The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Statement of Cashflows
The requirements of IAS 7 Statement of Cash Flows.

Related party transactions
The Company has taken advantage of the exemptions conferred by FRS 101: 8 (j) & (k)"Related party disclosures", the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures, and transactions with other wholly owned group companies are not disclosed separately.

21. SUBSEQUENT EVENTS

On 23 June 2016, the UK voted to leave the European Union. The impact of this unprecedented decision is currently unknown as the UK government is yet to agree the terms and conditions upon which the UK will leave the European Union. Until such time as formal terms are agreed, there is a high degree of uncertainty and consequently market volatility is expected.

The impact of this volatility and uncertainty on the company is yet to be determined. To date, there have been no matters that warrant adjustment to the financial results as at 31 March 2016 and for the year then ended.

As a stimulus to the economy, on 5 August 2016, the Bank of England reduced its base rate to 0.25%. This interest rate reduction has been passed onto borrowers whose mortgage interest rate is linked to the Bank of England base rate; there are also certain mortgages that are linked to LIBOR which has also reduced as a result of the change in base rate. These changes reduce monthly repayment amounts and, as such, reduce credit risk.

As a consequence of the result, Pound Sterling has depreciated against the US Dollar. The Company held no US Dollar denominated loan notes. As detailed in note 15(d), the Company is fully hedged against currency fluctuations by the use of cross currency swaps which will change in value by an equal and opposite amount meaning there is no profit and loss impact to the Company. The depreciation against the Euro has been less significant and therefore deemed immaterial.

There are no other significant events occurring after the Statement of Financial Position date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 March 2016 and for the year then ended.