Registered number: 10011093

MOLINEUX RMBS 2016-1 PLC

Annual report and financial statements
for the year ended 31 December 2018

DIRECTORS AND COMPANY INFORMATION

Directors

Daniel Marc Richard Jaffe
Intertrust Directors 1 Limited
Intertrust Directors 2 Limited

Company Secretary

Intertrust Corporate Services Limited

Registered Office

35 Great St. Helen's
London
EC3A 6AP

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Strategic Report

For the year ended 31 December 2018

The directors present their Strategic Report for Molineux RMBS 2016-1 plc (the "Company") for the year ended 31 December 2018.

Principal activities

The principal activity of the Company is to issue Asset Backed Floating Rate Notes denominated in sterling, with a call option date of 18 March 2026 and a final maturity date of March 2063 (together the "Notes"), use the proceeds from the issuance to acquire an interest in a portfolio of mortgage loans from Bank of Scotland plc ("BOS" and "Originator") and to enter into financial arrangements in that connection. The Notes are listed on the London Stock Exchange. No future changes in activity are envisaged.

Under IFRS 9, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that BOS has retained substantially all the risks and rewards of the pool of mortgage loans and as a consequence, the Company does not recognise the mortgage loans on its balance sheet but rather a deemed loan to Originator. The initial amount of the deemed loan to Originator corresponds to the consideration paid by the Company for the mortgage loans less any other subordinated loan granted by BOS.

The activities of the Company are conducted primarily by reference to a series of securitisation transaction documents (the "Programme Documentation"). The securitisation structure has been established as a means of raising finance for BOS, and subsequently Lloyds Banking Group plc ("LBG"), the ultimate controlling party under International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The Programme Documentation sets out the principal risks to the Noteholders. As such, these have not been reproduced in full in the financial statements.

The Company is a wholly owned subsidiary of Molineux RMBS Holdings Limited, a company registered in England and Wales. Molineux RMBS Holdings Limited holds the Company's entire issued share capital of 50,000 ordinary shares of £1 each (49,999 shares are quarter paid and 1 is fully paid). The shares of Molineux RMBS Holdings Limited are held on a discretionary trust basis by Intertrust Corporate Services Limited ("Intertrust CS").

Business review and Future developments

Profits on a cash flow basis are pre-determined under the Programme Documentation. The Company has the right to a profit before tax of £100 on each interest payment date from the available revenue receipts.(2017: £1,400 Jan - Jun & £100 Jul - Dec £100).

The results for the year are set out on page 6. The profit for the financial year amounted to £1,200. Total equity at 31 December 2018 was £16,000 (2017: £29,000).

Principal receipts received on the pool of mortgage loans can be used to purchase further mortgage loans from the Originator for a period of five years from the date of the transaction (10 March 2016). As such no principal payments are expected to be made on the Notes during this period. Under a Revolving Termination Event within the five year period, no further mortgages loans could be purchased.

The directors' assessment suggests that performance of the mortgage portfolio should continue to be satisfactory. Whilst consensus suggests that interest rates will continue to remain low, as will unemployment rates, inflationary pressures and higher prices caused by sterling weakness may put further pressure on household incomes, which may feed through further increases in mortgage arrears. The situation will be monitored and the Servicer, on behalf of the Company, will continue to adopt appropriate forbearance measures.

The UK is planning to leave the European Union ("Brexit"). The full impact of Brexit on the economy will be uncertain although any economic downturn may impact on the ability of the underlying borrowers to repay their mortgages and potentially lead to increases in mortgage arrears and defaults. In the meantime this uncertainty is expected to result in market risk volatility in the short to medium term including sterling exchange rates and interest rates.

The directors are aware of the ongoing process to replace LIBOR and will assess the impact at a future date once there is more market clarity on the timing and nature of the replacement.

Key Performance Indicators (KPIs)

A defined set of KPIs for the securitisation transaction are set out in the Programme Documentation. An extract of these is shown in note 10 of the financial statements.

The Board is responsible for assessing the risk of irregularities, where caused by fraud or error in the financial reporting and ensuring that the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting.

In order to assist the mitigation of key risks, there is a monthly meeting with programme managers. This meeting analyses and discusses the KPIs for the month and identifies any issues or required changes. Any such issues are then reported, further discussed and collectively agreed in accordance with the Programme Documentation that governs the transaction.

The KPIs include monitoring the excess spread on the mortgage loan portfolio as the first line of credit enhancement to the Notes, the losses that have occurred and the level of arrears in the underlying mortgages, the rate of repayment of the loans within the mortgage loan portfolio and an analysis of the characteristics of the underlying mortgages in the mortgage loan portfolio.

At the time of issue the class A, B, C and D Notes (the "Rated Notes") were assigned a credit rating which reflects the likelihood of full and timely payment to the Noteholders of interest on each interest payment date and the payment of principal on the final maturity date. A rating may be subject to revision, suspension or withdrawal at any time by the rating agencies if the Company's circumstances change.

Key Performance Indicators (KPIs) (continued)

Any change in the credit rating assigned to a Note would be used as an indicator as to the performance of the Company. No downgrade in credit ratings has been applied to the Company's Notes in the year under review and subsequently up to the date of approval of these financial statements.

The Company was not required to make any principal payments on the Notes for the year ended 31 December 2018 (2017: £nil)

The Company's tax charge is based on the permanent tax regime for securitisation companies.

Risk management

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation". The Company's financial instruments comprise a deemed loan to BOS, Notes issued, various other receivables and payables and cash and liquid resources.

The principal risks and uncertainties for the Company arise from the Company's financial instruments. These are credit risk, liquidity risk and interest rate risk. These and other risks which may affect the Company's performance are detailed below. Further analysis of the risks facing the Company in relation to its financial instruments and the Company's financial risk management policies is provided in note 10.

Credit risk

Credit risk arises on the individual loans within the mortgage loan portfolio which are in turn secured on the underlying UK residential properties. The performance of these loans is therefore influenced by the economic background and the UK housing market.

To mitigate this risk a general reserve balance is maintained subject to available cash to ensure the Company can meet its interest obligations on the Rated Notes. The requirement to use the reserve balance would only arise in the event that there was no longer sufficient excess spread available which is currently due to the Originator in the form of deferred consideration. Excess spread arises on the remaining income from the deemed loan to Originator after all interest is paid on the Notes and third party expenses have been settled.

In terms of arrears management, the Company has engaged BOS as servicer of the loans in the portfolio to help reduce the risk of loss. The servicer is required to monitor repayments on the mortgage loans in accordance with its usual credit policies. The servicer is also responsible for ensuring mortgage loans meet the eligibility criteria set out in the Programme Documentation.

Liquidity risk

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on the amount and timing of the interest and principal repayments on the mortgage loans which underlie the loan to the Originator.

In the event that sufficient funds are not available to redeem the Notes or make the interest payments due, an amount equal to such a shortfall will be deferred until such funds are received. To the extent that the income on the deemed loan to Originator does not provide sufficient funds to recover the Company's investment in the mortgage portfolio, the Company has no claim on the assets of BOS. The Note holder therefore bears this risk.

An optional redemption in full is available to the Company should it wish to repay any of the Notes earlier than the expected maturity date. The call option date is on the interest payment date in March 2026 and the Notes may be called on or after the call date. Noteholders must be informed by giving not more than 20 nor less than 10 days' notice.

Interest rate risk

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

As part of the financing arrangement the Company acquires a beneficial interest in mortgage loans and enters into an interest rate swap with BOS under which it exchanges the fixed rate income received on the mortgages for a London Interbank Offered Rate (LIBOR) based interest flow in order to settle interest due on the Notes.

Operational risks

The Company is also exposed to operational risks through a number of contracts with third parties who have agreed to provide operational support to the Company in accordance with the Programme Documentation. Intertrust Management Limited ("Intertrust Management") has been appointed to provide corporate services in accordance with a corporate services agreement. Other third parties who have agreed to provide services with respect to the Notes include the paying agents, issuing entity swap providers and the agent bank. BOS has been appointed to act as account bank and cash manager on behalf of the Company.

Strategic Report (continued)

For the year ended 31 December 2018

Business risks

The principal business risks of the Company are set out in a number of ratings and non-ratings trigger events in the Programme Documentation including some which relate to the underlying performance of the mortgage pool. The occurrence of trigger events may lead to a different priority of payments of the Notes in accordance with established priorities. There have been no such trigger events since inception of the Programme.

As approved by the Board of Directors and signed on its behalf by:

Helena Whitaker
Per pro Intertrust Corporate Services Limited
As Company Secretary

Registered office
35 Great St. Helen's
London
EC3A 6AP

8 May 2019

Directors' Report

For the year ended 31 December 2018

The directors present their annual report and the audited financial statements for Molineux RMBS 2016-1 plc ("the Company") for the year ended 31 December 2018.

Directors and directors' interests

The directors of the Company during the year, and up to the date of signing the financial statements, were:

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Claudia Wallace (resigned 20 July 2018)
Daniel Marc Richard Jaffe (appointed 20 July 2018)

The directors are also all directors of Molineux RMBS Holdings Limited. None of the directors has any beneficial interest in the ordinary share capital of the Company. None of the directors had any interest in any material contract or arrangement with the Company either during or at the end of the year.

Company Secretary

The company secretary during the year, and subsequently, was Intertrust Corporate Services Limited.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In accordance with Section 418(2) of the Companies Act 2006, in the case of each director in office at the date the report is approved:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' indemnities

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

Future Developments

The portfolio of mortgage loans continues to unwind over their estimated useful life and the funds that accumulate on a daily basis can be used to replenish the portfolio for up to 5 years after the issue date. Thereafter, the funds will be used to pay down a proportion of the Notes in issue on a monthly basis from available funds in accordance with the Programme Documentation. Under a Revolving Termination Event within the five year period, no further mortgages loans could be purchased.

No future deals are envisaged in the Company.

Directors' Report (continued)

For the year ended 31 December 2018

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2018 (2017: £13,855.02).

Corporate governance

The Directors have been charged with governance in accordance with the Programme Documentation describing the structure and operation of the transaction. 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 Programme Documentation.

The Programme Documentation provides 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 pertaining to the Disclosure and Transparency Rules (DTR) as detailed in DTR 7.1 Audit Committees and 7.2 Corporate Governance statements (save for the rule DTR 7.2.5 requiring a description of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and include a corporate governance statement 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.

From the perspective of the Company, the daily operational internal controls and risk management systems are integrated with those of LBG, the Company's ultimate controlling party. Therefore additional information may be found in section 'Internal Control' of the 2018 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2018 Annual Report of LBG can be found in note 14.

Financial Risk Management

Further details on the risks facing the Company and how these risks are managed are outlined in the Strategic Report and further disclosed in note 10.

Employees

The Company had employed no staff during the year ended 31 December 2018 or the previous year. None of the directors received any emoluments from the Company in the current or previous year.

Independent auditors

PricwaterhouseCoopers LLP have indicated their willingness to continue in office until the next annual general meeting. Pursuant to section 489 of the Companies Act 2006, a resolution for the re-appointment of PricwaterhouseCoopers LLP as auditors of the company will be proposed at the forthcoming annual general meeting.

Statement of going concern

The Company has continued to perform in line with the Programme Documentation. The directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

As approved by the Board of Directors and signed on its behalf by:

Helena Whitaker
Per pro Intertrust Corporate Services Limited
As Company Secretary

Registered Office
35 Great St. Helen's
London
EC3A 6AP

8 May 2019

Statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest receivable and similar income	2	64,569	57,457
Interest payable and similar charges	3	(64,487)	(57,391)
Net interest income		82	66
Operating expenses	4	(81)	(57)
Profit before tax		1	9
Taxation	5	-	(2)
Profit for the financial year /total comprehensive income		1	7

The profit shown above is derived from continuing operations. The Company operates in a single business segment and all of the Company's activities are in the UK.

The accompanying notes on pages 11 to 21 are an integral part of the financial statements.

Balance sheet
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Deemed loan to Originator	6	2,137,723	2,204,856
Cash and cash equivalents		184,906	117,562
Total assets		2,322,629	2,322,418
Liabilities			
Debt securities in Issue	7	2,322,595	2,322,383
Current tax liability		-	2
Trade and other payables	8	18	4
Total liabilities		2,322,613	2,322,389
Equity			
Share capital	9	13	13
Retained earnings		3	16
Total equity		16	29
Total equity and liabilities		2,322,629	2,322,418

The financial statements on pages 7 to 21 were approved by the Board of Directors on 8 May 2019 and were signed on its behalf by:

Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director

The accompanying notes on pages 11 to 21 are an integral part of the financial statements

Statement of changes in equity

For the year ended 31 December 2018

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018	13	16	29
Profit for the financial year and total comprehensive income	-	1	1
Dividends paid in the year		(14)	(14)
At 31 December 2018	13	3	16
Balance at 1 January 2017	13	9	22
Profit for the financial year and total comprehensive income	-	7	7
At 31 December 2017	13	16	29

The accompanying notes on pages 11 to 21 are an integral part of the financial statements.

Cash flow statement
For the year ended 31 December 2018

	2018 £'000	2017 £'000
Operating Activities		
External Audit fees paid	(4)	(5)
Administration expenses paid	(63)	(52)
Tax Paid	(2)	(2)
Net cash outflows used in operating activities	(69)	(59)
Investing Activities		
Investment in deemed loan from Originator	131,124	65,913
Bank interest received	578	48
Net cash generated from investing activites	131,702	65,961
Financing Activities		
Interest on debt securities in issue	(64,275)	(57,425)
Dividend paid in the year	(14)	-
Net cash used in financing activities	(64,289)	(57,425)
Net increase in cash and cash equivalents	67,344	8,477
Change in cash and cash equivalents	67,344	8,477
Cash and cash equivalents at 1 January	117,562	109,085
Cash and cash equivalents at 31 December	184,906	117,562

The cash flow statement is presented using the direct method.

The accompanying notes on pages 11 to 21 are an integral part of the financial statements.

Notes to the financial statements
For the year ended 31 December 2018

1. Significant Accounting policies

Molineux RMBS 2016-1 plc ("the Company") is a public limited liability company domiciled in England and Wales and was incorporated on 17 February 2016 under the companies Act 2006 and commenced trading on 30 March 2016. The Company's registered office address is 35 Great St Helen's, London EC3A 6AP.

(a) Basis of preparation

The financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union.

The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. All accounting policies have been consistently applied in the financial statements.

In the year the Company has adopted IFRS 9 Financial Instruments ("IFRS 9"). IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The impact of the adoption of IFRS 9 on the Company's financial statements.is explained in note 12.

There are no accounting pronouncements that will be relevant to the Company, but which were not effective at 31 December 2018.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS and comply with the relevant provisions of Part 15 of the Companies Act 2006.

The financial statements have been prepared using the going concern basis. The directors have reviewed the expected future cash flows and believe they are adequate to meet the anticipated payments due in accordance with the Programme Documentation. The directors believe that the Company has additional safeguards in place to cover any unexpected issues which may arise including access to a general cash reserve and the ability to defer payment in certain circumstances.

The financial statements are presented in Sterling which is the Company's functional and presentation currency and have been prepared on the historical cost basis.

(b) Interest income and interest payable

Interest receivable and similar income and interest payable and similar charges have been calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument.

(c) Accrued interest

Accrued interest has been incorporated within the deemed loan to Originator and within the outstanding balance of debt securities in issue on the balance sheet. A split between principal and accrued interest can be found in note 6 and note 7 respectively.

(d) Taxation

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible,and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

The Company's taxable profits are charged under the Taxation of Securitisation Companies (Amendment) Regulations 2018.

(e) Financial instruments

The Company's financial instruments comprise a deemed loan to BOS, Notes issued, other receivables and payables and cash and liquid resources. These financial instruments are classified in accordance with the principles of IFRS 9 as described below.

(e)(i) Deemed loan to Originator

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The directors of the Company have concluded that BOS has retained substantially all the risks and rewards of the pool of mortgage loans and as a consequence, the Company does not recognise the mortgage loans on its balance sheet but rather a deemed loan to Originator, where recourse to BOS is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by BOS.

The initial amount of the deemed loan to Bank of Scotland plc (the "Originator"), corresponds to the consideration paid by the Company for the mortgage loans less the subordinated loan granted by BOS. The Company recognises principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to retain such cash flows. Cash flows attributable to BOS are not recognised by the Company.

Under IAS 39 the deemed loan to Originator is classified as "loans and receivables" and is recognised initially at fair value less any directly related incremental transaction costs. The deemed loan is stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

In accordance with IFRS 9, the deemed loan to Originator is treated as "loans and receivables" and is stated at amortised cost.

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Significant Accounting policies (continued)

(e)(ii) Derivative financial instruments

Interest rate risk associated with the deemed loan to Originator is managed by means of an interest rate swap with BOS, which requires the Company to pay the effective yield on the beneficial interest in the mortgage portfolio and receive payments based on a rate linked to the one-month Sterling LIBOR.

This swap is not recognised separately as a financial instrument as the amounts payable under the swap reflect interest flows from the mortgage loans which are not recognised by the Company for accounting purposes. Instead, the deemed loan to BOS is recognised with an effective interest rate which reflects the amount received or paid under the swap.

(e)(iii) Cash and cash equivalents

The Company holds a guaranteed investment contract bank account ("GIC") and a transaction bank account with the same provider. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash. These bank accounts are classified as "loans and receivables" in accordance with IFRS 9 and income is being recorded using the effective interest method.

The comparative figures are accounted for under IAS 39, this accounting treatment is the same under IFRS 9 as above.

(e)(iv) Impairment of financial assets

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected losses).

Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Unlike other financial instruments, the deemed loan to originator is, by its construction, an instrument that incorporates credit enhancement. The interest due on the deemed loan to originator is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the deemed loan to originator would only therefore be recognised where the ECLs on the underlying assets were large enough that no credit enhancement remained.

(e)(v) Debt securities in issue

Debt securities in issue are recognised initially at fair value. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

(f) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The directors of the Company consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

(g) Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of accounting estimates. These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. The most significantly affected components of the financial statements and associated critical judgements are as follows:

In calculating the effective interest rate of financial instruments the Company takes into account interest received or paid, fees and commissions paid or received, expected early redemptions and related penalties and premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs.

For the purpose of the effective yield calculation, it has been assumed that the Notes will be called on the call date of 18 March 2026 and hence the expected life of the Notes issued by the Company will end ten years after their original issue. This may not be the case in practice.

Fair value

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based where available on quoted market prices and upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity.

Notes to the financial statements (continued)
For the year ended 31 December 2018

1. Significant Accounting policies (continued)

(g) Critical accounting estimates and judgements (continued)

Impairment of deemed loan

In the year under IFRS 9 the Company's accounting policy for impairment on the deemed loan to Originator classified as loans and receivables is described in the basis of preparation note 1(e)(iv).

Under IAS 39 the allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the balance sheet date. Impairment allowances are established to recognise incurred impairment losses in the Company's loan portfolios carried at amortised cost. In determining whether impairment has occurred at the balance sheet date the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cashflows discounted at the loan's original effective interest rate.

The comparative figures are accounted for under IAS 39, at 31 December 2018, impairment allowances against the deemed loan totalled £nil (2017: £nil).

(h) Dividends

The sole member approved the payment of a final dividend in the amount of £13,855.02 at an annual general meeting held on 26 April 2018 in respect of the year ended 31 December 2017. The directors do not propose a dividend payment in respect of the year ended 31 December 2018

(i) Capital Management

The Company is not subject to externally imposed capital requirements in the current year. (2017: £nil). The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the directors, to support the transactions and level of business undertaken by the Company.

2. Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable on deemed loan to Originator	63,991	57,409
Bank interest	578	48
	64,569	57,457

3. Interest payable and similar charges

	2018 £'000	2017 £'000
Interest payable on debt securities in issue	64,487	57,391
	64,487	57,391

4. Operating expenses

	2018 £'000	2017 £'000
Audit fees	18	5
Administration charges	63	52
	81	57

Audit fees relate to the statutory audit. Fees of £15,000 net of VAT (2017: £4,000) are payable to PricewaterhouseCoopers LLP for work performed in the year on behalf of the Company and Molineux RMBS Holdings Limited. There are no fees payable to the auditors and their associates for services other than the statutory audit. (2017: Nil)

The Company has no employees (2017: Nil) and none of the directors received any emoluments from the Company in the current or previous year.

5. Taxation

	2018 £'000	2017 £'000
Current Tax		
Corporation tax charge for the year at a rate of 19.00% (2017: 19.25%)	-	2
Total tax charge	-	2

	2018 £'000	2017 £'000
Reconciliation of effective tax rate		
The tax assessed for the year is equal to the standard average rate of corporation tax in the UK of 19.00% (2017: 19.25%)		
Profit before tax	1	9
Profit before tax multiplied by the standard average rate of corporation tax in the UK of 19.00% (2017: 19.25%)	-	2
Total tax charge in the Statement of Comprehensive Income	-	2

The Finance Act 2016, which was substantively enacted on 6 September 2016, reduced the corporate tax rate to 17% with effect from 1 April 2020.

6. Deemed Loan to Originator

	2018 £'000	2017 £'000
Principal - Non current	2,135,128	2,202,473
Interest - Current	2,595	2,383
Total	2,137,723	2,204,856

The mortgage portfolio, which is accounted for as a deemed loan to Originator and in which the Company holds a beneficial interest, is held by BOS. The mortgage loans are secured on residential property in England, Wales and Scotland. Mortgages in the pool have to fulfil certain criteria. If they fail to do so they are removed from the pool.

The loan is expected to be repaid on the final maturity date of the Notes in March 2063 and is therefore deemed to be non-current.

The comparative figures are accounted for under IAS 39, this accounting treatment is the same under IFRS 9 as above.

7. Debt securities in Issue

	2018 £'000	2017 £'000
Non Current		
Principal (GBP - priced against 1 month GBP LIBOR)	2,320,000	2,320,000
Current		
Interest payable on debt securities	2,595	2,383
Total	2,322,595	2,322,383

Debt securities in issue at 31 December 2018 comprise the floating rate Notes issued by the Company in connection with the securitisation of mortgages originated by BOS. The Company is only required to make payments on the debt securities in issue to the extent that it has received sufficient cash flows from the underlying mortgage pool, subject to the final legal maturity date of March 2063. For more information about the Company's exposure to risk, see note 10. No principal balances are expected to be repaid within 12 months (this may not be the case in practice).

There have been no defaults in the payment of principal and interest or other breaches with respect to liabilities in the current or previous year.

8. Trade and other payables

	2018 £'000	2017 £'000
Audit fee accrual	18	4
	18	4

All balances are due within 12 months of the balance sheet date.

9. Share capital

	2018 £	2017 £
Issued, allotted, called up and paid		
1 (2017: 1) ordinary shares of £1 each (fully paid)	1	1
49,999 (2017: 49,999) ordinary shares of £1 each (one quarter paid)	12,500	12,500
	12,501	12,501

On incorporation, share capital of 50,000 ordinary shares of £1 each were issued, 1 of which is fully paid and 49,999 are quarter paid.

10. Management of risk

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. However, considerable resource is given to maintaining effective controls to manage, measure and mitigate each of these risks and therefore there is minimal sensitivity to risk. Further detailed analysis of the risks facing the Company in relation to its financial instruments is provided below.

The directors do not consider that the Company is exposed to capital management risk as adequate solvency and capital levels are maintained.

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at 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 as such is required by the rating agencies. In addition an interest rate swap is entered into with the Originator as part of the securitisation transaction to hedge interest rate risk arising in the transaction including the obligations under the Notes.

The derivative counterparty is selected as a highly rated, regulated financial institution and this reduces the risk of default and loss for the Company. Should their rating fall below the required rating, the posting of collateral may be required or the counterparty may be replaced.

Notes to the financial statements (continued)

For the year ended 31 December 2018

10 Management of risk (continued)

10(a). Credit risk

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the Company.

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on funds being received on the deemed loan. The primary credit risk of the Company therefore relates to the credit risk associated with the securitised pool of mortgages originated by BOS.

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the performance of a particular geographical region that represents a concentration in the securitised assets, could also affect the cash flows from the mortgage pool.

To mitigate this risk, credit enhancement is provided to the Company in the form of excess spread and a reserve fund. The income on the mortgage pool is expected to exceed the Company's expenses and the interest payable on the Notes. This excess income (excess spread) is available to make good any reduction in the principal balance of the mortgage pool which may arise as a result of defaults by customers.

For December 2018, the post interest rate swap yield was 2.75% (2017: 2.86%).

In addition, BOS provided a subordinated loan to the Company to create a reserve fund which can be used in certain circumstances to meet any deficit in revenue or to repay amounts of principal. Therefore, delinquencies and defaults on the underlying securitised assets will not result in a default on the Notes as long as they do not exceed the credit enhancement provided by the excess spread and reserve fund.

The Company's losses in the mortgage pool covered by excess spread in the year to 31 December 2018 were £0 (2017: £5,100). There have been no principal drawings on the reserve fund which is fully funded and at 31 December 2018 was £46,400,000 (2017: £46,400,000).

The Company has a concentration of risk to the Originator. The underlying mortgage assets of the securitisation are all in the UK market. The nature of the residential mortgage portfolio means there is no significant individual counterparty credit risk in relation to the underlying mortgage pool.

Any specific mortgage losses will be netted against the mortgage interest, with a corresponding adjustment to deferred consideration. Therefore, there is no effect on the overall yield on the deemed loan to Originator. The directors consider that the pool of mortgage loans will be sufficient to recover the full amount of this deemed loan.

The Company assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Notes, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached, including the posting of collateral or the replacement of a swap counterparty.

	Counterparty	Rating as at Date 31 December 2018	Rating as at date of Approval of Financial statements
		Fitch / Moody's	Fitch / Moody's
Account bank / Interest rate swap provider	BOS	Long term: A+/Aa3	Long term: A+/Aa3
		Short term: F1/P-1	Short term: F1/P-1

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date equates to carrying value. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

The Company meets its obligation on the Notes issued from the cash flows it receives from the pool of mortgage loans. As a consequence, the credit quality of the mortgage loans indicates the capacity of the Company to service its payments, although the mortgages remain on the balance sheet of BOS and the structure of the securitisation provides for other credit enhancements.

Notes to the financial statements (continued)

For the year ended 31 December 2018

10(a). Credit risk (continued)

Securitised mortgage assets

Securitised mortgage loans are analysed according to the rating systems used by the Company and Originator when assessing customers and counterparties. The total mortgage portfolio balance against which the deemed loan to Originator is ultimately secured has been analysed below.

For the purposes of the Company's disclosures regarding credit quality, securitised mortgage loans subject to credit risk have been analysed as follows:

	2018 £'000	2017 £'000
Neither past, due nor impaired	2,180,501	2,248,315
Past due, but not impaired	9,416	9,087
Impaired	1,436	576
	2,191,353	2,257,978

Securitised loans and advances which are past due, but not impaired:	2018 £'000	2017 £'000
Past due 0-30 days	6,942	7,563
Past due 30 to 60 days	1,333	659
Past due 60 to 180 days	1,141	865
	9,416	9,087

In respect of the Originator's secured mortgage portfolio, 'past due' is when a borrower has failed to make a payment when contractually due. The definition of impaired loans is those which are six months or more in arrears (or certain cases where the borrower is bankrupt or is in possession).

The number and value of loans currently in arrears will have a bearing on the receipt of cash by the Company. Key indicators are as follows:

- At 31 December 2018 a total of 20 accounts were in arrears by three or more months which represented 0.12% of the mortgage pool (31 December 2017: 9 accounts, 0.06%).

- At 31 December 2018 there were 0 properties in possession (31 December 2017: 0 properties).

Collateral held against retail mortgage lending comprises residential properties.

10(b). Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times.

The deemed loan to Originator, the debt securities in issue and the cash and cash equivalents are exposed to cash flow interest rate risk caused by floating interest rates that are reset periodically. The underlying mortgage pool comprises loans which track the Bank of England Base Rate and loans which bear a fixed rate of interest. To mitigate the changes in interest rate that would result in the interest cash flows from the mortgage pools being insufficient to meet the LIBOR based payments on the debt securities in issue, the Company entered into an interest rate swap with BOS to manage the Company's exposure to interest rate risk.

Under the terms of the swap, the Company pays the interest received from the fixed rate loans in the mortgage pool and receives a LIBOR based rate for one-month Sterling deposits. The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised or valued in the financial statements as it forms part of the deemed loan to Originator.

10(c). Liquidity risk

The Company's ability to meet interest payments on the Notes as they fall due is dependent on the timely receipt of funds from the deemed loan to Originator which may be delayed due to the level of repayment on the underlying mortgage portfolio (see 10(d) Prepayment risk below).

Principal repayments on the underlying mortgage potfolio are currently used to replenish the portfolio and can continue for up to 5 years after the issue date of the Notes. Thereafter, principal repayment of the Notes will match principal repayment on the underlying mortgage portfolio. Therefore the repayment of the Notes is dependant on the level of prepayments within the mortgage portfolio (see note 10(a) Credit risk above and 10(d) Prepayment risk below).

The Company is only required to make payments on the Notes to the extent that it has received sufficient cash flows from the underlying mortgage pool, subject to the final legal maturity date of the Notes of March 2063.

Principal repayments are made on the Notes in accordance with the Company's principal priority of payments and reflect the amount of principal collection on the underlying mortgage loans.

The liquidity table reflects the undiscounted cash payments which will fall due if the structure continues performing under current Principal Prepayment Rates ("PPR") rates until the final Note repayment as defined in the Programme Documentation (unless it is known that a Note will be repaid prior to this date when the earlier date will be used). It has been calculated, if current PPR continues and the Notes are called on the first call date, the average expected life of the Notes issued by the Company will end ten years after their original issue. This may not be the case in practice. The final legal maturity date of the Notes is March 2063.

2018	Carrying Value	Contractual repayment value	<1 month	1-3 months	3 months - 1 year	1-5 years	>5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Debt securities in issue	2,320,000	2,320,000	-	-	-	1,440,000	880,000
Trade and other payables	18	18	-	18	-	-	-
Interest payable							
Interest payable on debt securities in issue	2,595	330,635	5,931	11,306	52,637	230,164	30,597
	2,322,613	2,650,653	5,931	11,324	52,637	1,670,164	910,597

2017	Carrying Value	Contractual repayment value	<1 month	1-3 months	3 months - 1 year	1-5 years	>5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Debt securities in issue	2,320,000	2,320,000	-	-	-	40,000	2,280,000
Trade and other payables	4	4	-	4	-	-	-
Interest payable							
Interest payable on debt securities in issue	2,383	529,543	5,447	10,383	48,341	256,857	208,515
	2,322,387	2,849,547	5,447	10,387	48,341	296,857	2,488,515

Notes to the financial statements (continued)

For the year ended 31 December 2018

10(d). Prepayment risk

In the normal course of business a proportion of borrowers repay their loan in advance of their contractual maturity date. As a result the weighted average life of the deemed loan to Originator and of the Notes is likely to be significantly less than that implied by the contractual maturity dates of the mortgage pool.

The term of the Notes specifies that payments on the Notes will only be made to the extent that sufficient cash flows have been received from the Company's assets.

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. In the event that prepayment rates on the mortgage pool reduce, principal repayments on the deemed loan to Originator and on the Notes may be spread over a longer period.

The PPR for the underlying mortgage pool as detailed within the Investor Report is as follows:

	Monthly PPR %	1 month annualised %	3 month annualised %	12 month annualised %
31 December 2018	1.54	17.03	21.74	22.83
31 December 2017	2.79	28.79	33.47	50.24

10(e). Fair values

The fair values of the Company's main financial instruments are detailed below:

Financial assets and liabilities carried at fair value

The financial instruments below are analysed by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value hierarchy: financial instruments at amortised cost

Deemed loan to Originator

In standard market practice, the carrying value of the variable rate loans is assumed to be their fair value. The deemed loan to Originator includes a start-up loan and an interest rate swap, which are not recognised separately. Both the start-up loan and the swap accrual are based on variable rates (one-month LIBOR rates). The principal of the loan is consideration for the underlying pool of mortgages which are significantly held at variable rate. For these reasons, the carrying value of the deemed loan to Originator is considered to be a close approximation to fair value.

Trade and other payables

Trade and other payables are recognised on an amortised cost basis. The fair value of these liabilities is considered to be a close approximation to amortised cost due to the short term nature of these liabilities.

Debt securities in issue

The book value as at 31 December 2018 was £2,322,595k (2017: £2,322,383k) and the fair value as at 31 December 2018 was £2,347,476k (2017: £2,322,497k). The Notes have been valued where possible based on quoted market prices in active markets, including recent market transactions. However, notes held by BOS within LBG cannot be valued in this way using observable inputs. For this reason, in accordance with "IFRS 7 Financial Instruments: Disclosures" and "IFRS 13 Fair Value Measurement", the debt securities in issue are considered to be Level 3 in the Fair Value Hierarchy.

11. Related party transactions

A number of transactions are entered into with related parties as part of the Company's normal business.

The related parties are BOS, LBG and Intertrust Management Limited ("Intertrust Management") by virtue of their various roles and inputs into securitisation arrangements to which the Company is a party.

The Company pays cash management and mortgage loan servicing fees to BOS for the provision of services defined under the Programme Documentation.

BOS has provided the Company with subordinated loans and is the counterparty to an interest rate swap agreement.

Intertrust Management provides corporate administration services, including director services, pursuant to a corporate services agreement with the Company.
Intertrust Management Limited was paid £27,703 for services provided in the year to the Company and its parent (2017: £17,446).

During the year, the Company undertook the transactions set out below with related parties.

At 31 December	Parent 2018 £'000	Other Related Parties 2018 £'000	Parent 2017 £'000	Other Related Parties 2017 £'000
Interest receivable and similar income				
Income from deemed loan to originator	63,991	-	57,409	-
Bank interest receivable	578	-	48	-
Interest payable and similar charges				
Interest on debt securities in issue	64,487	-	57,391	-
Operating expenses				
Administration charges	-	28	-	17
Assets				
Deemed loan to Originator	2,137,723	-	2,204,856	-
Cash and cash equivalents	184,906	-	117,562	-
Liabilities				
Debt securities in issue	2,320,000	-	2,320,000	-
Interest payable on debt securities in issue	2,595	-	2,383	-

Molineux RMBS Holdings Limited holds the Company's entire issued share capital of 50,000 ordinary shares of £1 each (49,999 are quarter paid and 1 share is fully paid).

12. Implementation of IFRS 9 Financial Instruments

This note explains the impact of the adoption of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost.

Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss.

An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.

12. Implementation of IFRS 9 Financial Instruments (continued)

Impairment – Deemed loan to originator

The deemed loan to originator for this entity is not expected to result in a day one ECL. Unlike other financial instruments, the deemed loan to originator is, by its construction, an instrument that incorporates credit enhancement. As previously noted the interest due on the deemed loan to originator is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the deemed loan to originator would only therefore be recognised where the ECLs on the underlying assets were large enough that no credit enhancement remained. To date, no permanent losses have occurred in the loans to related company since the structure's inception, and credit enhancement has remained more than sufficient to cover losses on underlying assets. Given the headroom available, the probability of default ('PD') on the loans to related company is considered as close to zero, and therefore the initial 12 month ECL recognised in the accounts is nil.

Impact on the financial statements
The Company adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements of IFRS 9, comparative information for 2017 has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 January 2018.

The Company has conducted an analysis of these changes and does not consider there to be any significant impact of applying IFRS 9 to the financial statements.

13. Future Accounting Pronouncements

There are no pronouncements applicable to the Company.

14. Parent undertaking and controlling party

The immediate parent undertaking is Molineux RMBS Holdings Limited, a company registered in England and Wales. The issued share in Molineux RMBS Holdings Limited is held by Intertrust Corporate Services Limited on a discretionary trust basis for the benefit of certain charities.

The Company meets the definition of a special purpose entity under IFRSs.

In accordance with IFRS 10 Consolidated Financial Statements, the Company's financial statements are consolidated within the group financial statements of LBG for the year ended 31 December 2018.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is BOS. Copies of the consolidated annual report and financial statements of BOS may be obtained from LBG Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The ultimate parent undertaking and controlling party is LBG, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and financial statements of LBG may be obtained from LBG's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

Independent auditors' report to the members of Molineux RMBS 2016-1 plc

Report on the audit of the financial statements

Opinion

In our opinion, Molineux RMBS 2016-1 plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to those charged with governance.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

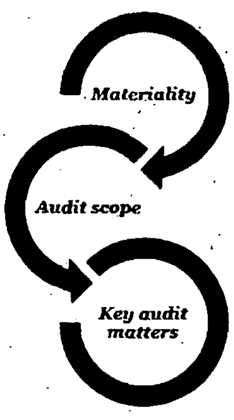
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality: £23,226,290 (2017: £23,244,180), based on 1% of total assets.

- The Company is a special purpose vehicle that forms part of a securitisation structure, established primarily as a means of raising wholesale funding for Bank of Scotland plc ("BOS") and subsequently Lloyds Banking Group plc ("LBG") the ultimate parent undertaking. LBG manages the securitisation transaction in its role as administrator, servicer of the underlying mortgage loans and cash manager.
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring audit procedures were performed in respect of every material financial statements line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at LBG as administrator and servicer, and the industry in which the Company operates.
- We obtained an understanding of the control environment in place at the administrator and adopted a controls and substantive testing approach.

Our key audit matters which involved the greatest allocation of our resources' effort comprise:

- The risk of errors in the priority of payments (the "Waterfalls") due to a lack of understanding of the transaction.

- The risk of management override of controls in order to overstate the performance of the asset pool and mask breaches of trigger events.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the underlying legal documents and agreements governing this securitisation transaction, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. Audit procedures performed by the engagement team included:

- Management inquiries;
- Review of board meeting minutes; and
- Review and testing where applicable of the transaction documents.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Errors in the priority of payments (the "Waterfalls") due to a lack of understanding of the transaction Due to the complexity of the securitisation structure contractual terms and the special purpose nature of the entity, the Waterfalls present a pervasive risk to the overall accounting for the entity. If the Waterfalls are incorrectly processed, there is a risk that interest expense and principal balances payable to investors are not appropriately calculated and settled, and the cash flows returned to the seller as excess spread are incorrect. While the entity is well-established with management who are experienced in calculating Waterfalls, there is also an independent 3rd party paying agent who calculates the expected payments in parallel. Due to the complexity and pervasive nature of the Waterfalls, this was an area of focus in our audit.	We understood the design of the securitisation structure through discussions with management and review of primary contractual documentation. We reviewed all investor reports and minutes of board meetings for the year to identify and investigate any unusual trends or incidents that would indicate a misstatement in the preparation and calculation of the Waterfalls. We tested the design and operating effectiveness of management's Waterfalls calculation controls through: • Discussion with management and by review of Waterfalls working papers for consistency with the base prospectus; and • Inspection of supporting documentation and recalculation of relevant data points for a sample of Waterfalls in the year. We performed substantive testing over this sample of Waterfalls to ensure no errors were made in Waterfalls preparation, including agreeing cash balances and transactions to cash account records, and agreeing cash collections balances agreed to system reports. We additionally tested key system reports to validate that pool assets were completely and accurately identified in source system to support the cash collections as presented in the Waterfalls working papers.

Key audit matter	*How our audit addressed the key audit matter*
Risk of management override of controls in order to overstate the performance of the asset pool and mask breaches of trigger events The contractual terms of the structure include specific 'trigger events' which mandate actions by the various parties to the deal in the event that certain conditions are reached, typically relating to the performance of the securitised asset pool or payments made through the Waterfalls. The severity of breaches varies depending on the specific trigger event, but could result in accelerated repayment terms, or higher interest rates, and as such the impact on the financial statements can be pervasive and significant. Management are not incentivised via profit, as special purpose entities of this type are not profit-oriented, with profit contractually pre-determined. However as financial reporting and asset servicing are controlled by Lloyds Banking Group management, there is a risk that management by-pass controls for two reasons: • To conceal evidence that would show trigger events have occurred; and • To mask underperformance of the securitised asset pool which could result in a trigger event occurring by manually overriding system-driven asset flagging and cash flow balances. We have therefore focussed our audit procedures on risk assessment reviews to identify unusual trends, the calculation and monitoring of trigger events and the manual preparation of the Waterfalls.	We tested the design and operating effectiveness of management's monitoring of trigger events on a sample basis for breaches by reviewing governance documentation and minutes, and re-performing a sample of triggers. We tested the design and operating effectiveness of management's Waterfalls calculation and preparation control through: • Discussion with management and by review of waterfalls working papers for consistency with the base prospectus; and • Inspection of supporting documentation and recalculation of relevant data points for a sample of Waterfalls in the year. We performed substantive testing over this sample of Waterfalls to ensure no inappropriate manual adjustments were made in Waterfalls preparation, including agreeing cash balances and transactions to cash account records, and agreeing cash collections balances agreed to system reports.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

Overall materiality	£23,226,290 (2017: £23,244,180).
How we determined it	1% of total assets.
Rationale for benchmark applied	The entity is a not-for-profit whose main priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity and have therefore applied 1% due to the fact the entity has listed debt.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1,161,209 (2017: £1,161,209) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Lloyds Banking Group audit committee, we were appointed by the directors on 17 February 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2016 to 31 December 2018.

The audit of Lloyds Banking Group and its subsidiaries was tendered in 2014 and we were re-appointed with effect from 1 January 2016. There will be a mandatory rotation of Lloyds Banking Group for the 2021 audit.

Jessica Miller

Jessica Miller (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 May 2019