

Classification: Limited

Registered number: 06691601

DEVA FINANCING Plc

Annual report and financial statements
for the year ended 31 December 2019



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

1 Bartholomew Lane
London
EC2N 2AX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Strategic Report

For the year ended 31 December 2019

The directors present their Strategic Report and audited financial statements of Deva Financing Plc (the "Company") for the year ended 31 December 2019.

Principal activities

The principal activity of the Company is to issue A1, A2, A3 and A4 Assets Backed Floating Rate Notes denominated in sterling and with a final maturity date of 19 November 2053 (together the "Notes"), use the proceeds from the issuance to acquire an interest in a portfolio of mortgage loans from The Mortgage Business plc ("TMB", or the "Originator"), a subsidiary of Bank of Scotland plc ("BOS") 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 TMB and 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 TMB (the "Deemed loan"). The initial amount of the Deemed loan corresponds to the consideration paid by the Company for the mortgage loans less the 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 TMB and subsequently Lloyds Banking Group plc ("LBG"), the ultimate controlling party under International Financial Reporting Standards ("IFRSs"). The Programme Documentation sets out the workings of the transaction and 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 Deva Financing Holdings Limited, a company registered in the England and Wales under the Companies Act 2006. Deva Financing Holdings Limited holds the Company's entire issued share capital of 50,000 ordinary shares of £1 each (49,998 £1 ordinary shares are quarter paid and 2 are fully paid). The shares of Deva Financing Holdings Limited are held on a discretionary trust basis by Intertrust Corporate Services Limited for the benefit of certain charities.

Business review and future developments

The results for the year are set out on page 7. The profit for the financial year amounted to £4,053 (2018: £3,090). Total equity as at 31 December 2019 was £55,000 (2018: £51,000).

Profits on a cash flow basis are determined under the Programme Documentation. The Company has the right to a profit before tax of £5,004 from the available revenue receipts per accounting year. Through the Deva restructure, excess spread cleared the accumulated loss to bring the retained profit in line with a profit before tax of £5,004 per accounting year.

The Company has made all necessary interest payments on the Notes in accordance with the scheduled payment dates for the year ended 31 December 2019 and repaid principal of £402,648,398 (2018: £485,076,922).

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and on-going challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. There also remains the possibility of a further referendum on Scottish independence. The Company is part of the wider Lloyds Banking Group, and, it is at that level that consideration of the many potential implications this may have has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications. No impact is expected for the Company.

There has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. In view of its currently evolving nature, the directors are unable to estimate its financial and other effects. The directors have assessed this to be a non-adjusting post balance sheet event. It is also deemed to have no impact on our going concern assessment.

LBG is managing the process to transition to alternative benchmark rates under its Group-wide IBOR Transition Programme. This programme is working towards ensuring that LBG has the market capability and infrastructure to deal with the reform.

From 25 March 2020 mortgage borrowers impacted financially by Covid-19 can request a payment holiday for up to three months. Where borrowers have made a successful application, they are not considered to be in a payment shortfall and as such will not be reported as delinquent. Payment holidays will reduce the revenue and principal received, however, liquidity remains available through existing structural mechanisms and note principal payments are modest in the next 12 months.

Key Performance Indicators (KPIs)

A defined set of KPIs for the securitisation transaction are set out in the Programme Documentation.

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 each series and class of Notes is assigned a credit rating which reflects the likelihood of full and timely payment to 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's tax charge is based on the permanent tax regime for securitisation companies.

Strategic Report (continued)

For the year ended 31 December 2019

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 during the year comprised of a deemed loan to TMB, cash and liquid resources, Notes issued and various other receivables and payables.

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 of the financial statements.

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 obligations on the Notes. The requirement to use the reserve ledger 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 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.

Principal repayment of the Notes matches principal repayment of the underlying mortgage portfolio. However, 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 TMB. The Noteholders bear the ultimate risk.

An optional redemption in full or in part is available to the Company should it wish to repay any of the Notes earlier than the expected maturity date. Noteholders must be informed by giving not more than 60 or less than 30 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 assets and liabilities are similar.

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 has been appointed to provide corporate administration services in accordance with a corporate services agreement. Other third parties who provide services with respect to the Notes include Citibank N.A. London Branch as the paying agent and the agent bank. BOS has been appointed to act as account bank and cash manager on behalf of the Company.

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.

Strategic Report (continued)

For the year ended 31 December 2019

Section 172(1) of the Companies Act 2006

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 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 s. 426B of the Companies Act 2006 the above paragraph 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:



Helena Whitaker
Per pro Intertrust Corporate Services Limited
As Company Secretary

28 April 2020

Directors' Report

For the year ended 31 December 2019

The directors present their annual report and the audited financial statements for Deva Financing Plc (the "Company") for the year ended 31 December

Directors and directors' interests

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

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

The directors are also all directors of Deva Financing 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 financial statements

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

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 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 these 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 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.

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 has 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' confirmations

Each of the directors, whose names and functions are listed in Directors' and directors interests confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, 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.

In the case of each director in office at the date the Directors' 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
- they 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.

Directors' Report (continued)

For the year ended 31 December 2019

Future Developments

The portfolio of mortgages continues to unwind over their estimated useful life and the funds that accumulate on a daily basis will continue to be used to pay down a proportion of the Notes in issue on a quarterly basis from available funds in accordance with the Programme Documentation.

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.

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

No future deals are envisaged in the Company.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: £nil).

Risk Management

Further details on the risks facing the Company and how these risks are managed are detailed in the Strategic Report.

Corporate governance

The directors have been charged with governance in accordance with the Programme Documentation detailing 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) 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 2019 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2019 Annual Report of LBG can be found in note 14.

Employees

The Company has employed no staff during the year ended 31 December 2019 or the previous year. None of the directors received any emoluments from the Company in the current or previous year.

Independent auditors

PricewaterhouseCoopers 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 PricewaterhouseCoopers 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. There are certain rating and non-rating triggers included in the Programme Documentation as referred to in the annual report and accounts in Key Performance Indicators (Strategic Report) and exemplified in the note on Management of Risk (note 10). In the course of their regular monitoring of these Key Performance Indicators 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.

For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. As at 31 December 2019, the Company is showing a net assets position in the financial statements, however also is supported by the general reserve balance in note 10.

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



Helena Whitaker
Per pro Intertrust Corporate Services Limited
As Company Secretary
28 April 2020

Classification: Limited

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest receivable and similar income	2	33,003	32,425
Interest payable and similar charges	3	(32,903)	(32,350)
Net interest income		100	75
Operating expenses	4	(95)	(71)
Profit before tax		5	4
Taxation	5	(1)	(1)
Profit for the financial year and total comprehensive income attributable to equity holders		4	3

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 19 are an integral part of the financial statements.

Classification: Limited

Balance sheet

As at 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Deemed loan to Originator	6	2,376,656	2,766,815
Cash and cash equivalents		115,644	128,911
Total assets		2,492,300	2,895,726
Liabilities			
Debt securities in Issue	7	2,492,209	2,895,656
Current tax liability	5	1	1
Trade and other payables	8	35	18
Total liabilities		2,492,245	2,895,675
Share capital	9	12	12
Retained earnings		43	39
Total equity		55	51
Total equity and liabilities		2,492,300	2,895,726

The financial statements on pages 7 to 19 were approved by the Board of Directors on 28 April 2020 and were signed on its behalf by:



Helen Whitaker
per pro Intertrust Directors 1 Limited
As Director

The accompanying notes on pages 11 to 19 are an integral part of the financial statements.

Classification: Limited

Statement of changes in equity

For the year ended 31 December 2019

	Share capital	Retained	Total equity
	£'000	£'000	£'000
At 1 January 2019	12	39	51
Profit for the financial year and total comprehensive income for the year	-	4	4
At 31 December 2019	12	43	55
At 1 January 2018	12	36	48
Profit for the financial year and total comprehensive income for the year	-	3	3
At 31 December 2018	12	39	51

The accompanying notes on pages 11 to 19 are an integral part of the financial statements.

Cash flow statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Operating activities		
External audit fees paid	(9)	(10)
Other external fees paid	(68)	(52)
Tax paid	(1)	(1)
	<hr/>	<hr/>
Net cash flows used in operating activities	(78)	(63)
	<hr/>	<hr/>
Investing activities		
Cash received from originator	422,415	484,467
Bank interest received	746	827
	<hr/>	<hr/>
Net cash flows generated from investing activities	423,161	485,294
	<hr/>	<hr/>
Financing activities		
Reduction in loan from Group undertaking	(402,648)	(485,077)
Interest paid on debt securities in issue	(33,702)	(31,435)
	<hr/>	<hr/>
Net cash flows used in financing activities	(436,350)	(516,512)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(13,267)	(31,281)
	<hr/>	<hr/>
Change in cash and cash equivalents	(13,267)	(31,281)
Cash and cash equivalents at start of year	128,911	160,192
	<hr/>	<hr/>
Cash and cash equivalents at end of year	115,644	128,911
	<hr/>	<hr/>

The Cash flow statement is presented using the direct method.

The accompanying notes on pages 11 to 19 are an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 December 2019

1. Significant accounting policies

Deva Financing Plc ("the Company") is a public limited liability company domiciled in England and Wales and incorporated in the United Kingdom under the Companies Act 2006. The registered office address of the Company is 1 Bartholomew Lane London EC2N 2AX.

(a) Basis of preparation

The financial statements for the year ended 31 December 2019 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.

There are no accounting pronouncements that will be relevant to the Company, but which were not effective at 31 December 2019.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS.

The financial statements have been prepared using the going concern basis. On behalf of the directors the programme managers 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 and within the outstanding balance of debt securities in issue on the Balance sheet. An analysis of principal on the loans and accrued interest can be found in notes 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 TMB, cash and liquid resources, Notes issued and other receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for TMB. These financial instruments are classified in accordance with the principles of IFRS 9 as described below.

(e)(i) Deemed loan to 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 TMB 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 in its Balance sheet but rather a deemed loan to TMB, where recourse to TMB is limited to the cash flows from the mortgage loans and any additional credit enhancement provided by TMB.

The initial amount of the Deemed loan corresponds to the consideration paid by the Company for the mortgage loans less the subordinated loan granted by TMB. 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 TMB are not recognised by the Company.

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)

(e) Financial instruments (continued)

(e)(ii) Derivative financial instruments

Interest rate risk associated with the Deemed loan is managed by means of a floating interest rate swap with Bank of Scotland plc ("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 three-month Sterling LIBOR (the flows of which are passed to TMB as part of a subsequent back to back agreement).

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 TMB is recognised with an effective interest rate which reflects the amount received under the swap based on LIBOR.

(e)(iii) Cash & 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.

(e)(iv) Impairment of financial assets to TMB

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 or 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.

Unlike other financial instruments, the Deemed loan is, by its construction, an instrument that incorporates credit enhancement. The interest due on the Deemed loan 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 credit losses ("ECL") for the Deemed loan 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 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

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 are 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:

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)**(g) Critical accounting estimates and judgements (continued)****(g)(i) 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.

(g)(ii) Impairment of deemed loan to Originator

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

At 31 December 2019, impairment allowances against the deemed loan totalled £nil (2018: £nil).

(h) Dividends

Dividends on ordinary shares are recognised in equity in the year in which they are declared.

(i) Capital management

The Company is not subject to externally imposed capital requirements in the current and prior year. 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

	2019 £'000	2018 £'000
Interest receivable on deemed loan to Originator	32,257	31,598
Bank interest receivable	746	827
	<u>33,003</u>	<u>32,425</u>

3. Interest payable and similar charges

	2019 £'000	2018 £'000
Interest payable on debt securities in issue	32,903	32,350
	<u>32,903</u>	<u>32,350</u>

4. Operating expenses

	2019 £'000	2018 £'000
Audit fees	18	18
Administration charges	77	53
	<u>95</u>	<u>71</u>

Audit fees relate to the statutory audit. Fees of £15,000 net of VAT are payable to PricewaterhouseCoopers LLP for work performed in the year on behalf of the Company (2018: £15,000). There are no fees payable to the auditors and their associates for services other than the statutory audit.

The Company has no employees (2018: none) 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 2019

5. Taxation	2019 £'000	2018 £'000
Current Tax		
Corporation tax charge for the year at a rate of 19.00% (2018: 19%)	1	1
Total tax charge	<u>1</u>	<u>1</u>
Reconciliation of effective tax rate		
Profit before tax	5	4
Profit before tax multiplied by the standard average rate of corporation tax in the UK of 19.00% (2018: 19%)	1	1
Total tax charge in the Statement of comprehensive income	<u>1</u>	<u>1</u>

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) and disclosed in accordance with IAS 12 "Income Taxes". Tax is assessed on the cash retained as profit in the company.

6. Deemed Loan to Originator	2019 £'000	2018 £'000
Principal	2,373,107	2,762,468
Interest	3,549	4,347
Total	<u>2,376,656</u>	<u>2,766,815</u>

The Deemed loan includes the reserve fund. 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 TMB. The mortgage loans are secured on residential properties in England, Wales and Scotland. Mortgages in the pool have to adhere to certain representations and warranties which are listed in the programme documentation. 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 and is therefore deemed to be non-current.

7. Debt securities in Issue	2019 £'000	2018 £'000
Principal		
Principal (GBP - priced against 3 month GBP LIBOR)	2,488,660	2,891,309
Interest		
Interest payable on debt securities	3,549	4,347
Total	<u>2,492,209</u>	<u>2,895,656</u>

Debt securities in issue at 31 December 2019 comprise the floating rate Notes issued by the Company in connection with the securitisation of mortgages originated by TMB. 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 November 2053. For more information about the Company's exposure to risk, see note 10.

A balance of £361m (2018: £470m) is 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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

8. Trade and other payables

	2019 £'000	2018 £'000
Accruals and deferred income	35	18

9. Share capital

	2019 £	2018 £
Authorised		
50,000 (2018: 50,000) ordinary shares of £1 each	50,000	50,000
Allotted, called up and paid		
2 (2018: 2) ordinary shares of £1 each (fully paid)	2	2
49,998 (2018: 49,998) ordinary shares of £1 each (one quarter paid)	12,500	12,500
	12,502	12,502

10. Management of risk

The principal 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 BOS (and subsequently with TMB via the back to back agreement), 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.

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 TMB.

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.

In addition, TMB provided a start up 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 share of losses in the mortgage pool covered by excess spread in the year to 31 December 2019 was £4,697,250 (2018: £4,365,177). There have been no principal drawings on the reserve fund which is fully funded and at 31 December 2019 was £44,319,618 (2018: £44,319,618).

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 on the 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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Management of risk (continued)**10(a). Credit risk (continued)**

	Counterparty	Rating as at Date 31 December 2019	Rating as at date of Approval of Financial statements
		Standard & Poors	Standard & Poors
Account bank	Bank of Scotland plc	Long term: A+ Short term: A-1	Long term: A+ Short term: A-1
Servicer	Bank of Scotland plc	Long term: A+ Short term: A-1	Long term: A+ Short term: A-1
Interest rate swap provider	Bank of Scotland plc	Long term: A+ Short term: A-1	Long term: A+ Short term: A-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 TMB 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 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:

Stage 1 - Financial assets which have not experienced a significant increase in credit risk since they were originated.

Stage 2 – Financial assets which have experienced a significant increase in credit risk

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. TMB assesses a loan as stage 3 when contractual payments of either principal or interest are past due for more than 90 days, the debtor is assessed as unlikely to pay, or the loan is otherwise considered to be in default.

2019	Mortgage balance £'000	Number of accounts
Mortgage balance by impairment stage		
Stage 1	2,246,064	16,164
Stage 2	138,751	815
Stage 3	72,378	364
	2,457,193	17,343
2018	Mortgage balance £'000	Number of accounts
Mortgage balance by impairment stage		
Stage 1	2,576,810	18,323
Stage 2	157,533	946
Stage 3	106,676	484
	2,841,019	19,753

Collateral held against retail mortgage lending comprises residential properties.

Notes to the financial statements (continued)

For the year ended 31 December 2019

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 Lloyds Banking Group ("LBG") based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest. However, the interest rate characteristics of these assets and liabilities are sufficiently similar to mitigate the risk that interest cash flows from the mortgage pools are insufficient to meet the LIBOR based payments on the debt securities in issue.

10(c). Liquidity risk

The Company's ability to meet 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 repayment of the Notes matches 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 November 2053.

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. This may not be the case in practice. The final legal maturity date of the Notes is November 2053.

2019	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	2,488,660	2,488,660	-	90,216	270,648	1,443,454	684,342
Trade and other payables	35	35	-	35	-	-	-
Interest payable							
Interest payable on debt securities in issue	3,549	123,977	2,641	7,682	21,848	81,506	10,300
	2,492,244	2,612,672	2,641	97,933	292,496	1,524,960	694,642

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	2,891,309	2,891,309	-	117,484	352,451	1,879,739	541,635
Trade and other payables	18	18	-	18	-	-	-
Interest payable							
Interest payable on debt securities in issue	4,347	135,678	3,235	9,296	26,430	90,524	6,193
	2,895,674	3,027,005	3,235	126,798	378,881	1,970,263	547,828

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Management of risk (continued)**10(d). Prepayment risk**

In the normal course of business a proportion of borrowers repay their loan in advance of the 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 terms of the Notes specify 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 Principal Prepayment Rate ("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 2019	1.15	12.96	1.15	1.21
31 December 2018	1.18	13.23	1.25	1.22

10(e). Fair values

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).

Financial assets and liabilities carried 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 includes a start-up loan, which is not recognised separately. The start-up loan is based on variable rates (three-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 fair value of the Deemed loan is considered to be a close approximation to amortised cost.

Debt securities in issue

The book value as at 31 December 2019 was £2,492,209k (2018: £2,895,656k) and the fair value as at 31 December 2019 was £2,442,137k (2018: £2,825,976k). The Notes have been valued where possible based on quoted market prices in active markets, including recent market transactions. However, notes held 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.

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.

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 TMB, BOS 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 a corporate services fee to Intertrust Management for the provision of corporate administration services, including director services. The total fees paid to Intertrust Management Limited for the provision of services to the Company and its parent amounted to £37,879 for the year ended 31 December 2019 (2018: £15,084).

The Company pays cash management and mortgage loan servicing fees to BOS (and subsequently to TMB via the back to back agreement) for the provision of services defined under the Programme Documentation. Service fees amounted to £1,500,793 for the year ended 31 December 2019 (2018: £1,581,857).

Notes to the financial statements (continued)

For the year ended 31 December 2019

11. Related party transactions (continued)

During the year, the Company undertook the following transactions with BOS (the "Parent") and other related parties within LBG:

At 31 December	Parent		Other Related Parties	
	2019 £'000	2018 £'000	2018 £'000	2018 £'000
Interest receivable and similar income				
Interest receivable on the Deemed loan to Originator	32,257	-	31,598	-
Bank interest receivable	746	-	827	-
Interest payable and similar charges				
Interest payable on debt securities in issue	32,903	-	32,350	-
Operating Expenses	-	38	-	15
Assets				
Deemed loan to Originator	2,376,656	-	2,766,815	-
Cash and cash equivalents	115,644	-	128,911	-
Liabilities				
Debt securities in issue	2,488,660	-	2,891,309	-
Interest payable on debt securities in issue	3,549	-	4,347	-

Deva Financing Holdings Limited holds one fully paid and 49,998 quarter paid £1 ordinary shares in Deva Financing plc and Intertrust Nominees Limited holds one fully paid ordinary share on behalf of Deva Financing Holdings Limited as a nominee.

12. Post balance sheet event

Since the balance sheet date there has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the directors are unable to estimate its financial and other effects.

From 25 March 2020 mortgage borrowers impacted financially by Covid-19 can request a payment holiday for up to three months. Where borrowers have made a successful application, they are not considered to be in a payment shortfall and as such will not be reported as delinquent. Payment holidays will reduce the revenue and principal received, however, liquidity remains available through existing structural mechanisms as rate principal payments are modest in the next 12 months.

13. Future accounting pronouncements

The following pronouncement is not applicable for the year ended 31 December 2019 and has not been applied in preparing these financial statements. Save as disclosed below, the impact of this accounting change is still being assessed by the Company and reliable estimates cannot be made at this stage. At the date of signing these financial statements, this pronouncement had been endorsed by the EU.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Company.

14. Parent undertaking and controlling party

The immediate parent undertaking is Deva Financing Holdings Limited, a company registered in England and Wales. The issued shares of Deva Financing Holdings Limited are held by Intertrust Corporate Services Limited 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 2019.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements into is Bank of Scotland plc ("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 Company regarded by the directors as the ultimate controlling party under IFRSs at 31 December 2019 was LBG, a public limited liability company incorporated and domiciled in Scotland, which was also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and in which the Company's financial statements are included. Copies of the annual report and financial statements of LBG may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

Independent auditors' report to the members of Deva Financing plc

Report on the audit of the financial statements

Opinion

In our opinion, Deva Financing plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 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 2019; the statement of comprehensive income, the cash flow statement, and 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 the directors.

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

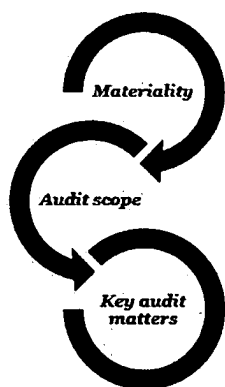
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £24,923,000 (2018: 28,957,260), 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.

The area of focus for our audit which involved the greatest allocation of our resources' effort was:

- The impact of Covid-19; and
-

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

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 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
<p><i>Impact of Covid-19</i></p> <p>Since the balance sheet date there has been a global pandemic from the outbreak of coronavirus (Covid-19).</p> <p>During finalisation of the financial statements, the potential financial and social impact of coronavirus became significant and is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. In response, the UK government, and the Bank of England, have announced measures designed to ameliorate resulting adverse impacts on the economy.</p> <p>Whilst it is too early to accurately estimate the financial and business impact of Covid-19, management has considered the potential implications of these events on the Annual Report, including its going concern assessment and post-balance sheet events disclosures.</p> <p>The directors have concluded that the matter is a non-adjusting post balance sheet event, the financial effect cannot be reliably estimated at this stage.</p> <p>Refer to note 12 for further information.</p>	<p>We critically assessed management’s conclusion that the matter be treated as a non-adjusting post balance sheet event and that the directors consider that the impact cannot be reliably estimated at this stage. We considered:</p> <ul style="list-style-type: none"> • the timing of the development of the outbreak across the world and in the UK; and • how the financial statements and structure of the Company might be impacted by the disruption. <p>In forming our conclusions over going concern, we evaluated whether management’s going concern assessment considered impacts arising from Covid-19. Our procedures in respect of going concern included:</p> <ul style="list-style-type: none"> • Enquiries of management to understand the current impact of Covid-19 on the Company’s recent financial performance and business operations; • inspection of transaction documents to confirm that loan notes are limited recourse; • inspection of post period end investor reports for pertinent changes in cash flows;

Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> confirmation of period end cash reserve balances; and checking the consistency of relevant “other information” with the financial statements, our knowledge based on the audit, and our procedures above.
<p><i>Errors in the priority of payments (the “Waterfalls”) due to a lack of understanding of the transaction</i></p> <p>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.</p> <p>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.</p> <p>Due to the complexity and pervasive nature of the Waterfalls, this was an area of focus in our audit.</p>	<p>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 period to identify and investigate any unusual trends or incidents that would indicate a misstatement in the preparation and calculation of the Waterfalls.</p> <p>We tested the design and operating effectiveness of management’s Waterfalls calculation through:</p> <ul style="list-style-type: none"> 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 period. <p>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 collection balances to system reports.</p> <p>We additionally tested key system reports to validate that pool assets were completely and accurately identified in source systems to support the cash collections as presented in the Waterfalls working papers.</p>

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	£24,923,000 (2018: 28,957,260).
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 due to the fact the entity has listed debt and have therefore applied 1%.

We agreed with the directors that we would report to them misstatements identified during our audit above £1,246,150 (2018: £1,447,863) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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 and Directors' Report, 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 2019 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 in respect of financial statements 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

We were appointed by the directors on 15 May 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2009 to 31 December 2019.

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.



Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
28 April 2020