

Landmark Mortgages Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2017



CONTENTS

	Page
DIRECTORS AND OTHER INFORMATION	2
STRATEGIC REPORT	3 - 5
DIRECTORS' REPORT	6 - 7
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT AND THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS	8
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANDMARK MORTGAGES LIMITED	9 - 11
INCOME STATEMENT	12
STATEMENT OF COMPREHENSIVE INCOME	13
STATEMENT OF FINANCIAL POSITION	14
STATEMENT OF CHANGES IN EQUITY	15
STATEMENT OF CASH FLOWS	16 - 17
NOTES TO THE FINANCIAL STATEMENTS	18 - 39

DIRECTORS AND OTHER INFORMATION

Directors

L J Kelly
J A Mayer
H R Patel
D R Clinton

Solicitor

Linklaters LLP
One Silk Street
London
EC2Y 8HQ

Secretary and Registered Office

H S Young
Admiral House
Harlington Way
Fleet
Hampshire
GU51 4YA

Registered Number: 03273685

Banker

Royal Bank of Scotland
Drummond House
1 Redheughs Avenue
Edinburgh
EH12 9JN

Statutory Auditor

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2017.

Principal activities

Landmark Mortgages Limited ("LML" or "the Company") primarily operates as a master servicer and legal title holder, providing oversight of mortgage loans secured on residential properties (and of associated services) and unsecured loans. The servicing of the mortgage loans had been sub-delegated to an outsourced mortgage servicing supplier. The company is registered in Fleet and has an operational presence in Crossflats, United Kingdom. It is authorised and regulated by the Financial Conduct Authority ("FCA").

Business review, results and future developments

The Company during the year has remained in its role as the Master Servicer and Legal Title Holder providing oversight to the acquired loan portfolios by affiliates of Cerberus Capital Management LP ("Cerberus"). The beneficial title to the entire Cerberus acquired loan portfolios had been transferred outside of the Company. The Company had no subsidiaries, associates or joint venture companies in 2017 or in the prior period.

The Company has continued to develop a framework to create a first class master-servicing and oversight business that is based upon good customer outcomes with fair and consistent treatment of our customers, balanced with the commercial objective of arrears management and loss mitigation. In order to fulfil its objective and its regulatory obligations, the Company has invested in additional full-time outsourced staffing, increasing from 10 in 2016 to 16 in 2017 within compliance, risk, finance and operation functions.

LML continued to carry over the legacy customer remediation issues that were recognised as a liability on the Statement of Financial Position as a provision for customer redress. The customer remediation of £50.9m is indemnified and managed directly by UK Asset Resolution Limited ("UKAR") with LML providing oversight of the remediation transactions. The indemnity protection given by UKAR regarding redress claims is split between LML and Landmark Bidco Limited ("Bidco"), its immediate parent undertaking. Owing to the legacy UKAR arrangements, they had resulted in insufficient appropriate audit trail regarding the amount of the indemnity assets LML held at the balance sheet date and its linked balances such as assets due from parent undertakings and the provision for customer redress movements within the Income Statement. Following the Company's acquisition by Bidco from UKAR in 2016, LML's management had made judgements and estimates that are reasonable and relevant to conclude on the appropriateness of the assets and Income Statement balances as highlighted above.

On 7 December 2017, the Company had undertaken steps to streamline its Financial Position whilst ensuring that LML continues to meet FCA regulatory capital requirements and its business objectives. This resulted in a reduction in the Company's share capital and its non-distributable reserves through a solvency statement resolution of £104.0m and £410.5m respectively. On the same date, LML distributed dividends of £554.6m in favour of Bidco, and entered into an arrangement with Bidco to set-off the dividends payment with the outstanding LML loan to Bidco.

LML recorded a profit after tax of £9.2m in the year ended 31 December 2017 (9 month period to 31 December 2016: loss of £10.2m). Included in the prior period results were one-time net realised gains less losses on investment securities. Excluding this one-time item, the Company would have posted a prior year profit after tax of £9.9m, which represents a small adverse variance of £0.7m.

The Company continues to focus on improving customer service with appropriate oversight of the delegated sub-servicer's servicing standards through active monitoring and review of customer activities, underpinned by a strong culture of risk and control. Accordingly, LML are working towards improving the level of complaints through enhanced delivery of customer service through its material outsourced supplier.

STRATEGIC REPORT - continued

Key performance indicators

Key performance indicators utilised by the Company are:

	Year ended 2017 £ in million	9 months to 31 Dec 2016 £ in million
Legal title and master servicing fee income	12.5	8.3
Profits/(losses) before tax	14.1	(11.1)
Oversight staff (number of staff)	16	10

Principal risks and uncertainties

The principal risks and uncertainties to which the Company is exposed and which could impact significantly on its ability to conduct its business successfully are summarised below.

Credit risk

Credit risk is the risk that counterparties engaging in transactions with the Company will not be able to meet their obligations as they fall due and arises principally from the Company's contractual arrangement under respective legal title holding trust deeds and master servicing agreements. For risk management reporting purposes the Company considers all elements of credit risk exposure.

Conduct risk

This is the risk of treating customers unfairly associated with the failure to deliver appropriate customer outcomes which could impact the Company's reputation and its financial performance. The Company has a zero risk appetite for conduct risk that could lead to unfair customer outcomes. The senior management as delegated by the Board of Directors will manage conduct risk and ensure that it has been integrated into the business decision making and strategy.

Operational risk

As the Company operates in the highly regulated financial sector, compliance failures or failures to respond effectively to new and emerging regulatory developments could result in reputational damage and financial loss. Additionally, this also includes failure of key internal controls such as loss from theft, error, systems breakdown and failure to guard against cyber security risks. The Company's compliance department and its senior management are tasked with the monitoring and control of such risk throughout the business.

Supplier Risk

The Company is dependent on outsourcing contracts and partners. The Company is exposed to the risk that any outsourcing arrangements are not properly managed by the Company, or that the supplier may default on or otherwise seek to avoid its contractual obligations. In addition if any of the Company's key outsourcing partners cannot or will not continue to provide the outsourced functions and services for a sufficient time and with provision of adequate assistance to enable transfer to an alternative provider, then the Company may face significant disruption to its services and functions, reputational damage and possible regulatory scrutiny, which may adversely affect the Company's operating results and financial condition. The Company's material outsourced provider will be undertaking an integration programme providing enhancements to its mortgage servicing proposition. Accordingly, LML's management will be working with the supplier to ensure a smooth migration of the Cerberus acquired loan portfolios.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet financial commitments arising from the cash flows generated by its business activities. This risk can arise from mismatches in the timing of cash flows relating to assets and liabilities. The Company's finance department actively monitors its cash flow profile to mitigate its exposure to liquidity risks as far as possible, and ensure that the maturities of assets and liabilities are matched.

STRATEGIC REPORT - continued

Principal risks and uncertainties - continued

Capital management

LML operates under MIPRU regulatory status. At 31 December 2017, LML maintained a sound Statement of Financial Position with capital being held in excess of FCA rules requiring the Company to hold a minimum capital requirement of 10% of the Company's total income as the Directors believe it appropriate to hold a higher level of capital acting as a buffer in recognition of potential risk in the business. Accordingly, the Directors believe that the Company has sufficient capital to support the business strategy and objectives.

Brexit

LML has identified Brexit risk being the risk of an economic downturn in light of the UK leaving the European Union ("EU") on 29 March 2019, which may affect employment law and financial regulation. The Directors believe that Brexit has had a limited impact on the Company's business. As a UK focused business with no reliance on EU trade or supplies as well as the Company's primary assets being amounts due from a UK parent and indemnified remediation cost receivables, LML's exposure to risks from the EU marketplace is minimal. The Directors are carefully monitoring this risk as it develops and considers itself well placed to mitigate its impact.

General Data Protection Regulation ("GDPR")

The Company will be required to meet its obligations under GDPR which require implementation of enhanced data privacy and protection capabilities across our customer data systems by May 2018. A dedicated programme of work has been mobilised to ensure that the Company fully comply with GDPR requirements.

Going concern

The Directors have assessed, taking into consideration the principal risks and uncertainties set out above and in note 19, the financial support and funding likely to be made available by Cerberus European Residential Holdings B.V. ("CERH"), the current strategy and business objectives and existing and potential economic conditions, the Company's ability to continue as a going concern. The intention to support LML has been formally confirmed to the Company by CERH.

Having made enquiries, and on the basis of current financial projections including stressed scenario analysis, the Directors have a reasonable expectation that the Company has adequate resources, as well as access to funding from CERH, to continue in operational existence for the foreseeable future and therefore believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

By order of the Board on 23 March 2018 and signed on behalf by



H S Young
Company Secretary

23 March 2018

DIRECTORS' REPORT

The Directors present their annual report on the affairs of Landmark Mortgages Limited, together with the financial statements and auditor's report, for the year ended 31 December 2017.

Dividends

An interim dividend of £554.6m was declared and paid during the year (9 month period to 31 December 2016: £3,787.4m paid to NRAM Limited).

Directors and secretary

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

Name

D R Clinton	Chairman, Non-Executive Director
H R Patel	Non-Executive Director
L J Kelly	Chief Executive, Executive Director (appointed 1 July 2017)
J A Mayer	Non-Executive Director
H S Young	Company Secretary
S E Jones	Non-Executive Director (appointed 23 January 2017; resigned 30 June 2017)
R K Andrews	Chief Executive (resigned 1 July 2017)

None of the above mentioned Directors are directors of Cerberus European Residential Holdings B.V. which is the ultimate parent company (note 21), or had beneficial interests in the share capital of the Company.

Directors' indemnities and Directors' and Officers' liability insurance

During the year, the Company paid a premium for a contract insuring the Directors and Officers of LML against personal liabilities which may arise in the course of the performance of their duties, as well as protecting the Company itself to the extent that it is obligated to indemnify Directors and Officers for such liability.

Corporate governance

In line with businesses of similar size and nature, the Board has established Audit & Risk Committees which are composed of Executive and Non-executive Directors of the Company. The Audit Committee has independent oversight of the external audit relationship, financial reporting and the internal audit function. The Risk Committee has independent oversight of the internal control systems, the risk management framework, and appropriateness of the Company's risk culture, to ensure it supports its stated risk appetite.

Policy on payment of creditors

The Company is responsible for agreeing terms and conditions under which business transactions with suppliers are conducted. It is the Company's policy that payments to suppliers are made in accordance with these terms, normally between 30 and 60 days, provided that the supplier is also complying with all relevant terms and conditions.

DIRECTORS' REPORT – continued

Political and charitable contributions

The Company made no political or charitable contributions during the year (9 month period to 31 December 2016: nil).

Employees

The Non-Executive Directors have service contracts with LML. All Executive Directors and staffing of relevant business functions are employed by Capital Home Loans Limited (CHL) and provided to LML through an outsourced services arrangement during the year and in the prior period.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Events occurring after Statement of Financial Position date

There have not been any reportable subsequent events between the Statement of Financial Position date and the date of signing this report that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 December 2017.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board on 23 March 2018 and signed on behalf by



H S Young
Company Secretary

23 March 2018

Company Registered Number: 03273685

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANDMARK MORTGAGES LIMITED

Qualified Opinion

We have audited the financial statements of Landmark Mortgages Limited ("the Company") for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion, except for the possible effect of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

With respect to indemnity assets having a carrying amount of £50.9m (2016: £82.8m), Assets due from parent undertakings having a carrying amount of £94.2m (2016: £648.6m) within the Statement of Financial Position and provision for customer redress movement of £20.5m (2016: £19.5m) within the Income Statement, the audit evidence available to us was limited in both the current and prior year. The agreements entered into relating to the sale of the Company to its current parent ("Bidco") in the prior year resulted in the total indemnity given by the seller regarding redress claims being split between the Company and Bidco, at 31 December 2017. Owing to the nature of the Company's records, we were unable to obtain sufficient appropriate audit evidence regarding the amount of the indemnity assets of the Company, the assets due from parent undertakings and, the provision for customer redress movement within the income statement amount of the linked balances as highlighted above by using other audit procedures.

We qualified our audit opinion on the financial statements for the period ended 31 December 2016 with regard to this same limitation.

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our qualified opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANDMARK MORTGAGES LIMITED – continued

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- except for the possible consequential effects of the matter described in the basis for qualified opinion section of our report on the related disclosures in the strategic report and directors' report;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

In respect solely of the limitation on our work relating to indemnity assets, Assets - Due from Parent Undertakings and the provision for customer redress movement, described above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANDMARK MORTGAGES LIMITED - continued

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



**Alexander Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

1 St. Peters Square

Manchester

M2 3AE

23 March 2018

INCOME STATEMENT
Year Ended 31 December 2017

	Notes	Year to 31 Dec 2017 £'000	9 Months to 31 Dec 2016 £'000
Interest income and similar income		34,603	41,720
Interest expense and similar charge		(7)	(10,688)
Net interest income	2	34,596	31,032
Fee and commission income		-	355
Fee and commission expense		-	(1,000)
Legal title and master servicing fee income		12,479	8,347
Servicing fee costs		(9,359)	(7,070)
Net realised losses less gains on investment securities	3	-	(20,117)
Unrealised fair value movements on financial instruments	4	-	727
Other operating income		-	811
Administrative expenses	5	(3,122)	(4,477)
Net other operating expense		(2)	(22,424)
Operating profit		34,594	8,608
Provision for customer redress	15	(20,511)	(19,458)
Impairment on loans to customers		-	1,055
Net impairment release on investment securities	8	-	261
Loss on sale of loans		-	(1,577)
Profit/(loss) before taxation		14,083	(11,111)
Taxation	6	(4,845)	873
Profit/(loss) for the financial year		9,238	(10,238)

STATEMENT OF COMPREHENSIVE INCOME
Year Ended 31 December 2017

For the year to 31 December 2017	Gross of tax £'000	Tax £'000	Net of tax £'000
Total comprehensive income for the financial year	14,083	(4,845)	9,238
For the 9 months to 31 December 2016	Gross of tax £'000	Tax £'000	Net of tax £'000
Loss for the financial period	(11,111)	873	(10,238)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale instruments:			
- net gains recognised in available-for-sale reserve during the period	19,876	(4,044)	15,832
	19,876	(4,044)	15,832
Items that will not be reclassified subsequently to profit or loss:			
- retirement benefit remeasurements	(25,241)	5,048	(20,193)
Total other comprehensive expense	(5,365)	1,004	(4,361)
Total comprehensive expense for the financial period	(16,476)	1,877	(14,599)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	31 Dec 2017 £'000	31 Dec 2016 £'000
Assets			
Cash at bank – restricted		6,553	4,055
Cash at bank – unrestricted		2,339	4,633
Current tax assets		1,424	-
Deferred tax assets	14	-	2,412
Due from parent undertakings	9	94,218	648,635
Indemnity assets	10	50,854	82,780
Other assets	11	2,379	3,160
Property and equipment	12	133	188
Total assets		<u>157,900</u>	<u>745,863</u>
Liabilities			
Other liabilities	13	9,228	10,462
Current tax liabilities		-	6,228
Provisions	15	92,438	127,586
Total liabilities		<u>101,666</u>	<u>144,276</u>
Equity			
Share capital	16	20,000	123,990
Reserves	17	-	410,484
Retained earnings		36,234	67,113
Total equity attributable to equity holders of the company		<u>56,234</u>	<u>601,587</u>
Total liabilities and equity		<u>157,900</u>	<u>745,863</u>

The financial statements on pages 12 to 39 were approved by the board of directors on 23 March 2018 and were signed on its behalf by:


L J Kelly
Director

Company Registered Number: 03273685

STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2017
For the 9 months to 31 December 2016

	Share Capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2016	123,990	403,185	7,299	(15,832)	3,884,973	4,403,615
Other comprehensive income/(expense):						
Net movement in available-for-sale reserve	-	-	-	15,832	-	15,832
Retirement benefit remeasurement	-	-	-	-	(20,193)	(20,193)
Total other comprehensive income	-	-	-	15,832	(20,193)	(4,361)
Loss for the financial period	-	-	-	-	(10,238)	(10,238)
Total comprehensive income/(expense)	-	-	-	15,832	(30,431)	(14,599)
Dividend	-	-	-	-	(3,787,429)	(3,787,429)
Balance at 31 December 2016	123,990	403,185	7,299	-	67,113	601,587

For the year to 31 December 2017

	Share Capital £'000	Share premium reserve £'000	Capital redemption reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	123,990	403,185	7,299	-	67,113	601,587
Profit for the financial year	-	-	-	-	9,238	9,238
Capital reduction	(103,990)	(403,185)	(7,299)	-	514,474	-
Dividend	-	-	-	-	(554,591)	(554,591)
Balance at 31 December 2017	20,000	-	-	-	36,234	56,234

STATEMENT OF CASH FLOWS
Year Ended 31 December 2017

	Notes	Year to 31 Dec 2017 £'000	9 Months to 31 Dec 2016 £'000
Cash flows from operating activities			
Profit/(loss) before tax for year		14,083	(11,111)
Adjustments for			
Loss/(profit) on sale of loans		-	1,577
Depreciation		57	38
Defined benefit pension scheme credits		-	(602)
Cash contribution to defined benefit pension scheme		-	(23,300)
Impairment on loans to customers		-	1,055
Net impairment release on investment securities		-	261
Other non-cash movements		(7,871)	(764,737)
		<u>6,269</u>	<u>(796,819)</u>
<i>(Increase)/decrease in assets</i>			
Loans to customers		-	143,932
Sale of loans to customers		-	478,528
Derivative financial instruments receivable		-	1,638
Due from parent undertakings		554,417	(648,635)
Indemnity assets		31,926	(82,780)
Other assets		781	14,763
<i>Increase/(decrease) in liabilities</i>			
Amounts due to banks		-	(590)
Other deposits		-	(36,994)
Derivative financial instruments		-	(11,677)
Debt securities in issue		-	(204,128)
Other liabilities		(1,234)	(193,302)
Provisions		(35,148)	(9,237)
Tax paid		(4,712)	(91,098)
Net cash flows from operating activities		<u>552,299</u>	<u>(1,436,399)</u>
Cash flows from investing activities			
Purchase of property and equipment		(2)	(226)
Net cash flows from investing activities		<u>(2)</u>	<u>(226)</u>
Cash flows from financing activities			
Interim dividend distribution		(554,591)	-
Repayment of capital instruments		-	(4,120)
Net cash flows from financing activities		<u>(554,591)</u>	<u>(4,120)</u>
Net movement in cash and cash equivalent		<u>(2,294)</u>	<u>(1,440,745)</u>

STATEMENT OF CASH FLOWS – continued
Year Ended 31 December 2017

Analysis of changes in cash and cash equivalents in the year to 31 December 2017

	Non-restricted cash £'000
At start of year	4,633
Movement in year	(2,294)
At end of year	2,339

Analysis of changes in cash and cash equivalents in the 9 months to 31 December 2016

	Balances with Bank of England £'000	Non-restricted cash £'000	Total £'000
At start of period	1,389,072	56,306	1,445,378
Movement in period	(1,389,072)	(51,673)	(1,440,745)
At end of period	-	4,633	4,633

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

Statement of compliance

The statutory financial statements set out herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The standards adopted by the Company are those that are effective and adopted by the European Union as of the date of the Statement of Financial Position.

The financial statements also comply with the relevant provisions of the Companies Act 2006. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of preparation

Landmark Mortgages Limited is a Company incorporated in the United Kingdom and is limited by shares. Its principal activities are outlined in the Strategic Report.

The financial statements have been prepared on the historical cost basis except for derivative financial instruments held in the prior year, which have been stated at their fair value.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reflected in the judgements made about the carrying amounts of assets and liabilities. Actual results may differ from the estimates made. The estimates and assumptions are reviewed on an ongoing basis and where necessary are revised to reflect current conditions. The principal estimates and assumptions made by management relate to loans and advances impairment provisions including security valuations and interest rate assumptions in the prior year. Current year principal estimates and assumptions relate to customer redress provisions. Judgements made by management that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 22.

Going Concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for at least 12 months following the signing of the financial statements. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the current state of the statement of financial position, future projections of profitability, cash flows and capital resources and the longer-term strategy of the business.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, note 19 to the financial statements include the Company's financial risk management objectives, policies and processes for managing its capital. The intention to support LML has been formally confirmed to the Company by CERH.

Having made due enquiries, and on the basis of current financial projections including stressed scenario analysis, the Directors have a reasonable expectation that the Company has adequate resources as well as access to funding from CERH to continue in operational existence for the foreseeable future, and therefore believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition or issuance of a financial asset or liability.

Fee and commission income

Where Value Added Tax ('VAT') is charged, income is stated net of VAT.

Commission receivable from the renewal of third party regulated financial services products was recognised as income within 'fee and commission income' when the renewal policy went 'on risk', net of any provision for repayment in the event of early termination by the customer. If the commission is receivable on deferred terms, a deemed interest element of the commission is separated and recognised on an EIR basis over the deferred payment period.

Fees charged to existing borrowers, including arrears and redemption fees, are recognised in fee and commission income as they arise.

Other operating income – Legal title income and master servicing fee income

Legal title income and master servicing fee income arising from mortgage administration services provided to third parties are recognised on an accrual basis when the service has been provided to which the fee relates.

Foreign currencies

The presentation and functional currency of the Company is pounds sterling. Except where otherwise indicated, financial information presented in pounds sterling has been rounded to the nearest thousand ('000').

Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated to Sterling at the exchange rates prevailing at the balance sheet date. Exchange rate movements on these are recognised in the statement of comprehensive income.

Cash and cash equivalents and restricted cash balances

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than investing or other purposes. Cash and cash equivalents consist of cash and balances with banks that are freely available and non-equity investments with a maturity of three months or less from the date of acquisition and any bank overdrafts.

Restricted cash comprises cash held on trust for a short holding period to be transferred across to the respective beneficial owners of the mortgage loan portfolios under a servicing contract with the Company. These amounts are separate from any of the Company's own (unrestricted) cash balances in the Statement of Financial Position or in the statement of cash flows.

Taxation

(i) Current tax

The charge for taxation is based on the result for the period and takes into account taxation deferred or accelerated arising from temporary differences between the carrying amounts of certain items for taxation and for accounting purposes. Tax relating to items which are taken directly to reserves is also taken directly to reserves.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

Taxation - continued

(ii) Deferred tax

Deferred tax is calculated using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions, and changes in accounting basis on adoption of IFRS.

Deferred tax assets are recognised when it is probable that future taxable profits will be available against which these temporary differences can be utilised.

Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the difference will not reverse in the foreseeable future.

Provisions and contingent liabilities

Provisions are recognised when, and only when, the following criteria are all met:

- There is a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each Statement of Financial Position date and are released if they no longer meet the above criteria.

Provisions are discounted to net present value using rates which reflect the risks specific to the provision, if the effect of discounting is material.

Contingent liabilities are possible obligations whose existence depends upon the outcome of uncertain future events, or are present obligations where the outflows of resources are uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

Determination of fair value of financial instruments

The Company measures financial instruments, such as derivative financial instruments, trading financial instruments and other financial instruments designated at fair value through profit or loss, certain risks in hedged financial instruments, financial assets classified as available for sale, investment properties and share-based payments at fair value on initial recognition.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which is accessible to the Company.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole described as follows:

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

Determination of fair value of financial instruments – continued

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques such as discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

An analysis of the fair values of financial instruments and further details as to how they are measured is provided in note 18.

Property and equipment

Property and equipment is shown at cost less accumulated depreciation and impairment losses. Depreciation is provided at rates calculated to write off the cost, less the estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Fixtures and fittings	Over ten years
Computer equipment	Over four years

Subsequent costs are included in the assets' carrying amounts only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Property and equipment is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised in the statement of comprehensive income. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

Assets in the course of construction are not depreciated until they have been completed and transferred to the appropriate category of property, plant and equipment. The costs of financing assets in the course of construction are not included in the costs of the assets. Assets in the course of construction are included within the impairment test referred to above where appropriate.

A previously recognised impairment charge on an asset may be reversed in full or in part where a change in circumstances leads to a change in the estimates used to determine its recoverable amount. The carrying value of the asset will not be increased above the carrying value at which it would have been held had the impairment not been recognised.

Dividends

Interim and final dividends on ordinary shares are recognised as a liability and deducted from the equity in the period in which they are approved by the Company's Board of Directors. Dividends for the current financial year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

Financial liabilities

Financial liabilities include borrowings from the Company's parent undertaking, and in the prior year other banks and credit institutions, debt securities and subordinated debt issued. Financial liabilities are initially recorded at fair value and then subsequently measured at amortised cost calculated on an effective interest basis.

Adoption of new and revised reporting standards

The new standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2018 are not considered to have a material impact on the Company.

Amendments to IAS 7 Disclosure Initiative

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The application of these amendments has had no impact on the Company's financial statements as the Company's liabilities movements are all cash related and included in the Statement of Cash flow financing activities.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company does not recognise deferred tax assets on its losses during the financial year.

New reporting standards not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9 largely replaces the requirements of the existing financial instruments standard, IAS 39: 'Financial Instruments: Recognition and Measurement' and was endorsed by the EU on 22 November 2016. The standard is effective for annual periods beginning on or after 1 January 2018 and is required to be applied retrospectively. However, prior periods need not be restated, instead an adjustment may be reflected in opening retained earnings at the start of the period when IFRS 9 is first adopted.

The standard includes requirements for classification and measurement of financial assets and liabilities, hedge accounting and the impairment of financial assets.

Classification and measurement

The classification of financial assets will be based on the objectives of the Company's business model and the contractual cash flow characteristics of the instruments. Financial assets will then be classified as held at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL"). In most instances, the measurement outcomes will be similar to those under IAS 39 and therefore, any changes from the accounting treatment currently followed by the Company under IAS 39 are not expected to be significant. The classification of financial liabilities is essentially unchanged from the treatment under IAS 39.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

Impairment of financial assets

Impairment provisions requirements of IFRS 9 are to move to expected losses rather than incurred losses under IAS 39. Its adoption is not expected to have a material impact on its results or financial position as the Company has currently no assets requiring provisioning.

Hedge accounting

The hedge accounting requirements of IFRS 9 are designed to create a stronger link with financial risk management. The Company has no current exposure on hedging instruments. Accordingly, its adoption is not expected to have a material impact on its results or financial position.

Other New reporting standards not yet adopted

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. Its adoption is not expected to have a material impact on its results or financial position as the Company has fee income and interest income from intercompany loans.

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16, 'Leases' will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet).

The right to use asset is initially measured at cost and subsequently measured at costs (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will be adjusted as operating leases payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively. The Company has no current exposure on leases and accordingly, its adoption is not expected to have a material impact on its results or financial position.

The standard is effective for annual periods beginning on or after 1 January 2019. Its adoption is not expected to have a material impact on its Statement of Comprehensive Income or Statement of Financial Position.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE FINANCIAL STATEMENTS - continued

2 Net interest income

In the prior period, on 30 April 2016 the Company transferred certain assets and liabilities to NRAM Limited. On 5 May 2016 the remaining loans were transferred to Cerberus, resulting in the Company holding no loan assets on the Statement of Financial Position. The interest receivable on secured loans, other lending and investment securities and deposits was earned up to the transfer date and included in the 31 December 2016 financial statements.

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Interest receivable and similar income		
On secured loans	-	36,810
On other lending	-	1,112
On intercompany loans	34,603	3,001
On investment securities and deposits	-	797
Total interest receivable and similar income	34,603	41,720
Interest expense and similar charges		
On amounts due to banks and HM Treasury	-	(9,199)
On intercompany loans	(7)	(14)
On debt securities and other	-	(1,475)
Total interest expense and similar charges	(7)	(10,688)
Net interest income	34,596	31,032

3 Net realised losses less gains on investment securities

In the prior period, prior to the transfer of assets to NRAM Limited on 30 April 2016 the company held investment securities. Net realised gains less losses on investment securities during the prior period to the transfer date which were recognised in the Income Statement comprised the following:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Net realised (losses) on instruments at amortised cost	-	(20,117)

4 Unrealised fair value movements on financial instruments and hedge ineffectiveness

In the prior period, prior to the transfer of assets to NRAM Limited on 30 April 2016 the company held financial instruments. Unrealised fair value movements on financial instruments and hedge ineffectiveness during the prior period to the transfer date which were recognised in the Income Statement comprised the following:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Net gain/(loss) in fair value:		
- translation gains/(losses) on underlying instruments	-	(1,925)
- fair value movements on derivatives which are economic hedges but are not in hedge accounting relationships	-	2,652
Unrealised fair value movements	-	727
Total	-	727

NOTES TO THE FINANCIAL STATEMENTS - continued

5 Administrative expenses

The Company had no employees during the current year or prior period as services were provided to the Company by employees of CHL on a seconded basis.

The Company had engaged a full-time equivalent (seconded from CHL) of 16 permanent staff at 31 December 2017 (31 December 2016: 10 temporary staff and specialist contractors).

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Defined benefit pension costs	-	(605)
IT costs	-	101
Insurance premiums	-	545
Directors fee	252	106
Outsourced and professional services	262	751
Depreciation and amortisation	57	38
Management recharge from Bradford & Bingley	-	1,669
Management and staff recharge from CHL	1,725	1,056
Other administrative expenses	826	816
Total administrative expenses	3,122	4,477

The Directors' fee shown in the above analysis were amounts in respect of non-executive directors paid during the current year and in the prior period. The highest paid director amounted to £131k (2016: £54k). None of the directors accrued retirement benefits during the year or in the prior period.

Auditor's remuneration

The following costs are included within administrative expenses:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Fees payable to Company auditors for the statutory audit of the Company	278	35
Total	278	35

NOTES TO THE FINANCIAL STATEMENTS - continued

6 Taxation

The tax credit/(charge) for the financial year comprises:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Current tax:		
- on profit/loss for the year	(2,747)	496
- adjustments in respect of prior periods	314	2,752
Total current tax (charge)/credit	(2,433)	3,248
Deferred tax (see note 14):		
- origination and reversal of temporary differences	(2,412)	(2,375)
Total deferred tax charge	(2,412)	(2,375)
Total taxation (charge)/credit per the Income Statement	(4,845)	873

In the current year and prior period the Company has utilised Group relief from its parent company Landmark Bidco Limited ("Bidco"). This has been offset against the amount included in amounts owed to parent undertakings in note 9.

The following tax amounts have been credited/(charged) to equity:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Current tax:		
- relating to available-for-sale investments	-	(4,044)
Deferred tax:		
- relating to retirement benefit remeasurements	-	5,048
Net credit to equity	-	1,004

The tax assessed for the year differs from the standard rate of corporation tax in the United Kingdom of 19.25% (9 month to 31 December 2016: 20%). The differences are explained below:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Profit/(loss) before taxation	14,083	(11,111)
Profit/(loss) by standard rate of corporation tax in UK	(2,711)	2,222
Effects of:		
- expenses not deductible for tax purposes	(2,448)	(4,101)
- adjustments in respect of prior periods	314	2,752
Total taxation (charge)/credit for the year/period	(4,845)	873

NOTES TO THE FINANCIAL STATEMENTS - continued

7 Dividends paid

An interim dividend of £554.6m was declared and paid during the year (9 month period to 31 December 2016: £3,787.4m paid to NRAM Limited). This was paid in line with the Company's Dividend Policy.

8 Investment securities

Net impairment release on investment securities for the year/ prior period comprised:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Net impairment reversals on investment securities held as loans and receivables and unsecured investment loans	-	261
	<u>-</u>	<u>261</u>

9 Due from parent undertakings

	31 Dec 2017 £'000	31 Dec 2016 £'000
Amounts due from Landmark Bidco Limited ("Bidco")	94,218	170,107
Amounts due from CERH	-	478,528
	<u>94,218</u>	<u>648,635</u>

On 14 September 2017, LML, Bidco and CERH agreed to enter into cashless setoff arrangements: (1) LML to advance to Bidco an amount equivalent to the outstanding loan balance between LML and CERH; (2) Bidco to utilise the amount borrowed from LML to part settle its debt to CERH; and (3) CERH to utilise the proceeds from Bidco to fully settle its debt to LML.

The amounts due from parent undertakings noted above are interest bearing and are charged interest at 3% per annum plus 12m LIBOR.

10 Indemnity assets

	31 Dec 2017 £'000	31 Dec 2016 £'000
Indemnity receivable from NRAM Limited	<u>50,854</u>	<u>82,780</u>

11 Other assets

	31 Dec 2017 £'000	31 Dec 2016 £'000
Prepayments and accrued income	164	310
Amounts due from related parties	2,214	2,850
Other	1	-
	<u>2,379</u>	<u>3,160</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

12 Property and equipment

31 December 2017	Plant, equipment, fixtures, fittings and vehicles £'000	Total £'000
Cost		
At beginning of year	226	226
Additions in year	2	2
At end of year	228	228
Depreciation		
At beginning of year	38	38
Charge for year	57	57
At end of year	95	95
Net book value		
At 31 December 2017	133	133
At 31 December 2016	188	188

31 December 2016	Plant, equipment, fixtures, fittings and vehicles £'000	Total £'000
Cost		
At beginning of period	-	-
Additions in period	226	226
At end of period	226	226
Depreciation		
At beginning of period	-	-
Charge for period	38	38
At end of period	38	38
Net book value		
At 31 December 2016	188	188

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Other liabilities	31 Dec 2017	31 Dec 2016
	£'000	£'000
Accruals and deferred income	529	586
Trade creditors	8,686	9,870
Other creditors	13	6
	<u>9,228</u>	<u>10,462</u>

14 Deferred taxation

The net deferred taxation asset/(liability) is attributable to the following:

	Assets	Liabilities	Net
	31 Dec 2017	31 Dec 2017	31 Dec 2017
	£'000	£'000	£'000
Intercompany interest	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>

	Assets	Liabilities	Net
	31 Dec 2016	31 Dec 2016	31 Dec 2016
	£'000	£'000	£'000
Intercompany interest	2,412	-	2,412
Total	<u>2,412</u>	<u>-</u>	<u>2,412</u>

The Company had no deferred tax assets unrecognised at 31 December 2017 (31 December 2016: £Nil).

Deferred tax assets and liabilities are measured at the rates expected to apply in the period when the asset is realised or liability settled, based on tax rates that have been substantively enacted at the balance sheet date.

The Finance Act 2017 enacted a reduction in the UK corporation tax main rate to 17% with effect from 1 April 2020.

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Provisions

	Customer redress £'000	Total £'000
At 1 January 2017	127,586	127,586
Utilised in the year	(65,322)	(65,322)
Charged in the year	48,783	48,783
Released in the year	(18,609)	(18,609)
At 31 December 2017	92,438	92,438

	Customer redress £'000	Onerous contracts £'000	Total £'000
At 1 January 2016	134,978	1,845	136,823
Utilised in the period	(44,500)	-	(44,500)
Charged in the period	42,140	-	42,140
Released in the period	(5,032)	(1,845)	(6,877)
At 31 December 2016	127,586	-	127,586

The customer redress provision relates to a number of legacy issues including PPI, which are indemnified in respect of the costs by NRAM Limited and managed by our material outsource provider on behalf of the Company.

NRAM Limited hosts monthly tripartite remediation governance committee forums and provides regular remediation action notices for review as appropriate to enable the Company to make an informed decision on customer contact protocols and customer outcomes ahead of remediation activities being mobilised.

The Company remains committed to doing the right thing for our customers and where issues were identified that have caused customer detriment, we will ensure that they are fully remediated. An additional provision of £48.8m (2016: £42.1m) has been recognised during the year, of which £45.5m (2016: £40.3m) relates to an increase in PPI provisions.

All customer redress payments are expected to be processed during the year to 31 December 2018 except for PPI, the majority of which is expected to be processed by Autumn 2019 following publication of the complaint time-bar of 29 August 2019.

The Company, in addition to the above, is also subject to other complaints and legal proceedings, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. All such material matters are periodically reassessed and professional expert advice is taken on these assessments where appropriate. A provision is recognised when the criteria are all met in accordance with the relevant accounting standards (see accounting policies). In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the merits of the case, and no provisions are held in relation to such matters. The Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

The onerous contracts provision relates to empty leasehold premises which, as at the Statement of Financial Position date, were no longer used by the business but were subject to lease agreements. The rental payments are due to be made during the period to 2022. These leases were transferred to NRAM Limited on 30 April 2016.

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Share capital

Issued and fully paid	At 31 Dec 2017		At 31 Dec 2016	
	Number	£'000	Number	£'000
Ordinary shares of 25p each	80,000	20,000	495,959,500	123,990

In accordance with the Companies Act 2006, the Company no longer has authorised capital other than its issued capital.

The Ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up.

On 7 December 2017, the fully paid up ordinary share capital was reduced through solvency statement resolution passed by the Board of Directors on 6 December 2017. As a result, £104.0m of ordinary shares were cancelled and transferred to retained earnings.

17 Reserves

Reserves comprise the following:

	31 Dec 2017 £'000	31 Dec 2016 £'000
Share premium reserve	-	403,185
Capital redemption reserve	-	7,299
Total	-	410,484

On 7 December 2017, the share premium reserve and capital redemption reserve were reduced through solvency statement resolution passed by the Board of Directors on 6 December 2017. As a result, £403.2m of share premium reserve and £7.3m of capital redemption reserves were cancelled and transferred to retained earnings.

The share premium reserve represents the excess of the consideration received for issued shares over the nominal value of those shares, net of transaction costs.

The capital redemption reserve was created to maintain the total amount of capital when shares were repurchased by the Company.

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Financial instruments

(a) Categories of financial assets and financial liabilities: carrying value compared to fair value

The following table summarises the carrying amounts and fair values of financial assets and liabilities. Assets are generally presented at bid prices, whereas offer prices are used for liabilities. The accounting policy note 1 sets out the key principles used for estimating the fair values of financial instruments. Note 18(c) provides some additional information in respect of the methodologies used.

At 31 December 2017	Loans and receivables £'000	Total carrying value £'000	Fair value £'000
Financial assets:			
Cash at bank - restricted	6,553	6,553	6,553
Cash at bank - unrestricted	2,339	2,339	2,339
Other financial assets	2,215	2,215	2,215
Total financial assets	11,107	11,107	11,107
	Liabilities at amortised cost £'000	Total carrying value £'000	Fair value £'000
Financial liabilities:			
Other financial liabilities	8,699	8,699	8,699
Total financial liabilities	8,699	8,699	8,699
At 31 December 2016	Loans and receivables £'000	Total carrying value £'000	Fair value £'000
Financial assets:			
Cash at bank - restricted	4,055	4,055	4,055
Cash at bank - unrestricted	4,633	4,633	4,633
Other financial assets	2,850	2,850	2,850
Total financial assets	11,538	11,538	11,538
	Liabilities at amortised cost £'000	Total carrying value £'000	Fair value £'000
Financial liabilities:			
Other financial liabilities	10,361	10,361	10,361
Total financial liabilities	10,361	10,361	10,361

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Financial instruments - continued

(b) Fair value measurement

Financial assets and liabilities carried at fair value are valued on the following bases:

31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets:				
Cash at bank - restricted	6,553	-	-	6,553
Cash at bank - unrestricted	2,339	-	-	2,339
Other financial assets	-	2,215	-	2,215
	<u>8,892</u>	<u>2,215</u>	<u>-</u>	<u>11,107</u>
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities:				
Other financial liabilities	-	8,699	-	8,699
Total	<u>-</u>	<u>8,699</u>	<u>-</u>	<u>8,699</u>
31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets:				
Cash at bank - restricted	4,055	-	-	4,055
Cash at bank - unrestricted	4,633	-	-	4,633
Other financial assets	-	2,850	-	2,850
	<u>8,688</u>	<u>2,850</u>	<u>-</u>	<u>11,538</u>
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial liabilities:				
Other financial liabilities	-	10,361	-	10,361
Total	<u>-</u>	<u>10,361</u>	<u>-</u>	<u>10,361</u>

The following table sets out the fair values of financial instruments that the Company holds at 31 December 2017. It categorises these securities into the relevant level of the fair value hierarchy.

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, whether directly (ie as price) or indirectly (ie derived from the implications of prices).

Level 3: Inputs for the asset or liability that are not based on observable market data, or have significant unobservable inputs.

In each case the fair value is calculated by discounting future cash flows using observable market parameters including swap rates, interest rates and currency rates.

NOTES TO THE FINANCIAL STATEMENTS - continued

18 Financial instruments - continued

For financial assets and liabilities which are not carried at fair value, the fair values disclosed in note 18(a) are calculated on the following bases:

Valuation methods for calculations of fair values in the table above are as follows:

Cash at bank and in hand

Fair value is estimated by using discounted cash flows applying either market rates where practicable or rates offered by other financial institutions for accounts with similar characteristics. The fair value of floating rate placements, fixed rate placements with less than six months to maturity and overnight deposits is estimated to be their carrying amount.

Other financial assets and liabilities

Fair value approximates to carrying value because the balances are short term in nature.

19 Financial risk management

A description of the principal risks to which the Company is exposed is provided on pages 3 to 4 which form an integral part of the audited Financial Statements.

(a) Credit risk

Credit risk is the potential for financial loss caused by a party failing to meet an obligation as it becomes due. In the prior period, as credit risk was the main risk to the Company until the transfer of loans on 5 May 2016, a credit risk framework has been established as part of the overall governance framework to measure, mitigate and manage credit risk within risk appetite.

The maximum credit risk exposure at the Statement of Financial Position date, before taking account of any collateral netting and other credit enhancements, was as follows:

	31 Dec 2017 £'000	31 Dec 2016 £'000
On Statement of Financial Position:		
Cash at bank - restricted	6,553	4,055
Cash at bank - unrestricted	2,339	4,633
Other financial assets	2,379	2,850
Total on Statement of Financial Position	11,271	11,538

(b) Liquidity risk

The Company closely monitor their liquidity position against the Company's liquidity policy. Minimum and target liquidity levels are established through stress testing and cash flow forecasting, taking into consideration an assessment of any emerging and potentially extreme funding conditions.

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Financial risk management – continued

(b) Liquidity risk - continued

The table below analyses the Company's financial assets and liabilities into relevant maturity groupings:

	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
At 31 December 2017							
Financial assets:							
Cash at bank - restricted	6,553	-	-	-	-	-	6,553
Cash at bank - unrestricted	2,339	-	-	-	-	-	2,339
Other financial assets	-	2,379	-	-	-	-	2,379
Total financial assets	8,892	2,379	-	-	-	-	11,271
Financial liabilities:							
Other financial liabilities	-	9,228	-	-	-	-	9,228
Total financial liabilities	-	9,228	-	-	-	-	9,228
	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
At 31 December 2016							
Financial assets:							
Cash at bank - restricted	4,055	-	-	-	-	-	4,055
Cash at bank - unrestricted	4,633	-	-	-	-	-	4,633
Other financial assets	-	2,850	-	-	-	-	2,850
Total financial assets	8,688	2,850	-	-	-	-	11,538
Financial liabilities:							
Other financial liabilities	-	10,361	-	-	-	-	10,361
Total financial liabilities	-	10,361	-	-	-	-	10,361

Other assets and liabilities are included in the above table according to the earliest date that payment can be contractually demanded. It should be noted that many financial instruments are settled earlier than their contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS - continued

19 Financial risk management - continued

Non-derivative cash flows

The table below analyses the Company's non-derivative cash flows payable into relevant periods. The amounts disclosed are the contractual undiscounted cash outflows:

	On demand £'000	Within three months £'000	After three months but within six months £'000	After six months but within one year £'000	After one year but within five years £'000	After five years £'000	Total £'000
At 31 December 2017							
Financial liabilities:							
Other financial liabilities	-	9,228	-	-	-	-	9,228
Total	-	9,228	-	-	-	-	9,228
At 31 December 2016							
Financial liabilities:							
Other financial liabilities	-	10,361	-	-	-	-	10,361
Total	-	10,361	-	-	-	-	10,361

Market risk

This is the risk of financial loss from changes in market prices of financial instruments, typically from the movements in interest rates and foreign exchange rates. The Company's finance department and its key management are tasked with the management of market risks throughout the Company.

Interest rate risk

Interest rate risk typically arises from mismatches between the repricing dates of interest-bearing assets and liabilities on the Company's Statement of Financial Position and from the investment profile of the Company's capital and reserves. The Financial Director is responsible for managing this exposure in accordance with the Company's Risk Appetite Statement ("RAS"), as approved by the Board.

Market risk is the potential adverse change in income or net worth arising from movements in interest rates, exchange rates or other market prices. Effective identification and management of market risk is essential for maintaining stable net interest income.

The interest rate risk is managed within a framework determined by Senior Management; however, on a day to day basis, the Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

Foreign currency risk

At 31 December 2017 and 31 December 2016 the Company had no net material exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

NOTES TO THE FINANCIAL STATEMENTS - continued

20 Related party disclosures

(a) Key management personnel

The Company considers the Board of Directors and the members of the Executive Committee to be the key management personnel. There were no amounts owed to or by key management personnel at any time during the year (31 December 2016: £nil).

A summary of the Company's share of the remuneration of the 8 (2016: 8) key management personnel is set out in the table below. These comprise of the recharging of costs on the seconded members of the Executive Committee during the current year or prior period.

Remuneration of key management personnel	31 Dec 2017 £'000	31 Dec 2016 £'000
Short-term employee benefits	838	298
Total	838	298

(b) Fellow subsidiary

During the current year CHL recharged a total of £1.7m to the Company (9 month period to 31 December 2016: £0.8m).

At 31 December 2017 the Company owed £0.1m to CHL (31 December 2016: £0.1m).

(c) Parent company

The Company undertook the following transactions in the year with respect to its current parent undertakings, CERH and Landmark Bidco Limited:

Balances at year/period end:

	31 Dec 2017 £'000	31 Dec 2016 £'000
Balances with Landmark Bidco Limited	94,218	170,107
Balances with CERH	-	478,528
Legal title and master servicing fees (CERH)	212	251
	94,430	648,886

Income/(expense) during the year/period:

	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Interest receivable on intercompany loan (CERH)	25,066	-
Interest receivable on intercompany loan (Bidco)	9,537	3,001
Interest payable on intercompany loan	(7)	(14)
Consultancy and secondment fee	-	(210)
CERH legal title and master servicing fee	2,969	1,077
	37,565	3,854

NOTES TO THE FINANCIAL STATEMENTS - continued

20 Related party disclosures - continued

(d) Affiliates of Cerberus

Additionally, the Company had the following balances with, and income/expense arising from, transactions with affiliates of Cerberus in the year as follows:

- Towd Point Mortgage Funding 2016-Granite1 plc
- Towd Point Mortgage Funding 2016-Granite2 plc
- Towd Point Mortgage Funding 2016-Granite3 plc
- Bawag P.S.K. Bank
- Feldspar 2016-1 plc

Balances as at year/period end:	31 Dec 2017 £'000	31 Dec 2016 £'000
Assets		
Servicer fee income receivable	1,954	2,522
Legal title and master servicing fee receivable	48	77
	<u>2,002</u>	<u>2,599</u>
Income/(expense) during the year/period:	Year to 31 Dec 2017 £'000	9 months to 31 Dec 2016 £'000
Servicer fee income	8,797	7,052
Legal title and master servicing fees	713	218
	<u>9,510</u>	<u>7,270</u>

21 Immediate, penultimate and ultimate parent undertaking

The Company's immediate parent is Landmark Bidco Limited whose registered office is at 35 Great St. Helen's, London, EC3A 6AP and whose penultimate parent company in the United Kingdom is Landmark Holdco Limited. Both companies are private limited companies incorporated and domiciled in the United Kingdom.

The ultimate parent company is Cerberus European Residential Holdings B.V. whose registered office is at Oude Utrechtseweg 32, 3743 KN Baarn, The Netherlands (incorporated under the laws of The Netherlands with registered number 62579533). Cerberus European Residential Holdings B.V. is owned by certain investment funds managed and advised by Cerberus Capital Management L.P. a global investment manager headquartered in New York City, USA and registered with the United States Securities and Exchange Commission.

NOTES TO THE FINANCIAL STATEMENTS - continued

22 Significant judgements/estimates made by management

Significant judgements and estimates made by the Company which have a significant impact on the financial statements include the following:

Significant estimate	Key details
Going concern	Details set out in basis of preparation note.
Provisions	<p>Disclosures in relation to the Company's provisions can be found in notes 15, with the Company held provisions in respect of the following estimated payables:</p> <ul style="list-style-type: none"> • payment protection insurance provision of £86.2m at 31 December 2017 (2016: £125m); and • other customer redress provision of £6.3m at 31 December 2017 (2016: £2.6m). <p>Significant judgement by management is required in determining the key assumptions used to estimate the quantum of the provisions, including the level of complaint volumes (both historic and estimated future volumes), uphold rates (how many claims are, or maybe, upheld in the customers favour) and redress costs (the average payment made to customers). The provision is therefore subject to inherent uncertainties as a result of the subjective nature of the assumptions used in quantifying the overall estimated position at 31 December 2017.</p>

23 Events after the reporting period

There have been no other significant events affecting the Company since the year end.