

# **Molineux RMBS 2016-1 PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**2022**

**Registered number: 10011093**

**WEDNESDAY**



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## **DIRECTORS AND COMPANY INFORMATION**

### **Directors**

Paivi Helena Whitaker  
Intertrust Directors 1 Limited  
Intertrust Directors 2 Limited

### **Company secretary**

Intertrust Corporate Services Limited

### **Registered office**

1 Bartholomew Lane  
London  
England  
EC2N 2AX

### **Independent auditor**

Deloitte LLP  
1 New Street Square  
London  
EC4A 3HQ

# Strategic report

For the year ended 31 December 2022

The directors present their Strategic report for Molineux RMBS 2016-1 plc (the "Company") for the year ended 31 December 2022.

## 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 International Financial Reporting Standard 9 ("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 the Originator (the "Deemed loan"). The initial amount of the Deemed loan 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"). The Programme Documentation sets out the principal risks to the note holders. 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.

The results for the year are set out on page 7. The profit for the financial year amounted to £1,000 (2021: £1,000). Total equity at 31 December 2022 was £20,000 (2021: £19,000).

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Significant uncertainties are discussed in detail below.

### *Long-term impact of the United Kingdom's exit from the European Union*

Uncertainties in respect of the medium to long-term implications of the United Kingdom's ("UK") exit from the European Union ("EU") on trade, regulation and employment continue to present risks. This includes impacts on supply chains, affordability of goods and services and UK demographics and prosperity. The Directors believe that there will continue to be limited impact on the Company.

### *Russian invasion of Ukraine*

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs and may also result in increased cyber-attacks and an increase in costs associated with such cyber-attacks, all of which could have a materially adverse effect on the Group's results of operations, financial condition, or prospects. The Group will monitor the situation and risks to the business. The Directors believe that there will continue to be limited impact on the Company.

## 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 and the losses that have occurred. These KPIs are monitored through monthly investor reporting.

At the time of issue the class A, B, C and D Notes (the "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.

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 made principal payments on the Notes totalling £461m for the year ended 31 December 2022 (2021: £268m).

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

## Strategic report (continued)

For the year ended 31 December 2022

### Risk management

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IFRS 9 "Financial Instruments". The Company's financial instruments comprise the Deemed loan, Notes issued, various other receivables and payables and cash.

The principal risks and uncertainties for the Company arise from the Company's financial instruments. These are credit risk, liquidity risk, interest rate risk, prepayment risk and operational 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 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 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 Company holds an interest rate swap with the Originator to swap mortgage interest receipts to Sterling Overnight Interbank Average Rate ("SONIA"). 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.

Given the nature of the underlying receivables, the Directors have considered the conduct provision risk related to PPI and have assessed this to be low. There have been no such claims during the reporting period and this will continue to be monitored.

#### 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 underlying mortgage loans within the Deemed loan.

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 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 SONIA based interest flow in order to settle interest due on the Notes.

#### Prepayment risk

Prepayment risk arises when borrowers repay their loan in advance of the contractual maturity date. 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 a proportion of borrowers do prepay loans the weighted average life of the Deemed loan and of the Notes is likely to be significantly less than the implied contractual mortgage maturity date. In the event that prepayment rates on the mortgage pool reduce, principal repayments on the Deemed loan and on the Notes may be spread over a longer period.

The prepayment risk to the Company is not considered to be significant. Please see note 10 for further detail.

#### 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 administration 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.

Any potential risks are discussed and monitored as part of monthly Securitisation and Covered Bonds meetings held with management.

## Strategic report (continued)

For the year ended 31 December 2022

### Risk management (continued)

#### 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.

#### Streamlined energy and carbon reporting ("SECR")

The Company is out of scope of the SECR, as it does not meet the numerical thresholds in relation to turnover and number of employees.

#### Section 172(1) of the Companies Act 2006

The Company is a wholly owned subsidiary of Molineux RMBS Holdings Limited, a company registered in England and Wales.

The Company is a special purpose vehicle and as such performs a very limited range of activities. As a special purpose vehicle, the governance structure of the Company is such that the key policies have been predetermined at the time of its incorporation. The directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- the documents governing the financing and other principal transactions to which the Company is party (together, the "Programme Documentation") have been formulated with the aim of achieving the Company's purpose and business objectives, safeguarding the assets of the Company and promoting the success of the Company;
- in accordance with relevant securitisation legislation the Company is only permitted to retain minimal cash profit;
- the Company has no employees;
- the Company has appointed various third parties to perform certain roles strictly governed by the Programme Documentation, fee arrangements agreed in advance and invoices paid strictly in accordance with the programme documentation (including a specified priority of payments);
- as a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment; and
- the Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purposes.

Further, in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the directors also confirm that they have both engaged with and had regard to the interest of key stakeholders, in their duties as directors of the Company.

In accordance with section 426B of the Companies Act 2006 the above statement is available at the following website address <https://www.intertrustgroup.com/our-services/capital-markets-services/public-transactions>.

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



Aline Sternberg  
Per pro Intertrust Directors 1 Limited  
As Director

Registered office  
1 Bartholomew Lane  
London  
EC2N 2AX

26 May 2023

## Directors' report

For the year ended 31 December 2022

The directors present their annual report and the audited financial statements for Molineux RMBS 2016-1 plc for the year ended 31 December 2022.

### Directors and directors' interests

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

Daniel Marc Richard Jaffe (resigned 1 February 2023)

Paivi Helena Whitaker (appointed 1 February 2023)

Intertrust Directors 1 Limited

Intertrust Directors 2 Limited

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.

### 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.

### Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic report, the Directors' 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 Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

### Directors' confirmations

Each of the directors are listed in the Directors' report, confirm that to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

### Disclosure of information to auditor

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the time date the Directors' Report is approved:

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

### 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 changes to the Company's activities are envisaged.

Information on future developments is included in the Business review and future developments section of the Strategic report.

## Directors' report (continued)

For the year ended 31 December 2022

### Post balance sheet events

Details of significant events since the balance sheet date are contained within note 12 of these financial statements.

### Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: nil).

### 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 2022 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2022 Annual Report of LBG can be found in note 13.

### Use of financial instruments and risk management

The principal risks and uncertainties for the Company arise from the Company's financial instruments. These are credit risk, liquidity risk, interest rate risk and currency 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 of the financial statements.

### Employees

The Company has employed no staff during the years ended 31 December 2022 and 2021. None of the directors received any emoluments from the Company in the current or previous year.

### Independent auditor

The auditor, Deloitte LLP, has expressed its willingness to continue in office and pursuant to section 487(2) of the Companies Act 2006, a written resolution by the sole shareholder will be passed to confirm the re-appointment of Deloitte LLP as the auditor of the Company.

### Statement of going concern

The Company has continued to perform in line with the Programme Documentation. There are certain rating and non-rating triggers included in the Programme Documentation as referred to in the annual report and accounts in KPIs (Strategic report) and detailed in the note on Management of risk (note 10). In the course of their regular monitoring of these KPIs and review of risk, the directors are confident that these triggers remain un-breached and will remain so for the foreseeable future, despite the current adverse environment.

As at 31 December 2022, the Company is showing a net assets position in the financial statements and is also supported by the general reserve balance in note 10. For this reason, the directors continue to adopt the going concern basis, in preparing the financial statements, for a period of at least 12 months from the date of this report.

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



Aline Sternberg  
Per pro Intertrust Directors 1 Limited  
As Director

Registered Office  
1 Bartholomew Lane  
London  
EC2N 2AX  
26 May 2023

## Statement of comprehensive income

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Interest receivable and similar income	2	67,287	50,390
Interest payable and similar charges	3	(67,181)	(50,315)
		<hr/>	<hr/>
<b>Net interest income</b>		<b>106</b>	<b>75</b>
Operating expenses	4	(105)	(74)
		<hr/>	<hr/>
<b>Profit before tax</b>		<b>1</b>	<b>1</b>
Taxation	5	-	-
		<hr/>	<hr/>
<b>Profit for the financial year and total comprehensive income</b>		<b>1</b>	<b>1</b>
		<hr/>	<hr/>

The profit shown above is derived from continuing operations for the current and previous year.

There was no income or expense recognised directly in equity in the current year or in the prior year.

The accompanying notes are an integral part of the financial statements.



## Balance sheet

As at 31 December 2022

	Note	2022 £'000	2021 £'000
<b>Assets</b>			
Cash and cash equivalents		66,809	81,138
Deemed loan to the Originator	6	1,527,955	1,972,434
		<hr/>	<hr/>
<b>Total assets</b>		<b>1,594,764</b>	<b>2,053,572</b>
		<hr/>	<hr/>
<b>Liabilities</b>			
Trade and other payables	8	60	23
Debt securities in issue	7	1,594,684	2,053,530
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>1,594,744</b>	<b>2,053,553</b>
		<hr/>	<hr/>
<b>Equity</b>			
Share capital	9	13	13
Retained earnings		7	6
		<hr/>	<hr/>
<b>Total equity</b>		<b>20</b>	<b>19</b>
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>1,594,764</b>	<b>2,053,572</b>
		<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

The financial statements were approved and authorised for issue by the board of directors on 26 May 2023 and were signed on its behalf by:



Aline Sternberg  
Per pro Intertrust Directors 1 Limited  
As Director

## Statement of changes in equity

For the year ended 31 December 2022

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2022	13	6	19
Profit for the financial year	-	1	1
	<hr/>	<hr/>	<hr/>
At 31 December 2022	13	7	20
	<hr/>	<hr/>	<hr/>
At 1 January 2021	13	5	18
Profit for the financial year	-	1	1
	<hr/>	<hr/>	<hr/>
At 31 December 2021	13	6	19
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

## Cash flow statement

For the year ended 31 December 2022

	2022 £'000	2021 £'000
<b>Operating activities</b>		
Administration expenses paid	(66)	(51)
Audit fees paid in relation to prior periods	-	(56)
<b>Net cash used in operating activities</b>	<b>(66)</b>	<b>(107)</b>
<b>Investing activities</b>		
Redemption of Deemed loan to the Originator	444,478	236,144
Interest received on Deemed loan to the Originator	66,236	50,390
Bank interest received	1,051	-
<b>Net cash generated from investing activities</b>	<b>511,765</b>	<b>286,534</b>
<b>Financing activities</b>		
Repayment of Debt securities in issue	(460,524)	(268,143)
Interest paid on Debt securities in issue	(65,504)	(50,605)
<b>Net cash used in financing activities</b>	<b>(526,028)</b>	<b>(318,748)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(14,329)</b>	<b>(32,321)</b>
Change in cash and cash equivalents	(14,329)	(32,321)
Cash and cash equivalents at 1 January	81,138	113,459
<b>Cash and cash equivalents at 31 December</b>	<b>66,809</b>	<b>81,138</b>

The cash flow statement is presented using the direct method.

The accompanying notes are an integral part of the financial statements.

## Notes to the financial statements

For the year ended 31 December 2022

### 1. Significant accounting policies

Molineux RMBS 2016-1 plc is a public limited liability company (limited by shares) incorporated and registered in England under the Companies Act 2006 and domiciled in England and Wales. The Company's registered address is 1 Bartholomew Lane, London EC2N 2AX. The principal activities of the Company are disclosed on page 2 within the Strategic report.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

#### (a) Basis of preparation

The financial statements for the year ended 31 December 2022 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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.

There are no new or amended accounting standards that have required a change to accounting policies for the year.

The Company has continued to perform in line with the Programme Documentation. There are certain rating and non-rating triggers included in the Programme Documentation as referred to in the annual report and accounts in KPIs (Strategic report) and detailed in the note on Management of risk (note 10). In the course of their regular monitoring of these KPIs and review of risk, the directors are confident that these triggers remain unbreached and will remain so for the foreseeable future, despite the current adverse environment.

As at 31 December 2022, the Company is showing a net assets position in the financial statements and is also supported by the general reserve balance in note 10. For this reason, the directors continue to adopt the going concern basis, in preparing the financial statements, for a period of at least 12 months from the date of this report.

#### (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 is calculated using the effective interest method and has been incorporated within the Deemed loan 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

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in The Statement of Comprehensive Income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside The Statement of Comprehensive Income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

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.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

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 the Deemed loan, Notes issued, other receivables and payables and cash. These financial instruments are classified in accordance with the principles of IFRS 9 as described below.

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 1. Significant accounting policies (continued)

#### (e)(i) Deemed loan to the Originator

Under IFRS 9 'Financial Instruments', 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 the Originator, where recourse to BOS is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by BOS. Any excess income from mortgage receipts is passed to the Originator as deferred consideration and is accounted for by netting against the Deemed loan.

Subsequent to initial recognition, the deemed loan to Originator is presented after netting off reserve ledger, servicing fee, cash management fee and excess spread/deferred consideration.

The Company has entered in to an Interest Rate Swap Agreement with BoS. The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised in the financial statements as it forms part of the Deemed loan.

The initial measurement is at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the Deemed loan to Originator is calculated with reference to the interest earned on the beneficial interest in the mortgages portfolio less the residual interest due to the Originator.

#### (e)(ii) Derivative financial instruments

Interest rate risk associated with the Deemed loan is managed by means of a floating 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 SONIA.

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 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 "financial assets held at amortised cost" in accordance with IFRS 9 and income is being recorded using the effective interest method.

#### (e)(iv) Impairment of deemed loan to originator

At initial recognition, an impairment allowance is required for expected credit losses ("ECL") resulting from default events expected within the next 12 months ("12-month ECL").

At each balance sheet date an assessment is made as to whether, as a result of one or more events occurring after initial recognition, there is objective evidence that the Deemed loan has had a significant increase in credit risk.

In the event of a significant increase in credit risk, allowance is required for ECL resulting from default events expected over the estimated life of the financial instrument ("lifetime ECL"). IFRS 9 requires the financial asset to be allocated to one of three 'stages' as follows:

- Stage 1 – Financial assets which have not experienced a significant increase in credit risk since they were originated. Recognition of a 12-month ECL is required. Interest income on stage 1 financial assets is calculated on the gross carrying amount of the financial asset;
- Stage 2 – Financial assets which have experienced a significant increase in credit risk. For financial assets in stage 2, recognition of a lifetime ECL impairment allowance is required. Interest income on stage 2 financial assets is calculated on the gross carrying amount of the financial asset; and
- Stage 3 – Financial assets which have experienced one of more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Like stage 2, recognition of a lifetime expected ECL impairment allowance is required. However, interest income on stage 3 loans is calculated on the financial asset balance net of the impairment allowance.

In assessing the deemed loan for impairment, the directors consider both impairments on the underlying mortgage assets and the overcollateralisation required in the transaction which provides credit enhancement in excess of the ECL of the underlying mortgage assets.

Taking into account these factors, the directors conclude that there is no significant increase in credit risk of the deemed loan since inception and therefore record it as Stage 1.

#### (e)(v) Debt securities in issue

Debt securities in issue are recognised initially at fair value less directly related incremental transaction costs. 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

The Company operates in a single segment and all of the Company's activities are in the UK.

#### (g) Critical accounting judgements and key sources of estimation uncertainty

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. There are no critical accounting judgements. The most significantly affected components of the financial statements and associated critical estimates are as follows.

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 1. Significant accounting policies (continued)

#### (g) Critical accounting judgements and key sources of estimation uncertainty (continued)

##### Effective interest rate method

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, based on the payment experience to date, that the average expected life of the Notes issued by the Company will end at the scheduled redemption date (unless specified earlier in the Programme Documentation, in which case the earlier date will be used). This may not be the case in practice.

##### Impairment of the Deemed loan

The impairment of the deemed loan to the Originator is classified as an accounting estimate. Under IFRS 9 the Company's accounting policy for losses arising on the Deemed loan, classified as financial assets at amortised cost, is described in note 1(e)(i). At 31 December 2022, impairment allowances against the deemed loan totalled £nil (2021: £nil).

In assessing the Deemed loan for impairment, the directors consider both impairments on the underlying mortgage assets and the overcollateralisation required in the transaction which provides credit enhancement in excess of the ECL of the underlying mortgage assets.

Taking into account these factors, the directors conclude that there is no significant increase in credit risk of the Deemed loan since inception and therefore record it as Stage 1 as defined in Note (e)(i).

#### (h) Dividends

Dividends on ordinary shares are recognised through equity in the period in which they are paid. The directors did not propose a dividend payment in respect of the current year (2021: £nil).

#### (i) Capital management

The Company is not subject to externally imposed capital requirements in 2022 (2021: £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.

#### (j) Future accounting pronouncements

There have been a number of minor amendments to IFRSs issued effective 1 January 2023 and in later years (including IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors). These amendments are not applicable for the year ended 31 December 2022, have not been applied in preparing these financial statements and are not expected to have a significant impact on the Company.

### 2. Interest receivable and similar income

	2022 £'000	2021 £'000
Interest receivable on Deemed loan to the Originator	66,236	50,390
Bank interest	1,051	-
	<u>67,287</u>	<u>50,390</u>

### 3. Interest payable and similar charges

	2022 £'000	2021 £'000
Interest payable on Debt securities in issue	67,181	50,315

### 4. Operating expenses

	2022 £'000	2021 £'000
Audit fees	39	23
Administration charges	66	51
	<u>105</u>	<u>74</u>

Audit fees relate to the statutory audit. Fees of £31,500 (2021: £18,900), net of VAT, are payable to Deloitte LLP. There are no fees payable to the auditors and their associates for services other than the statutory audit (2021: none).

The Company has no employees (2021: nil) and none of the directors received any emoluments from the Company in the current or previous year.

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 5. Taxation

	2022 £'000	2021 £'000
<b>Current tax</b>		
Corporation tax charge for the year at a rate of 19.00% (2021: 19.00%)	-	-
<b>Total tax charge</b>	-	-
	2022 £'000	2021 £'000
<b>Reconciliation of effective tax rate</b>		
The tax assessed for the year is equal to the standard average rate of corporation tax in the UK of 19.00% (2021: 19.00%)		
<b>Profit before tax</b>	1	1
Profit before tax multiplied by the standard average rate of corporation tax in the UK of 19.00% (2021: 19.00%)	-	-
<b>Total tax charge in the statement of comprehensive income</b>	-	-

The company's taxable profits are calculated under the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) as amended by The Taxation of Securitisation Companies (Amendment) Regulations 2018 (SI 2018/143). Corporation tax is calculated at a rate of 19% of the taxable profit for the period ending 31 December 2022. The charge to corporation tax and the main rate will increase to 25% for the financial year beginning 1 April 2023.

### 6. Deemed loan to the Originator

	2022 £'000	2021 £'000
<b>Non current</b>		
Principal	1,524,604	1,970,761
<b>Current</b>		
Interest receivable	3,351	1,673
<b>Total</b>	1,527,955	1,972,434

The mortgage portfolio, which is accounted for as a Deemed loan to the 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. For more information about the Company's exposure to risk, see note 10.

The Deemed 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.

### 7. Debt securities in issue

	Maturity	Margin	2022 £'000	2021 £'000
<b>Non current</b>				
Class A1: priced against SONIA	March 2063	1.40%	-	331,857
Class A2: priced against SONIA	March 2063	2.15%	1,080,933	1,209,600
Class B: priced against SONIA	March 2063	3.15%	127,600	127,600
Class C: priced against SONIA	March 2063	4.15%	87,000	87,000
Class D: priced against SONIA	March 2063	5.65%	75,400	75,400
Class Z: priced against SONIA	March 2063	2.00%	220,400	220,400
<b>Current</b>				
Interest payable on Debt securities in issue			3,351	1,673
<b>Total</b>			1,594,684	2,053,530

Debt securities in issue at 31 December 2022 comprise the floating rate Notes issued by the Company in connection with the securitisation of mortgages originated by BOS. The notes have a scheduled call option date of 18 March 2026. 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.

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.

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 8. Trade and other payables

	2022 £'000	2021 £'000
Audit fee accrual	60	23

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

### 9. Share capital

	2022 £	2021 £
Issued, allotted, called up and paid		
1 (2021: 1) ordinary shares of £1 each (fully paid)	1	1
49,999 (2021: 49,999) ordinary shares of £1 each (one quarter paid)	12,500	12,500
	<b>12,501</b>	<b>12,501</b>

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.

#### 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 a reduction in the principal balance of the mortgage pool which may arise as a result of defaults by customers.

For December 2022, the post interest rate swap yield was 2.64% (2021: 2.67%).

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 2022 were £nil (2021: £nil). There have been no principal drawings on the reserve fund which is fully funded and at 31 December 2022 was £46,400,000 (2021: £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. The directors consider that the pool of mortgage loans will be sufficient to recover the full amount of the Deemed loan.



## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 10. Management of risk (continued)

#### 10(a). Credit risk (continued)

Given the nature of the underlying receivables, the Directors have considered the conduct provision risk related to PPI and have assessed this to be low. There have been no such claims during the reporting period and this will continue to be monitored.

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 2022 and 2021	Rating as at date of Approval of Financial statements
		Fitch / Moody's	Fitch / Moody's
Account bank	BOS	Long term: A+/A1 Short term: F1/P-1	Long term: A+/A1 Short term: F1/P-1
Interest rate swap provider	BOS	Long term: A+/Aa3 Short term: F1/P-1	Long term: A+/Aa3 Short term: F1/P-1

Cash is considered to be a low credit risk.

#### 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 the carrying value of £1,527,955 (2021: £1,972,434). 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.

#### Securitised mortgage assets

Securitised mortgage loans are analysed according to the rating systems used by the Company and the Originator when assessing customers and counterparties. The total mortgage portfolio balance against which the Deemed loan 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:

Stage 1 – Financial assets which are not in arrears or less than 1 month in arrears.

Stage 2 – Financial assets which are greater than 1 month but less than 3 months in arrears.

Stage 3 – Financial assets which have experienced one or more events that have had a detrimental impact on the estimated future cash flows and are considered to be credit impaired. Financial assets are considered to be credit impaired and included in stage 3 when there is objective evidence of credit impairment. BOS assesses a loan as stage 3 when contractual payments of either principal or interest are past due for more than 3 months.

2022	Mortgage balance £'000	No. of accounts
Mortgage balance by impairment stage		
Stage 1	1,574,745	13,224
Stage 2	8,630	63
Stage 3	4,972	38
	<b>1,588,347</b>	<b>13,325</b>
2021	Mortgage balance £'000	No. of accounts
Mortgage balance by impairment stage		
Stage 1	2,022,542	16,823
Stage 2	5,762	47
Stage 3	6,611	57
	<b>2,034,915</b>	<b>16,927</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 10. Management of risk (continued)

#### 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, 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 are subject to variable rates of interest set by the servicer, 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 SONIA 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 mortgage pool and receives a SONIA 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.

Sensitivity to a 50bps movements in SONIA	+50bps SONIA £'000	-50bps SONIA £'000
Impact on Interest receivable	(9,518)	9,472
Impact on Interest payable	9,518	(9,472)
Adjustment to Deemed loan	9,518	(9,472)
Adjustment to Debt Securities in issue	(9,518)	9,472
Residual	-	-

#### 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 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 portfolio 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, 18 March 2026, the average expected life of the Notes issued by the Company will end twelve years after their original issue. This may not be the case in practice. The final legal maturity date of the Notes is March 2063.

2022	Carrying Value £'000	Contractual repayment value £'000	<1 month £'000	1-3 months £'000	3 months - 1 year £'000	1-5 years £'000
<b>Principal</b>						
Debt securities in issue	1,591,333	1,591,333	28,843	57,686	259,586	1,245,218
Trade and other payables	60	60	-	60	-	-
<b>Interest payable</b>						
Interest payable on Debt securities in issue	3,351	213,279	8,249	15,328	64,456	125,246
	<b>1,594,744</b>	<b>1,804,672</b>	<b>37,092</b>	<b>73,074</b>	<b>324,042</b>	<b>1,370,464</b>

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 10 Management of risk (continued)

#### 10(c). Liquidity risk

2021	Carrying Value	Contractual repayment value	<1 month	1-3 months	3 months - 1 year	1-5 years
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Principal</b>						
Debt securities in issue	2,051,857	2,051,857	30,363	70,839	208,476	1,742,178
Trade and other payables	23	23	-	23	-	-
<b>Interest payable</b>						
Interest payable on Debt securities in issue	1,673	201,802	5,357	10,044	44,397	142,004
	<b>2,053,553</b>	<b>2,253,682</b>	<b>35,720</b>	<b>80,906</b>	<b>252,873</b>	<b>1,884,182</b>

If the cash flows on the underlying mortgage assets are repaid earlier than contractual dates, amounts paid to the company would have to be paid to the note holders in accordance with the priority of payments.

#### 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 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 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 2022	1.05	11.88	23.50	21.75
31 December 2021	1.47	16.28	16.50	12.73

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 10 Management of risk (continued)

#### 10(e). Fair values

##### (i) Definition of fair value levels

Per IFRS 13 "Fair Value Measurement" 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); and Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

##### (ii) Financial instruments held at amortised cost

Cash and cash equivalents and Trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value.

##### Deemed loan to Originator

The deemed loan represents the expected future cashflows expected to be paid on the debt securities in issue in addition to any credit enhancement within the Company. The fair value of the deemed loan has been determined as the fair value of the debt securities in issue with the short term assets and liabilities removed. This is representative of the price that would be obtained if the financial assets were to be sold to a third party and is considered to be the fair value. The carrying value of the deemed loan is considered to be a close approximation to fair value.

##### Debt securities in issue

The book value as at 31 December 2022 was £1,594,684 thousands (2021: £2,053,530 thousands) and the fair value as at 31 December 2022 was £1,594,684 thousands (2021: £2,053,530 thousands). 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 13 Fair Value Measurement", the debt securities in issue which are externally held are considered to be Level 2 in the fair value hierarchy. Notes held by LBG are considered to be Level 3 in the fair value hierarchy.

Under IFRS 13 'Fair Value Measurement', the fair value of the debt securities in issue has been calculated using a market approach. A mid-price was obtained from the Group's trading desk team for each of the notes in order to derive a fair value. The mid-price as at the balance sheet date is considered to be an exit price for the purposes of IFRS 13.2. Where prices are unavailable for certain notes, the lowest mid-price for similar notes has been used as an equivalent in order to calculate the fair value.

## Notes to the financial statements (continued)

For the year ended 31 December 2022

### 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 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. These fees amounted to £1,333,487 (2021: £1,635,505).

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 was paid £17,497 for services provided in the year to the Company and its parent (2021: £14,250).

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

	Originator	Other Related Parties	Originator	Other Related Parties
At 31 December	2022	2022	2021	2021
	£'000	£'000	£'000	£'000
<b>Interest receivable and similar income</b>				
Income from Deemed loan to Originator	66,236	-	50,390	-
Bank interest receivable	1,051	-	-	-
<b>Interest payable and similar charges</b>				
Interest on Debt securities in issue	67,181	-	50,315	-
<b>Operating expenses</b>				
Administration charges	-	17	-	14
<b>Assets</b>				
Deemed loan to the Originator	1,527,955	-	1,972,434	-
Cash and cash equivalents	66,796	13	81,125	13
<b>Liabilities</b>				
Debt securities in issue	1,591,333	-	2,051,857	-
Interest payable on Debt securities in issue	3,351	-	1,673	-

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. Post balance sheet event

There are no post balance sheet events which require disclosure in the financial statements.

### 13. 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 2022.

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](http://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](http://www.lloydsbankinggroup.com).

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MOLINEUX RMBS 2016-1 PLC

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of Molineux RMBS 2016-1 Plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

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

### 3. Summary of our audit approach

Key audit matters	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"><li>• collections in the Waterfalls related to the securitised portfolio.</li></ul>
Materiality	<p>The materiality that we used in the current year was £23.9 million which was determined on the basis of 1.5% of total assets.</p>
Scoping	<p>All audit procedures to respond to risks of material misstatement were performed by the audit engagement team.</p>
Significant changes in our approach	<p>We have changed our benchmark for determining materiality from 1.5% of the gross balance of the deemed loan to originator to 1.5% of total assets. The revised benchmark is more aligned with the needs and expectations of the users of the financial statements.</p> <p>We have revised our approach to the key audit matter relating to the priority of payments ("the Waterfall"), so that it focuses on the risk of inappropriate cash flows, rather than the contractual clauses.</p> <p>There are no other significant changes in our approach.</p>

### 4. Conclusions relating to going concern

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

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

- inspecting the securitisation programme documentation to identify triggers that could have an impact on the company's ability to continue as a going concern;
- considering the limited recourse features of the notes and the impact on liquidity requirements;
- inspecting the minutes of meetings of the company's board of directors for periodic discussion of the performance of the company; and
- assessing the appropriateness of the disclosures made in the financial statements.

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

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

## 5. Key audit matters

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

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

### 5.1. Collections in the Waterfalls related to the securitised portfolio

<b>Key audit matter description</b>	<p>The company is a special purpose vehicle which has issued publicly listed notes, the proceeds of which have been used to securitise a pool of residential mortgage loans. On a daily basis, principal and interest receipts related to the securitised portfolio are transferred by the Originator (Bank of Scotland) to the company and these collections are distributed to noteholders on each interest payment date (IPD).</p> <p>The repayment of principal and interest to the noteholders as per the contractual terms of the programme documentation drive the rating of these notes and this repayment is dependent on the principal and interest receipts from the securitised pool.</p> <p>There is a risk of fraud that management might overstate the principal and interest receipts in the Waterfalls, by transferring the cashflows from the loans which are not part of the securitised portfolio of the company and, therefore, the related cashflows are incorrectly recorded in the Waterfalls.</p> <p>Refer to notes 1(e)(i), 2, 6 and 10 in the financial statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of relevant controls over the process of recording the principal and interest receipts in the Waterfalls and controls over the preparation and review of the Waterfalls.</p> <p>We also performed the following procedures over the interest and principal receipts from securitised portfolio:</p> <ul style="list-style-type: none"><li>• on a sample basis, tested the completeness of principal receipts by testing the movement in the value of the securitised portfolio during the year;</li><li>• tested completeness of interest receipts recorded in the Waterfalls by vouching a sample of interest receipts from the bank statements to the Waterfalls;</li><li>• on a sample basis, tested the principal and interest receipts from the securitised portfolio by tracing receipts to customers' statements;</li><li>• on a sample basis, tested that the customer loans which are securitised in the company are flagged in the securitisation system; and</li><li>• traced the total receipts recorded in the monthly Waterfalls with the amounts received in the bank account of the company.</li></ul>



Key observations	<p>We identified a control deficiency over the process of recording the principal and interest receipts in the Waterfalls, mainly due to the lack of reconciliation control between the Originator's and the company's system. This deficiency arises from the lack of ring fencing of the securitised pool in the Originator's system. Management is in the process of implementing control improvements to remediate the deficiency noted.</p> <p>From the work performed, we are satisfied that the principal and interest receipts recorded in the Waterfalls were duly received by the company and related to securitised loans within the company for year ended 31 December 2022.</p>
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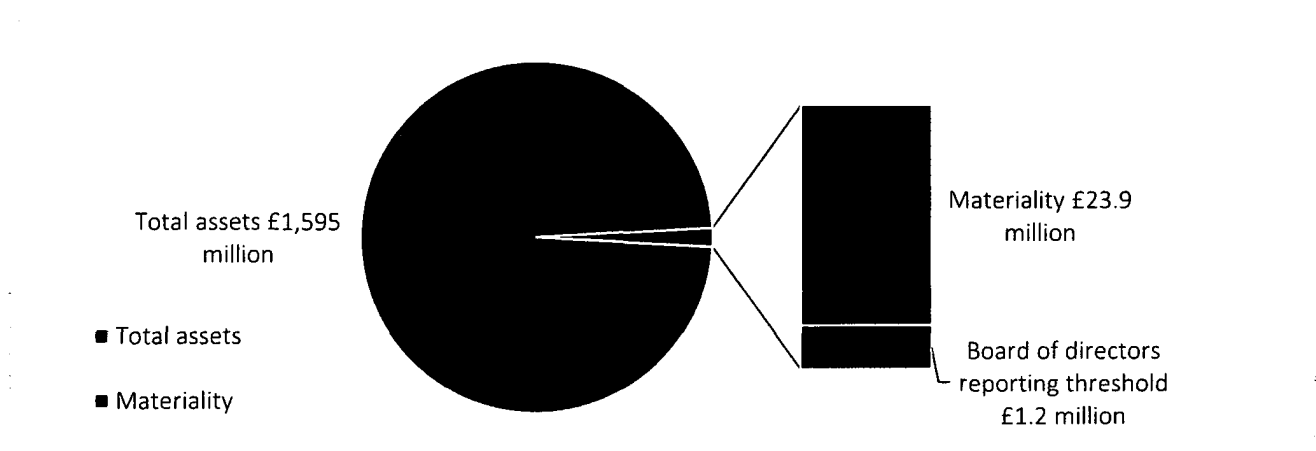
## 6. Our application of materiality

### 6.1. Materiality

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

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

Materiality	£23.9 million (2021: £29.6 million)
Basis for determining materiality	1.5% of total assets (2021: 1.5% of gross balance of the deemed loan to originator)
Rationale for the benchmark applied	The noteholders are the primary users of the financial statements and the key focus for users of the financial statements is the total assets as the repayment to noteholders is driven by this. During the year, we have changed our benchmark for determining materiality from 1.5% of the gross balance of the deemed loan to originator to 1.5% of total assets. The revised benchmark is more aligned with the needs and expectations of the users of the financial statements.



## 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- a. our risk assessment, including our assessment of the company's overall control environment;
- b. our understanding of the business processes and complexity involved in the preparation of the financial statements; and
- c. the nature, volume and size of corrected and uncorrected misstatements in the previous audit which has indicated a low number of corrected and uncorrected misstatements identified in prior period.

## 6.3. Error reporting threshold

We agreed with the board of directors that we would report to them all audit differences in excess of £1.2 million (2021: £1.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the board of directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

# 7. An overview of the scope of our audit

## 7.1. Scoping

Our audit scope was determined through obtaining an understanding of the entity and its environment, including internal controls, and assessing risks of material misstatements. Audit procedures to respond to risks of material misstatement were performed by the audit engagement team.

## 7.2. Our consideration of the control environment

We obtained an understanding of the control environment, including the underlying IT systems. We planned not to rely on the general IT controls or application controls, as the company's operations are largely based on manual processes and controls.

We obtained an understanding of controls over the process of recording the principal and interest receipts in the Waterfalls. We have not relied on the controls due to the control deficiency identified in the process as mentioned in 'Key observation' paragraph in section 5.1 of this report. We have adopted control reliance approach on controls over the preparation and review of the Waterfalls.

# 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the directors about their own identification and assessment of the risks of irregularities including those that are specific to the company's sector;

- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud is in the overstatement of principal and interest receipts in the Waterfalls, by transferring the cashflows from the loans which are not part of the securitised portfolio of the company. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

## 11.2. Audit response to risks identified

As a result of performing the above, we identified the collections in the Waterfalls related to securitised portfolio as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

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

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

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

#### 13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

### 14. Other matters which we are required to address

#### 14.1. Auditor tenure

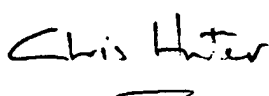
Following the recommendation of the audit committee of the ultimate controlling party as defined in note 13, we were appointed by the shareholders of the ultimate controlling party at its annual general meeting on 20 May 2021 to audit the financial statements for the year ended 31 December 2022 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ended 31 December 2021 to 31 December 2022.

#### 14.2. Consistency of the audit report with the additional report to those charged with governance

Our audit opinion is consistent with the additional report to those charged with governance we are required to provide in accordance with ISAs (UK).

#### 15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Chris Hunter, CA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
26 May 2023