
MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

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MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

COMPANY INFORMATION

DIRECTORS	Francesco Buffi Deirdre Bourke Anthony Noonan (appointed on 11 April 2018) Danica Gutierrez (appointed on 12 July 2019) Enda Kelly (appointed on 26 April 2019, resigned on 12 July 2019) Sam Sengupta (appointed on 13 July 2018, resigned on 26 April 2019) Stuart Maher (resigned on 13 July 2018)
REGISTRATION NUMBER	526121
ADMINISTRATOR, COMPANY SECRETARY AND REGISTERED OFFICE	TMF Administration Services Limited 3rd Floor, Kilmore House Park Lane Spencer Dock Dublin 1 Ireland D01 YE64
INDEPENDENT AUDITOR	Grant Thornton Chartered Accountants and Statutory Auditors 13-18 City Quay Dublin 2 Ireland D02 ED70
BANKERS	Barclays Bank PLC 1 Churchill Place London E14 5HP United Kingdom Commonwealth Bank of Australia Tower 1 201 Sussex Street Sydney NSW 2000 Australia
SECURITY TRUSTEE	Citicorp Trustee Company Limited Citigroup Centre 33 Canada Square Canary Wharf London E14 5LB United Kingdom
CASH MANAGER AND SERVICER	Mars Capital Finance Limited Ashcombe House 5 The Crescent Leatherhead Surrey KT22 8DY United Kingdom
SOLICITORS	Matheson 70 Sir John Rogerson's Quay Dublin 2 Ireland D02 R296

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

DIRECTORS' REPORT

The directors present their annual report together with the audited financial statements of Magellan Funding No2 Designated Activity Company (the "Company") for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is a designated activity company, which was incorporated on 12 April 2013, under the laws of Ireland with a company registration number 526121.

The Company was set up to contribute funds to the Servicer, to be applied in the origination of mortgage loans on residential properties located in the United Kingdom, and/or to acquire beneficial interests in financial assets at Mortgage Loans and their related security held or any other funding vehicle (the "Mortgage Loans") under or pursuant to the terms of the Mortgage Original and Trust Deed ("Trust Deed").

The purchases of the Mortgage Loans were funded by the issuance of Class A Notes ("Class A Notes") and Class B Notes ("Class B Notes") (together, the "Notes issued") to investors (the "Noteholders").

The Class A Notes and the Class B Notes each form a single series. The Notes issued constitute secured obligations of the Company, ranking pari passu without any preference among themselves. The Notes issued by the Company are limited recourse secured obligations which are payable solely out of amounts received by or on behalf of the Company in respect of the Mortgage Loans. The Notes issued are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the Mortgage Loans.

On 17 August 2015, the Company transferred beneficial interest in certain Mortgage Loans to Dominions Mortgages Designated Activity Company.

The Company transferred its beneficial interest in certain Mortgage Loans to Magellan Homeloans Funding No.1 Limited ("MF1H") in 2017.

On 6 January 2017, Class A and Class B Notes issued were listed on The International Stock Exchange ("TISE").

BUSINESS REVIEW

On 5 July 2018, the Company purchased interests in certain Mortgage Loans of Camael Mortgages Designated Activity Company ("Camael") and Cherub Funding Designated Activity Company ("Cherub"). On 12 July 2018, the Company sold its interests in certain Mortgage Loans and their related security to Trinidad Mortgage Securities 2018-1 plc ("TMS 18") under a mortgage sale agreement to TMS18 for an aggregate amount of cash and class H and Z notes of TMS 18.

The Company also transferred its beneficial interest in certain Mortgage Loans to MF1H in 2018.

The Company continues to operate in line with the directors' expectations.

RESULTS AND DIVIDENDS

The results for the financial year are set out on page 11. The directors do not recommend the payment of a dividend (2017: nil).

FUTURE DEVELOPMENTS

The directors have no plans to liquidate the Company and have a reasonable expectation that the Company will continue in operational existence for the foreseeable future.

GOING CONCERN REVIEW

The directors have considered the financial situation of the Company including the events subsequent to the financial year end. The portfolio of Mortgage Loans is expected to generate sufficient future cash flows to fund the Company's on-going operations. The Notes issued have a final maturity date of October 2044. Thus, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

SIGNIFICANT SUBSEQUENT EVENTS

The significant subsequent events in relation to the Company are disclosed in note 18.

DIRECTORS' REPORT (CONTINUED)

RELATED PARTY TRANSACTIONS

The related party transactions in relation to the Company are disclosed in note 17.

OWNERSHIP OF THE SHARE CAPITAL

The ownership of the share capital in relation to the Company are disclosed in note 20.

PRINCIPAL RISKS AND UNCERTAINTIES

The operations of the Company are subject to various risks. Information about the financial risk management objectives and policies of the Company, along with exposure of the Company to market risk, credit risk, liquidity risk, concentration risk and operational risk, are disclosed in note 15 to the financial statements.

ANNUAL CORPORATE GOVERNANCE STATEMENT

The board of directors (or the "Board") is responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established processes regarding internal control and risk management systems to ensure effective oversight of the financial reporting process. These include appointing TMF Administration Services Limited (or the "Administrator") to maintain the accounting records of the Company independently of the Servicer and of the Security Trustee.

The Administrator is contractually obliged to maintain proper accounting records and to that end performs reconciliations of its records to those of the Servicer and the Trustee. The Administrator is also contractually obliged to prepare the annual report including financial statements for review and approval by the Board. The Board evaluates and discusses significant accounting and reporting issues as the need arises. From time to time the Board also examines and evaluates the Administrator's financial accounting and reporting routines and monitors and evaluates the external auditors' performance, qualifications and independence.

The Administrator has operational responsibility for internal control in relation to the financial reporting process and the Administrator reports to the Board. The Board is responsible for assessing the risk of irregularities whether caused by fraud or error in financial reporting and ensuring that processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. The Board has also put in place processes to identify changes in accounting rules and recommendations and to ensure that these changes are accurately reflected in the Company's financial statements.

The Administrator is contractually obliged to design and maintain control structures to manage the risks which the Board judges to be significant for internal control over financial reporting. These control structures include appropriate segregation of responsibilities and specific control activities aimed at detecting or preventing the risk of significant deficiencies in financial reporting for every significant account in the financial statements and the related notes in the Company's annual report. The Board delegates the servicing function to the Servicer who operates a sophisticated system of controls to ensure appropriate record keeping.

The Company's policies and the Board's instructions with relevance for financial reporting are updated and communicated via appropriate channels, such as e-mail, correspondence and meetings to ensure that all financial reporting information requirements are met in a complete and accurate manner.

The Board has an annual process to ensure that appropriate measures are taken to consider and address the recommendations by the independent auditors.

The fair value of the Company's interests in financial assets has been estimated by the Servicer using valuation techniques such as recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. The valuation techniques are verified by an independent external valuer. Given the contractual obligations on the Administrator and the Servicer, the Board has concluded that there is currently no need for the Company to have a separate internal audit function in order for the Board to perform effective monitoring and oversight of the internal control and risk management systems of the Company in relation to the financial reporting process. Therefore, the Company has taken the exemption available for Section 110 companies set out under statutory instrument No.220 of 2010 part 9 Section. 91 SS. 9(d) not to have a separate audit committee.

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

DIRECTORS' REPORT (CONTINUED)

ANNUAL CORPORATE GOVERNANCE STATEMENT (CONTINUED)

No director has a significant direct or indirect holding of securities in the Company or has any special rights of control over the Company's share capital. There are no restrictions on voting rights.

With regard to the appointment and replacement of directors, the Company is governed by the Company's Constitution and Irish statute comprising the Companies Act 2014. The Company's Constitution may be amended by special resolution of the shareholders.

DIRECTORS AND COMPANY SECRETARY

The directors and company secretary are listed on page 2 and except where indicated, have served for the entire financial year. The directors and company secretary had no material interest in any contract of significance in relation to the business of the Company other than those disclosed below. The directors and company secretary who held office on 31 December 2018 did not hold any shares, debentures or loan stock of the Company (2017: nil) on that date or during the financial year.

POWERS OF DIRECTORS

The Board is responsible for managing the business affairs of the Company in accordance with the Company's Constitution. The directors may delegate certain functions to the Administrator and other parties, subject to the supervision and direction of the directors.

DIRECTORS' COMPLIANCE STATEMENT

The directors, in accordance with Section 225(2) (a) of the Companies Act 2014 (the "Act"), acknowledge that they are responsible for securing the Company's compliance with its relevant obligations. Relevant obligations, in the context of the Company, are the Company's obligations under:

- (a) the Act, where a breach of the obligations would be a category 1 or category 2 offence;
- (b) the Act, where a breach of the obligation would be a serious Market Abuse or Prospectus offence; and
- (c) tax law.

Pursuant to Section 225(2) (b) of the Act, the directors confirm that:

- (i) a compliance policy statement has been drawn up as required by Section 225(3)(a) of the Act setting out the Company's policies (that, in the directors' opinion, are appropriate to the Company) respecting compliance by the Company with its relevant obligations;
- (ii) appropriate arrangements and structures have been put in place that, in their opinion, secure material compliance with the Company's relevant obligations, and
- (iii) a review has been conducted, in the financial year, of the arrangements and structures referred to in paragraph (ii).

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the directors in office at the date of approval of the financial statements is aware:

- There is no relevant audit information of which the Company's auditors are unaware; and
- The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

DIRECTORS' REPORT (CONTINUED)

ACCOUNTING RECORDS

The directors are responsible for ensuring that adequate accounting records, as outlined in Section 281 to 285 of the Companies Act, 2014, are kept by the Company. The measures are taken by the directors to ensure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and ensuring that a competent service provider is responsible for the preparation and maintenance of the accounting records. The accounting records are kept at the Company's registered office at 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, D01 YE64, Ireland.

SHAREHOLDERS' MEETINGS

The Shareholder's rights and the operations of the shareholders meetings are defined in the Company's Constitution and complies with the Companies Act 2014.


POLITICAL DONATIONS

The Company did not make any political donations during the financial year.

INDEPENDENT AUDITOR

Grant Thornton, Chartered Accountants and Statutory Auditors, have expressed their willingness to continue in office in accordance with Section 383(2) of the Companies Act 2014.

This report was approved by the Board on 25 July 2019 and signed on its behalf by:


Anthony Noonan
Director


Danica Gutierrez
Director

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with Irish company law.

Irish company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Under Irish company law the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Company for the financial year.

In preparing these financial statements, the directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS and ensure that they contain the additional information required by the Companies Act 2014; 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:

- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Board on 25 July 2019 and signed on its behalf by:


Anthony Noonan
Director


Danica Gutierrez
Director

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

Opinion

We have audited the financial statements of Magellan Funding No.2 Designated Activity Company (or the "Company") for the financial year ended 31 December 2018, which comprise of the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes to the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and accounting standards issued by the Financial Reporting Council including International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the Company's financial statements:

- give a true and fair view in accordance with International Financial Reporting Standards (as adopted by the European Union) of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance and cash flows for the financial year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the 'responsibilities of the auditor 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 Ireland, namely the Irish Auditing and Accounting Supervisory Authority (IAASA) Ethical Standard concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by Chartered Accountants Ireland, applied as determined to be appropriate in the circumstances for the entity. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (Ireland) 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.

Other information

Other information comprises 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. 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.

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 such material inconsistencies in the financial statements, we are required to determine whether there is a material misstatement in 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 in this regard.

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

Matters on which we are required to report by the Companies Act 2014

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

- In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.
- In our opinion the information given in the directors' report is consistent with the financial statements. Based solely on the work undertaken in the course of our audit, in our opinion, the directors' report has been prepared in accordance with the requirements of the Companies Act 2014.

Matters on which we are required to report by exception

Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Under the Companies Act 2014, we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by section 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities of management and those charged with governance for the financial statements

As explained more fully in the statement of director's responsibilities, management is responsible for the preparation of the financial statements which give a true and fair view in accordance with IFRS as adopted by the European Union, and for such internal control as they determine 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the auditor for the audit of the financial statements

The auditor's 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 their opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) 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.

As part of an audit in accordance with ISAs (Ireland), the auditor will exercise professional judgment and maintain professional scepticism throughout the audit. The auditor will also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If they conclude that a material uncertainty exists, they are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify their opinion. Their conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY**

Responsibilities of the auditor for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a matter that achieves a true and fair view.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that may be identified during the audit.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. 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.



David Lynch
for and on behalf of
Grant Thornton
Chartered Accountants and Statutory Auditors
13 - 18 City Quay
Dublin 2

Date: 25 July 2019

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Notes	Financial year ended 31 December 2018 £	Financial year ended 31 December 2017 £
Net gain on financial assets at fair value through profit or loss	3	3,955,582	7,902,786
Net loss on financial liabilities at fair value through profit or loss	4	(2,354,631)	(6,476,431)
Fair value movement on derivative financial instrument	5	(578)	(40,129)
Operating income		1,600,373	1,386,226
Administration expenses	6	(1,600,373)	(1,386,226)
Profit on ordinary activities before taxation		-	-
Taxation	7	-	-
Profit on ordinary activities after taxation		-	-
Other comprehensive income for the financial year		-	-
Total comprehensive income for the financial year		-	-

All amounts relate to continuing operations.

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.


MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	Notes	As at 31 December 2018 £	As at 31 December 2017 £
Assets			
Financial assets at fair value through profit or loss	8	54,187,317	186,309,676
Derivative financial instrument	9	-	578
Other receivables	10	3,172,707	14,094,795
Cash and cash equivalents	11	4,049,466	2,706,680
Total assets		61,409,490	203,111,729
Liabilities and equity			
Financial liabilities at fair value through profit or loss	12	63,297,506	205,099,055
Other payables	13	291,085	191,775
Total liabilities		63,588,591	205,290,830
Equity attributable to equity shareholders			
Ordinary share capital presented as equity	14	1	1
Retained earnings		(2,179,102)	(2,179,102)
Total equity		(2,179,101)	(2,179,101)
Total equity and liabilities		61,409,490	203,111,729

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 25 July 2019 and signed on its behalf by:


Anthony Noonan
Director


Danica Gutierrez
Director

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Financial year ended 31 December 2018	Share capital £	Retained earnings £	Total £
As at 1 January 2018	1	(2,179,102)	(2,179,101)
Profit for the financial year	-	-	-
As at 31 December 2018	1	(2,179,102)	(2,179,101)

Financial year ended 31 December 2017	Share capital £	Retained earnings £	Total £
As at 1 January 2017	1	(2,179,102)	(2,179,101)
Profit for the financial year	-	-	-
As at 31 December 2017	1	(2,179,102)	(2,179,101)

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Notes	Financial year ended 31 December 2018 £	Financial year ended 31 December 2017 £
Cash flows from operating activities			
Profit on ordinary activities before taxation		-	-
<i>Adjustments:</i>			
Movement in other receivables		10,922,088	(7,093,418)
Movement in other payables		99,310	24,489
Net cash flows from/(used in) operating activities		11,021,398	(7,068,929)
Cash flows from investing activities			
Movement in financial assets at fair value through profit or loss		132,122,359	(82,092,336)
Movement in derivative financial instrument		578	40,129
Net cash flows from/(used in) investing activities		132,122,937	(82,052,207)
Cash flow from financing activity			
Movement in financial liabilities at fair value through profit or loss		(141,801,549)	91,415,225
Net cash flow (used in)/from financing activity		(141,801,549)	91,415,225
Net increase in cash and cash equivalents		1,342,786	2,294,089
Cash and cash equivalents at the beginning of the financial year		2,706,680	412,591
Cash and cash equivalents at the end of the financial year	11	4,049,466	2,706,680
Supplementary information:			
Interest received		2,756,346	8,105,138
Interest paid		666,271	-

The accompanying notes on pages 15 to 33 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

1. General information

The Company was incorporated on 12 April 2013, under the laws of Ireland with a company registration number 526121. The Company is a designated activity company and qualifies for the regime contained in Section 110 of the Irish Taxes Consolidation Act, 1997 (the "TCA, 1997"). This provides that a qualifying company will be liable to corporation tax at the rate of 25% under Case III of Schedule D of the TCA in respect of taxable profits. The Company's registered office is at 3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1, D01 YE64, Ireland.

2. Accounting policies

(a) Statement of compliance

The financial statements are prepared in accordance with IFRS as adopted by the EU and those parts of the Companies Act 2014 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis. The directors have considered the financial situation of the Company including the events subsequent to the financial year end. The Mortgage Loans generate sufficient future cash flows to fund the Company's on-going operations. The Notes issued have a final maturity date of October 2044. The accounting policies adopted by the Company have been applied consistently.

(b) Adoption of new and revised accounting standards

The Company has applied all relevant and applicable standards.

Standards and amendments to existing standards that are effective after 1 January 2019

The following standards, amendments and interpretations, which became effective after January 2019, are relevant to the Company. These amendments will have no impact on the financial statements of the Company.

IFRIC 23: Uncertainty over Income Tax Treatments

The interpretation was issued by the IASB on 7 June 2017 and is effective for period beginning on or after 1 January 2019, with earlier adoption permitted. The amendments clarify that an entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. The Company has to reassess its judgements and estimates if facts and circumstances change.

Standards and amendments to existing standards that are effective after 1 January 2018

The following standards, amendments and interpretations, which became effective in January 2018, are relevant to the Company.

IFRS 9: Financial instruments

International Financial Reporting Standards 9 ("IFRS 9") effective for annual periods beginning on or after 1 January 2018, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts.

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in July 2014 and had replaced International Accounting Standards 39 Financial Instruments – Recognition and Measurement ("IAS 39").

IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. IFRS 9 applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria.

The Company has applied IFRS 9, Financial instruments IFRS 9 retrospectively but the application of IFRS 9 has not resulted in a restatement of comparative information. IFRS 9 has resulted in changes to the classification of financial assets and liabilities.

(i) Classification and measurements of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: Fair value through profit or loss (FVTPL), Fair Value through other comprehensive income (FVOCI) and amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)**(b) Adoption of new and revised accounting standards (continued)****Standards and amendments to existing standards that are effective after 1 January 2018 (continued)****IFRS 9: Financial instruments (continued)****(i) Classification and measurements of financial assets and financial liabilities (continued)**

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets and liabilities at fair value through profit or loss

A financial asset and liability at FVTPL is initially measured at fair value. These assets and liabilities are subsequently measured at fair value. This includes all derivative financial assets and liabilities. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The financial assets and liabilities are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in Statement of Comprehensive Income as part of net gain/(loss) on financial assets at fair value through profit or loss.

Financial assets held at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the Statement of Comprehensive Income. Any gain or loss on derecognition is recognised in the Statement of Comprehensive Income.

Measurement category under IAS 39 and IFRS 9

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at 1 January 2018.

Statement of Financial Position	Note	IAS39 Classification	IFRS9 Classification	IAS 39 Carrying Amount £	IFRS 9 Carrying Amount £
Financial assets at fair value through profit or loss presented by:					
a) Mortgage Loans		FVTPL	FVTPL	145,545,791	145,545,791
b) Receivable from MF1H		FVTPL	FVTPL	36,881,271	36,881,271
c) Receivable from Dominions Mortgages Designated Activity Company ("Dominions")	(i)	Loan & receivable	FVTPL	3,882,614	1,921,052
Derivative financial instrument		FVTPL	FVTPL	578	578
Other receivables	(ii)	Loan & receivable	Amortised cost	14,094,795	14,094,795
Cash and cash equivalents	(ii)	Loan & receivable	Amortised cost	2,706,680	2,706,680
Financial liabilities at fair value through profit or loss	(iii)	FVTPL	FVTPL	205,099,055	203,137,493
Other payables		Amortised cost	Amortised cost	191,775	191,775

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

(b) Adoption of new and revised accounting standards (continued)

Standards and amendments to existing standards that are effective after 1 January 2018 (continued)

IFRS 9: Financial instruments (continued)

Measurement category under IAS 39 and IFRS 9 (continued)

- (i) Under IAS 39, receivable from Dominions were designated as loans and receivables. Receivable from Dominions have been classified as FVTPL under IFRS 9 as their value is contingent on the performance of certain underlying mortgage loan portfolios in Dominions and is not held solely for payments of principal and interest.
- (ii) Cash and cash equivalents and other receivables were classified as loans and receivables under IAS 39 are now classified at amortised cost.
- (iii) Notes issued have been classified at FVTPL to avoid an accounting mismatch. As a result of the fair value adjustment of the receivable from Dominions, Notes issued IFRS 9 carrying amount in the table is different from IAS 39 fair value amount.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments.

The financial assets at amortised cost consist of cash and cash equivalents and other receivables.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

(c) Functional and presentation currency

The financial statements are presented in Pound Sterling (or "£") which is the Company's functional currency. The functional currency is the currency of the primary economic environment in which the entity operates. The financial assets and the financial liabilities are denominated in Pound Sterling. The directors of the Company believe that the Pound Sterling most faithfully represents the economic effects of the underlying transactions, events and conditions.

(d) Use of estimates and judgements

The preparation of the financial statements requires management to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected. The key areas involving estimates and judgements are below:

Derecognition of Mortgage Loans transferred to Dominions and TMS18

The beneficial ownership of certain Mortgage Loans has been transferred under a mortgage sale agreement to Dominions and TMS18 by the Company. It has been assessed and concluded by management that the Company has transferred the risks and rewards of ownership.

Fair value of financial assets

Estimates are used in the fair value measurement of the Company's financial assets. The fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters when observable prices or inputs are not available, valuations models are applied.

The significant estimates in relation to the fair value of the Company's financial assets at fair value through profit or loss relate to the timing of cash flows. These cash flows are dependent on the realisation of the financial assets and the discount rate used in the valuation techniques applied. The carrying amount of financial assets at fair value through profit or loss is disclosed in note 8.

(e) Financial instruments

Classification

The Company has adopted the following classifications for financial instruments:

Financial assets:

- At fair value through profit or loss: Investment in Mortgage Loans, receivable from Dominions, receivable from MF1H, and derivative financial instrument;
- Amortised cost: Cash and cash equivalents and other receivables.

Financial liabilities:

- At fair value through profit or loss: Notes issued and the Deemed Loans from MF1H (or the "Deemed Loan");
- Amortised cost: Other payables.

Recognition

Purchases and sales of financial instruments are recognised using trade date accounting, the day that the Company commits to purchase or sell the asset. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded through the Statement of Comprehensive Income.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

(e) Financial instruments (continued)

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If a quoted market price is not available, the fair value of the financial instruments may be estimated by the directors with the assistance of the Servicer using valuation techniques such as recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The amounts receivable by Company are contingent on the performance of a portfolio of mortgage loans. These underlying mortgage loans were measured using discounted cash flow techniques for the financial year ended 31 December 2018 (2017: same). These techniques have been independently verified by an external valuer.

Transfer between levels of the fair value hierarchy

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where the Company currently has a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability in the Statement of Financial Position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Statement of Comprehensive Income.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Net gain/(loss) on financial assets at fair value through profit or loss

Realised gain/(loss) on financial assets are recorded as part of net gain/(loss) on financial assets at fair value through profit or loss within the Statement of Comprehensive Income.

Unrealised gain/(loss) relates to gains and losses arising from changes in fair value of financial assets during the financial year. Unrealised gain/(loss) on financial assets are recognised within net gain/(loss) on financial assets at fair value through profit or loss within the Statement of Comprehensive Income.

(f) Limited recourse

If the net proceeds of realisation of the financial assets secured as collateral against the Notes issued are less than the aggregate amount payable by the Company to the Noteholders, the obligations of the Company will be limited to such net proceeds, which will be applied in accordance with the Notes agreement. In such circumstances, the other assets of the Company will not be available for payment of such shortfall which will be borne by the Noteholders and the other secured parties in accordance with the Notes agreement applied at the time of final settlement.

Interest expense payable to the Noteholders is calculated by the principal paying agent based on the applicable rate as defined in the Notes agreement. As the Notes issued are limited recourse obligations, the return of interest and principal to the Noteholders is contingent on the realisable value of the assets. The returns made to the Noteholders over the life of the Company include the effect of capital gain/loss as well as interest, and the gain or loss ultimately passes to the Noteholders. Any deficit reported in the Statement of Financial Position will be passed to the Noteholders upon maturity and no such loss will be borne by equity holders.

Notes issued have been classified at fair value through profit or loss to avoid an accounting mismatch in accordance with IFRS 9. Interest expense and realised and unrealised gain/loss on the Notes issued are included within net gain/loss on financial liabilities at fair value through profit or loss within the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents includes cash held with banks which is subject to insignificant risk in terms of changes of fair value with original maturities of three months or less, and are used by the Company in the management of its short-term commitments.

(h) Ordinary share capital presented as equity

Ordinary shares are not redeemable and do not participate in the net income of the Company and are classified as equity as per the Company's Constitution.

(i) Interest income and expense

Interest income and on balances carried at amortised cost is recognised in the Statement of Comprehensive Income, using the original effective-interest rate of the instrument calculated at the acquisition or origination date.

Interest income received from the Company's financial assets has been included in net gain/(loss) on financial assets at fair value through profit or loss within the Statement of Comprehensive Income.

(j) Operating income and expenses

All operating income and expenses are accounted for on an accruals basis.

(k) Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the financial year using the tax rates applicable to the Company's activities enacted or substantively enacted at the reporting date, and adjustments to tax payable in respect of previous periods, if any.

Deferred taxation is accounted for, without discounting, in respect of all temporary differences between the treatment of certain items for taxation and accounting purposes which have arisen but have not been reversed by the financial yearend date except as otherwise required by IAS 12 'Deferred Tax'. Provision is made at the tax rates that are expected to apply in the financial year in which the temporary differences reverse. Deferred tax assets are recognised only to the extent that it is considered more likely than not that they will be recovered. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Administration expenses

Administration expenses include amounts accrued for expenses such as administration, servicer, audit and tax fees incurred at the financial year end.

(m) Foreign currency transaction

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Accounting policies (continued)**(n) Deemed Loan from MF1H**

The Deemed Loan from MF1H represents consideration received by the Company in respect of the disposal of the beneficial ownership of certain Mortgage Loans.

The beneficial ownership of certain Mortgage Loans has been transferred under Mortgage Sale Agreements to MF1H in 2017, however the directors assessed and concluded that the Company retained the residual risks in the Mortgage Loans due to its entitlement to deferred consideration and providing finance to MF1H in the form of subordinated loans. The Company is also required to repurchase transferred loans when certain trigger credit events occur. It was therefore determined that the Company did not transfer substantially all the risks and rewards to MF1H, failing the derecognition criteria under IFRS 9. This resulted in a 'Deemed Loan' being recognised in the Company's financial statements from MF1H.

The Deemed Loan from MF1H is carried at fair value through profit or loss and classified as financial liabilities at fair value through profit or loss within the Company's Statement of Financial Position.

(o) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from recent market transactions and valuation techniques, including discounted cash flow models and options pricing models as appropriate. Derivative financial instruments are included in assets when their fair value is positive and liabilities when their fair value is negative, unless there is the legal ability and intention to set off. Gain and loss arising from changes in the fair value of the derivative financial instruments are included in the Statement of Comprehensive Income in the period in which they arise. Derivative financial instruments are classified as held for trading.

3. Net gain on financial assets at fair value through profit or loss

	Financial year ended 31 December 2018 £	Financial year ended 31 December 2017 £
Net gain on financial assets at fair value through profit or loss	3,955,582	7,902,786

4. Net loss on financial liabilities at fair value through profit or loss

	Financial year ended 31 December 2018 £	Financial year ended 31 December 2017 £
Net loss on financial liabilities at fair value through profit or loss	(2,354,631)	(6,476,431)

5. Fair value movement on derivative financial instrument

	Financial year ended 31 December 2018 £	Financial year ended 31 December 2017 £
Fair value movement on derivative financial instrument	(578)	(40,129)

6. Administration expenses

	Financial year ended 31 December 2018 £	Financial year ended 31 December 2017 £
Legal and professional fees	(1,482,506)	(1,338,228)
Audit and tax compliance fees	(20,121)	(25,239)
Other costs	(97,746)	(22,759)
	<u>(1,600,373)</u>	<u>(1,386,226)</u>

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

6. Administration expenses (continued)

The Company has no employees and services required are contracted from third parties. The directors received no remuneration from the Company in respect of qualifying services rendered during the financial year.

Fees and expenses paid to the statutory auditor, Grant Thornton in respect of the financial year, entirely relate to the statutory audit of the financial statements and tax compliance fees of the Company. There were no fees or expenses paid in respect of other assurance, non-routine tax advisory or non-audit services provided by the statutory auditor for the financial year ended 31 December 2018 (2017: same).

7. Taxation

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
	£	£
Corporation tax based on result for the financial year	-	-

Factors affecting Company tax charge for the financial year are detailed below:

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
	£	£
Profit on ordinary activities before taxation	-	-
Profit on ordinary activities multiplied by the standard rate of Irish corporation tax for the financial year of 12.5%	-	-
Effect of higher tax rate (25%) applicable under Section 110 TCA, 1997	-	-
Current tax charge for the financial year	-	-

The Company is a qualifying company within the meaning of Section 110 of the TCA, 1997. As such, the profits are chargeable to corporation tax under Case III of Schedule D of the TCA at a rate of 25%, but are computed in accordance with the provisions applicable to Case I of Schedule D of the TCA. There was no deferred tax during the financial year (2017: nil).

8. Financial assets at fair value through profit or loss

	As at 31 December 2018	As at 31 December 2017
	£	£
Mortgage Loans	44,273,826	145,545,791
Receivable from MF1H	7,251,035	36,881,271
Receivable from Dominions	2,662,456	3,882,614
	<u>54,187,317</u>	<u>186,309,676</u>

Receivables from MF1H and Dominions relate to subordinated loans and deferred consideration due to the Company as part of the transfer of certain Mortgage Loans to MF1H and Dominions. Receivables from MF1H and Dominions are carried at fair value through profit or loss. Receivable from MF1H and Dominions is dependent on the future performance of the mortgage loans held by MF1H and Dominions.

9. Derivative financial instrument

	Notional Amount 31 December 2018	As at 31 December 2018	As at 31 December 2017
	£	£	£
Cost	-	-	69,000
Fair value movement on derivative financial instrument	-	-	(68,422)
	-	-	<u>578</u>

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

10. Other receivables

	As at 31 December 2018	As at 31 December 2017
	£	£
Amount owed by the Servicer	3,172,706	14,094,794
Share capital receivable	1	1
	<u>3,172,707</u>	<u>14,094,795</u>

11. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

	As at 31 December 2018	As at 31 December 2017
	£	£
Cash and cash equivalents	<u>4,049,466</u>	<u>2,706,680</u>

12. Financial liabilities at fair value through profit or loss

	As at 31 December 2018	As at 31 December 2017
	£	£
Deemed Loan from MF1H	43,503,695	137,094,262
Notes issued	<u>19,793,811</u>	<u>68,004,793</u>
	<u>63,297,506</u>	<u>205,099,055</u>

The Deemed Loan from MF1H represents consideration received by the Company in respect of the disposal of the beneficial ownership of certain Mortgage Loans.

The Notes issued are subject to mandatory redemption on part of each interest payments date in an amount equal to the principal received or recovered in respect of the financial assets including excess interest received in certain cases, and in some cases special event triggers additional repayment of principal on Notes issued. The Noteholders are also entitled to receive interest on each distribution date where there are funds available after paying all prior ranking claims pursuant to the note issuance facility deed. The Notes issued have a final maturity date of October 2044.

The Notes issued constitute secured obligations of the Company, ranking pari passu without any preference among themselves.

13. Other payables

	As at 31 December 2018	As at 31 December 2017
	£	£
Audit and tax compliance fees payable	18,879	24,159
Payable to Servicer	136,155	130,229
Payable to third party	<u>136,051</u>	<u>37,387</u>
	<u>291,085</u>	<u>191,775</u>

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

14. Ordinary share capital presented as equity	As at 31 December 2018 £	As at 31 December 2017 £
Authorised 100,000,000 ordinary shares of €1 each	<u>84,970,000</u>	<u>84,970,000</u>
Allotted, called up and fully paid 1 ordinary share of €1	<u>1</u>	<u>1</u>

The Company's capital as at the financial year end is best represented by the ordinary shares outstanding.

The Company has issued 1 share of the total authorised shares of 100,000,000 to Magellan Funding Group Designated Activity Company ("Magellan Funding Group"), the Company's ultimate parent undertaking.

15. Financial risk management

The Company's financial instruments include the financial assets at fair value through profit or loss, derivative financial instrument, other receivables, cash and cash equivalents, financial liabilities at fair value through profit or loss and other payables that arise directly from its operations.

The Board has overall responsibility for the establishment and oversight of the Company's risk management framework.

The risk profile of the Company is such that market risk, credit risk, liquidity risk and other risks of the financial assets are borne fully by the Noteholders.

The Company has exposure to the following risks from its use of financial instruments:

Market risk;
Credit risk;
Liquidity risk;
Operational risk; and
Concentration risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and securities prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk embodies the potential for both losses and gains and includes interest rate risk, currency risk and market price risk. The Noteholders are exposed to the market risk of the financial assets and derivative financial instruments.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in foreign currency.

The Notes issued by the Company are denominated in Pound Sterling. The proceeds of these issues are used to fund the purchase of the Mortgage Loans. Therefore, the exposure to foreign currency movements is limited. The only non-GBP transactions are certain expenses payable in Euro (or "EUR"). The Company has not entered into any currency hedge transactions.

MAGELLAN FUNDING NO2 DESIGNATED ACTIVITY COMPANY

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

15. Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

The following table provides an analysis of the Company position as at 31 December 2018 and 31 December 2017.

As at 31 December 2018	GBP	EUR	Total
Assets	£	£	£
Financial assets at fair value through profit or loss	54,187,317	-	54,187,317
Derivative financial instrument	-	-	-
Other receivables	3,172,706	1	3,172,707
Cash and cash equivalents	4,049,466	-	4,049,466
Total	61,409,489	1	61,409,490

Liabilities			
Financial liabilities at fair value through profit or loss	63,297,506	-	63,297,506
Other payables	272,206	18,879	291,085
Total	63,569,712	18,879	63,588,591

As at 31 December 2017	GBP	EUR	Total
Assets	£	£	£
Financial assets at fair value through profit or loss	186,309,676	-	186,309,676
Derivative financial instrument	578	-	578
Other receivables	14,094,794	1	14,094,795
Cash and cash equivalents	2,706,680	-	2,706,680
Total	203,111,728	1	203,111,729

Liabilities			
Financial liabilities at fair value through profit or loss	205,099,055	-	205,099,055
Other payables	167,616	24,159	191,775
Total	205,266,671	24,159	205,290,830

Sensitivity analysis

No sensitivity analysis is presented as exposure to foreign currency risk is limited.

(ii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its seller, or factors affecting similar financial instruments traded in the market. The Servicer monitors the cash flows of the financial assets at fair value through profit or loss on a monthly basis.

The Company uses the hierarchy below for determining and disclosing the fair value of financial instruments by valuation technique.

The level in the fair value hierarchy in which each fair value measurement is categorised includes:

- Level 1: quoted prices (unadjusted) in an active market for identical assets or liabilities;
- Level 2: inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

15. Financial risk management (continued)**(a) Market risk (continued)****(ii) Price risk (continued)****Financial instruments measured at fair value through profit or loss**

As at 31 December 2018	Level 2	Level 3	Total
	£	£	£
Assets			
Financial assets at fair value through profit or loss	-	54,187,317	54,187,317
Derivative financial instrument	-	-	-
	-	54,187,317	54,187,317
Liabilities			
Financial liabilities at fair value through profit or loss	-	63,297,506	63,297,506
	-	63,297,506	63,297,506
As at 31 December 2017	Level 2	Level 3	Total
	£	£	£
Assets			
Financial assets at fair value through profit or loss	-	186,309,676	186,309,676
Derivative financial instrument	578	-	578
	578	186,309,676	186,310,254
Liabilities			
Financial liabilities at fair value through profit or loss	-	205,099,055	205,099,055
	-	205,099,055	205,099,055

Financial assets represent the expected future cash flows from the Company's interests in a pool of mortgage loans including the receivable from MF1H and Dominions. The fair value of these financial assets have been determined using market indications and other factors such as discounted future cash flows, discount rates, prepayment rates, default rates and firesale discounts. As such Level 3 is deemed to be the most appropriate categorisation for the Company's financial assets at fair value through profit or loss.

Financial liabilities not only represent the contractual amounts and obligations due by the Company for settlement of amounts payable to MF1H and the Noteholders but also represent the residual profit or loss of the Company. As such Level 3 is deemed to be the most appropriate categorisation for the Company's financial liabilities at fair value through profit or loss.

The table below reconciles the fair value of the financial instruments categorised in level 3 as at 31 December 2017 to the fair value of the financial instruments categorised in Level 3 as at 31 December 2018:

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
	£	£
Level 3 Reconciliation – financial assets at fair value through profit or loss		
Balance at the beginning of the financial year	186,309,676	99,890,142
Movement in financial assets at fair value through profit or loss	(132,122,359)	86,419,534
Balance at the end of the financial year	54,187,317	186,309,676

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

15. Financial risk management (continued)**(a) Market risk (continued)****(ii) Price risk (continued)****Financial instruments measured at fair value through profit or loss (continued)**

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
	£	£
Level 3 Reconciliation – financial liabilities at fair value through profit or loss		
Balance at the beginning of the financial year	205,099,055	113,683,830
Movement in financial liabilities at fair value through profit or loss	(141,801,549)	91,415,225
Balance at the end of the financial year	63,297,506	205,099,055

The following table presents additional information about valuation techniques and inputs used for financial assets and liabilities that are measured at fair value and categorised within level 3 as of 31 December 2018:

Financial instrument	Valuation techniques	Unobservable inputs	Input range %
Financial assets at fair value through profit or loss	Discounted cash flow and recent transaction	IRR Probability of default Prepayment risk	7.00% - 5.00% 1.25% - 0.75% 12.25% - 10.25%
Deemed Loan from MF1H Notes issued	N/A Contingent interest	N/A Profit sweep	N/A N/A

The following table presents additional information about valuation techniques and inputs used for financial assets and liabilities that are measured at fair value and categorised within Level 3 as of 31 December 2017:

Financial instrument	Valuation techniques	Unobservable inputs	Input range %
Financial assets at fair value through profit or loss	Discounted cash flow	IRR Probability of default Prepayment risk	7.00% - 5.00% 7.50% - 2.50% 6.00% - 12.00%
Deemed Loan from MF1H Notes issued	N/A Contingent interest	N/A Profit sweep	N/A N/A

Assumptions applied to the property valuation methodology include prepayment rates, default rates, IRR, prepayment rates and firesale discounts. Included in the valuation methodology are assumptions about the appreciation of property prices based on locations within the country.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

15. Financial risk management (continued)**(a) Market risk (continued)****(ii) Price risk (continued)****Financial instruments measured at fair value through profit or loss (continued)****Price risk and unobservable inputs sensitivity analysis**

Due to the limited recourse nature of the Notes issued by the Company, profits or losses arising from movements in fair value of financial instruments pass to the Noteholders. Therefore, the Company has no net exposure to price risk and as such no Level 3 sensitivity analysis has been presented.

Financial instruments not measured at fair value through profit or loss but for which fair values are presented

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy in which each fair value measurement is categorised:

1. Quoted (unadjusted) prices in active markets for identical assets or liabilities;
2. Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
3. Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2018	Level 1	Level 2	Total
Assets	£	£	£
Other receivables	-	3,172,707	3,172,707
Cash and cash equivalents	4,049,466	-	4,049,466
	<u>4,049,466</u>	<u>3,172,707</u>	<u>7,222,173</u>
Liabilities			
Other payables	-	291,085	291,085
	<u>-</u>	<u>291,085</u>	<u>291,085</u>
 31 December 2017	 Level 1	 Level 2	 Total
Assets	£	£	£
Other receivables	-	14,094,795	14,094,795
Cash and cash equivalents	2,706,680	-	2,706,680
	<u>2,706,680</u>	<u>14,094,795</u>	<u>16,801,475</u>
Liabilities			
Other payables	-	191,775	191,775
	<u>-</u>	<u>191,775</u>	<u>191,775</u>

The assets and liabilities included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value with a maturity of three months or less. As such, Level 1 has been deemed the most appropriate categorisation for the Company's cash and cash equivalents.

Other receivables represent the contracted amounts for settlement of share capital receivable and Amount owed by the Servicer. Level 2 is most appropriate for share capital receivable and Amount owed by the Servicer.

Other payables represent the contractual amounts and obligations due by the Company for settlement of payables and expenses. As a result, Level 2 is deemed to be the most appropriate categorisation for the Company's other payables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

15. Financial risk management (continued)**(a) Market risk (continued)****(iii) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The cash and cash equivalents, financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss are subject to floating rates of interest. The following table provides an analysis of the interest rate profile of the Company as at 31 December 2018 and 31 December 2017.

	Interest rate	As at 31 December 2018	As at 31 December 2017
Assets			£
Non-interest bearing	-	3,172,707	14,095,373
Interest bearing	Variable	54,187,317	186,309,676
Cash and cash equivalents	Variable	4,049,466	2,706,680
		<u>61,409,490</u>	<u>203,111,729</u>
Liabilities			
Non-interest bearing	-	291,085	191,775
Notes issued	Variable	63,297,506	205,099,055
		<u>63,588,591</u>	<u>205,290,830</u>

Due to the limited recourse nature of the Notes issued by the Company, profits arising from movements in interest rate pass to the Noteholders. Therefore, the Company has no net exposure to interest rate risk and the movements in interest rate have no impact on the profit or loss or the equity of the Company. The Company uses interest rate sweeps to manage the exposure to interest rate volatility.

Sensitivity analysis

The impact of a 5% rise in interest rates on net gain/(loss) on financial assets and financial liabilities at fair value through profit or loss is shown as follows:

Description	Financial year ended 31 December 2018	Financial year ended 31 December 2017
	£	£
5% movement in interest rates on interest income	80,048	71,318
Impact of movement in interest rates on Notes interest	(80,048)	(71,318)
Changes in profit for the financial year	<u>-</u>	<u>-</u>

A 5% decline would have an equal and opposite effect.

(b) Credit risk

Credit risk arises from the possibility of obligors failing to meet their obligations to the Company and represents the most significant category of risk. Due to the limited recourse nature of the Notes, any profit or loss arising from the credit risk will pass on to the Noteholders.

The maximum exposure to the credit risk of the Noteholders at the reporting date was:

	As at 31 December 2018	As at 31 December 2017
	£	£
Financial assets at fair value through profit or loss	54,187,317	186,309,676
Derivative financial instrument	-	578
Other receivables	3,172,707	14,094,795
Cash and cash equivalents	4,049,466	2,706,680
	<u>61,409,490</u>	<u>203,111,729</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

15. Financial risk management (continued)**(b) Credit risk (continued)**Financial assets at fair value through profit or loss

The Company's business objective rests on its interests in a portfolio of Mortgage Loans and their related security in respect of residential properties located in the United Kingdom.

The Servicer undertakes ongoing reviews in respect of each borrower and each loan to the extent such relevant information is received from the borrowers. The Servicer conducts this review process on a regular basis to identify any concerns as to the ability of a borrower to meet its financial obligations under the relevant loan agreements. Such a review may include an inspection of the related properties or property and compliance check of such borrower's covenants under the related loan documentation.

The Servicer provides fair value reviews to the directors. The fair value of the financial assets is determined using market indications and other factors such as discounted future cash flows, discount rates, prepayment rates, default rates and firesale discounts and is independently verified by an external valuer.

The amount of change during the financial year relating to the fair value of financial instruments designated at fair value through profit or loss that is attributable to changes in credit risk is reflective of the unrealised gain/(loss) on financial assets and liabilities at fair value through profit or loss set out within the Level 3 reconciliation on pages 26-27.

Derivative financial instruments

The Company doesn't have an investment in derivative financial instrument as at 31 December 2018. The derivative counterparty Commonwealth Bank of Australia has a credit rating of Aa2 in 2017 from Moody's rating profile.

Other receivables

Other receivables consist mainly of funds held temporarily on behalf of the Company by the Servicer and were transferred to the Company subsequent to the financial year end.

Cash and cash equivalents

The credit risk on cash transactions is mitigated by transacting with counterparties that are regulated entities subject to prudential supervision or with high credit ratings assigned by international credit rating agencies.

Moody's credit rating profile of the cash and cash equivalents balance is as follows:

	Moody's Credit rating	Moody's Credit rating	As at 31 December 2018	As at 31 December 2017
Cash and cash equivalents	31 December 2018	31 December 2017	£	£
Barclays Bank plc	A2	A1	4,049,466	2,706,680

(c) Liquidity risk

The financial assets are financed principally by the issuance of the Notes. These financing policies substantially reduce the Company's liquidity risk by matching the maturity profile of the Company's funding to the profile of the financial assets.

The Notes are subject to mandatory redemption in part on each interest payment date in an amount equal to the principal received or recovered in respect of the financial assets. If not otherwise redeemed or purchased and cancelled, the Notes will be redeemed at their principal amounts outstanding on the interest payment date falling in October 2044.

The following table gives liquidity analyses of the Company for their financial liabilities as at 31 December 2018 and 31 December 2017. The table has been drawn up based on the undiscounted net cash flows on the financial liabilities that settle on a net basis and the undiscounted gross cash flows on those financial liabilities that require gross settlement.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

15. Financial risk management (continued)**(c) Liquidity risk (continued)**

As at 31 December 2018				
Liabilities:	Less than 1 year	1-5 years	Over 5 years	Total
	£	£	£	£
Financial liabilities at fair value through profit or loss	-	-	63,297,506	63,297,506
Other payables	291,085	-	-	291,085
	<u>291,085</u>	<u>-</u>	<u>63,297,506</u>	<u>63,588,591</u>
 As at 31 December 2017				
Liabilities:	Less than 1 year	1-5 years	Over 5 years	Total
	£	£	£	£
Financial liabilities at fair value through profit or loss	-	-	205,099,055	205,099,055
Other payables	191,775	-	-	191,775
	<u>191,775</u>	<u>-</u>	<u>205,099,055</u>	<u>205,290,830</u>

Future interest on the Notes issued is not included in the table above because it will be determined on the basis of future net income of the issuer which cannot be reliably estimated at this time.

The Company minimised liquidity risk by matching the cash inflows from the financial assets and the cash outflows for liabilities by incorporating terms of payments in the Notes documents such as priority of payments/waterfall and limited recourse provision.

(d) Operational risk exposure

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel and infrastructure, and from external factors other than credit, markets and liquidity issues such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise due to the Company operations.

The Board has established processes to manage operational risks. Those processes include appropriate segregation of responsibilities and specific control activities. The Board delegates the servicing function to the Servicer who operates a sophisticated system of controls. All management and administration functions have been outsourced to the Administrator.

(e) Concentration risk

Concentration risk can arise from the type of assets held in the portfolio, the maturity of assets, the concentration of sources of funding, concentration of counterparties or geographical locations.

The Company is a special purpose structure set up for a particular transaction which involved acquiring the Mortgage Loans and their related security in respect of residential properties located in the United Kingdom. It is not possible to diversify the concentration risk arising from its operations.

Due to the limited recourse nature of the Notes issued, any profit or loss arising from the concentration risk will pass on to the Noteholders. There is no residual risk remaining to the Company.

16. Contingent liabilities and commitments

There were no contingent liabilities or commitments as of 31 December 2018 (2017: nil). Contingent liabilities are assessed continually to determine whether transfers of economic benefits have become probable. Where future transfers of economic benefits change from previously disclosed contingent liabilities, provisions are recognised in the financial year in which the changes in probability occur.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

17. Related party transactions

Related party	Relationship	Transactions
Sam Sengupta	Director of the Company, Magellan Funding Group and Dominions	None
Stuart Maher	Director of the Company and Magellan Funding Group	None
Deirdre Bourke	Director of the Company and Magellan Funding Group	None
Francesco Buffi	Director of the Company and Magellan Funding Group	None
Enda Kelly	Director of the Company, Magellan Funding Group and Dominions	None
Dominions	Common directors as the Company	Receivable of £2,662,456 (2017: £3,882,614) from Dominions
MF1H	Under the same group company	Deemed loan of £43,503,695 (2017: £137,094,262)

The Administrator provides corporate administration services to the Company at arm's length commercial rates. There were no other contracts of any significance in relation to the business of the Company in which the directors had any interest, as defined in the Companies Act 2014, at any time during the year or at the end of the financial year.

18. Significant subsequent events

On 26 April 2019, Sam Sengupta resigned and Enda Kelly was appointed as a director of the Company.

On 2 July 2019, the Company entered into an onward sale transaction of the beneficial title and interest in certain portfolio of Mortgage Loans and their related security to third party.

On 12 July 2019, Enda Kelly resigned and Danica Gutierrez was appointed as a director of the Company.

There were no other significant subsequent events which need to be adjusted or disclosed in the financial statements.

19. Charges

As at 31 December 2018 and 31 December 2017, the Class A Noteholders hold a fixed charge and a first floating charge on the share capital, book debts and undertakings of the Company.

20. Ownership of the share capital

The Company has issued 1 share of the total authorised shares of 100,000,000 to Magellan Funding Group.

21. Capital management

The Company views the share capital as its capital. The Company is a special purpose vehicle set up to issue debt for the purpose of making investments. Share capital of £1 was issued in line with Irish company law and is not used for financing the investment activities of the Company. The Company is not subject to any other externally imposed capital requirements.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

22. Segment Analysis

IFRS 8 "Operating Segments", adopts a strict management approach to segment reporting and requires that operating segments be identified on the same basis as financial information is reported internally for the purpose of allocating resources between segments and assessing their performance.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's Chief Operating Decision maker and for which financial information is available. The Company's Chief Operating Decision maker is the Board.

The single operating segment for the Company has been identified based on the aforementioned criteria keeping in view the role of segment manager, who in this case is the Servicer. The operating segment consists of the Company's investment in a large pool of assets that is managed by the Servicer. This pool earns income and requires expenditure for its day to day operational maintenance. The operating segment derives its income from interest earned and realised gains during the financial year.

The Servicer provides the Board with monthly reports discussing the performance of the pool of assets as well as the quality of assets within the pool. Based on the operating segment identified earlier the Company has one distinct reportable segment where results are represented by the financial statements of the Company.

23. Foreign exchange rates

The Company used the following exchange rate at the financial yearend to translate the values denominated in a foreign currency to £:

Closing rate

31 December 2018
EUR/GBP 0.8945

31 December 2017
EUR/GBP 0.8872

24. Comparative information

The Company comparative financial statements are for the financial year ended 31 December 2017.

25. Approval of financial statements

The financial statements were approved and authorised for issue by the Board on 25 July 2019.