Towd Point Mortgage Funding 2016 – Granite1 plc

Annual Report and Financial Statements

For the Year Ended 31 December 2017

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DIRECTORS AND OTHER INFORMATION

Directors

D J Wynne
Wilmington Trust SP Services (London) Limited

Solicitor

Linklaters LLP
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London
EC2Y 8HQ

Company Secretary and Registered Office

Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
EC2R 7AF

Registered Number: 09985645

Banker

Citibank N.A. London Branch
Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB

Statutory Auditor

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

STRATEGIC REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2017.

Principal activities, business review, results and future developments
The Company was established in 2016 as a special purpose entity to effect the securitisation of a tranche of mortgage assets from a related entity, Cerberus European Residential Holdings B.V. ("CERH"). The securitisation transaction occurred on 20 April 2016 and as part of the transaction, the Company purchased the beneficial interest in a mortgage portfolio originated by Landmark Mortgages Limited ("LML") secured by first charge over properties in the United Kingdom. The purchase of the beneficial interests in the mortgage portfolio from CERH was financed by the issuance of mortgage backed floating rate loan notes. These loan notes have a final maturity date in July 2046 and are listed on the Irish Stock Exchange. The loan notes have a step up date in April 2019, at which point the interest payable will increase in line with the terms of the sale of the loan notes. There has been no significant change in this activity during the year. The Company had no employees during the current year or prior period.

In accordance with IAS 39, where transfer of a financial asset does not qualify for derecognition, the transferee does not recognise this transferred asset as its asset. The transferee recognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the mortgage portfolios transferred to the Company, recognition is considered to be inappropriate as the seller has retained significant risks and rewards of ownership of that financial asset. The Company's Financial Statements are therefore prepared on the basis that the acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised loan to CERH.

During the year ended, the deemed loans assets and the liabilities under the notes decreased in line with the underlying mortgage portfolio they reflect.

LML continues to hold legal title to the mortgage assets and carry on as a master servicer, providing oversight of mortgage loans secured on residential properties (and of associated services). The servicing of the *mortgage loans had been sub-delegated to an outsourced mortgage servicing supplier.*

The weighted average LTV for the loan book was 60.21% at December 2017 (31 December 2016: 63.81%) and the redemption rate for the year was 18.50% (period to 31 December 2016: 12.95%).

Details of the results for the period are set out in the statement of comprehensive income on page 12 and in the related notes.

Key performance indicators

Key performance indicators utilised by the Company are:

	Year to 31 December 2017	Period to 31 December 2016
Net interest income (£000's)	2,955	35,410
Accounts equal to or over 3 months in arrears by value	3.4%	3.6%
Bad debt provisioning as a % of the total gross loan book	0.3%	0.4%

Principal risks and uncertainties
In common with all businesses, the Company faces certain risks and uncertainties. As the Company operates in the financial services industry the majority of its key risks and uncertainties arise from its financial instruments and principally relate to the underlying loan arrears and associated liquidity and interest rate profile. The main risks faced by the Company are credit risk, interest rate risk, operational risk and liquidity risk. These risks are discussed in more detail in note 17.

STRATEGIC REPORT

Principal risks and uncertainties - continued

Credit risk reflects the risk that the underlying borrowers which collateralise the deemed loans will not able to meet their obligations on the loans as they fall due and will cause a financial loss by failing to discharge an obligation.

Operational risk is the potential for financial or reputational loss if key internal controls of the mortgage servicer were to fail. It includes loss from theft, error and systems breakdown. The mortgage servicer's compliance department and its key management are tasked with the monitoring and control of such risk on behalf of the Company. A self-assessment process of risk mapping is conducted formally each year by management, and testing of key areas of these controls is performed periodically.

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, however the Company's principal liabilities, its loan notes, are structured specifically so as to mature broadly at the same time as the securitised assets are repaid.

Capital Management

In accordance with the Company's special purpose nature, the Company's principal funding comes through its non-recourse debt, which is intended to be repaid fully from the mortgage assets on hand. Capital is considered by management to comprise share capital on hand, retained earnings and any subordinated loans received from time to time, is considered to be sufficient for the particular nature of the Company's activities and is in line with the Company's governing documentation. There have been no changes to the Company's approach to capital management during the year.

Brexit

The Company has identified key Brexit risk being the risk of UK economic downturn in light of the UK leaving the European Union ("EU") on 29 March 2019 which could impact demand for loans, customers' ability to pay monthly subscription or re-pay outstanding balances and security values. The Company is carefully monitoring this risk as it develops and considers itself well placed to mitigate its impact.

Going concern

It is expected that the Company will continue to have sufficient cash inflows from its current cash resources and its mortgage portfolio to meet its on-going obligations, in particular for its senior non-recourse debt providers.

The directors of the Company have considered various matters in evaluating the appropriateness of the going concern basis of preparation for its financial statements. These various matters are set out under the going concern section within the statement of accounting policies.

By order of the Board on 30 April 2018 and signed on behalf by

Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Secretary

DIRECTORS' REPORT - continued

The directors present their annual report on the affairs of the Company, together with the financial statements and auditors' report, for the year ended 31 December 2017.

Dividends
No dividends have been paid or proposed for either of the 2017 or 2016 financial years.

Directors and secretary
The following 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:

D J Wynne	Director	(appointed 28 March 2017)
M H Filer	Director	(resigned 12 April 2017)
Wilmington Trust SP Services (London) Limited	Director	
Wilmington Trust SP Services (London) Limited	Company Secretary	

Corporate governance statement
The directors are 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 its effective oversight of the financial reporting process. These include appointing LML, to maintain proper books and records of the Company, to prepare for review and approval by the Board the annual report including financial statements intended to give a true and fair view, to operate effective internal controls in relation to the financial reporting process and to report to the Board.

For further details, refer to the notes to the financial statements particularly note 17 on financial risk management.

Due to the nature of the securities which have been issued on the Irish Stock Exchange, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the requirements of the Irish Corporate Governance Annex and the provision of the UK Corporate Governance Code.

Political and charitable contributions
The Company made no political or charitable contributions during the year of in prior period.

Employees
The Company does not have any employees (period to 31 December 2016: none). Primary and Special Servicing of the mortgage loan portfolio is carried out by a material outsource provider.

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.

This confirmation is given and should be interpreted in accordance with Section 418(2) of the Companies Act 2006.

Events occurring after balance sheet date
There have not been any reportable subsequent events between the balance sheet 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 and for the year then ended.

DIRECTORS' REPORT - continued

Auditor

Pursuant to section 489 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approval of financial statements

The board of directors approved these financial statements on 30 April 2018.

On behalf of the board

Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Secretary
30 April 2018

DIRECTORS' RESPONSIBILITIES STATEMENT 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 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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 TOWD POINT MORTGAGE FUNDING 2016 – GRANITE1 PLC

1 Our opinion is unmodified

We have audited the financial statements of Towd Point Mortgage Funding 2016-Granite1 Plc ("the Company") for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flow and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 17 March 2016. The period of total uninterrupted engagement is for the financial year ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2016), in arriving at our audit opinion above, together with our key audit procedures to address the matter and, as required for public interest entities, our results from those procedures. The matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on the matter.

	The risk	Our response
Loan impairment (Impairment provision balance £15.2m, 2016: £27.1m) *Refer to page 17 (accounting policy) and page 24 and 25 (financial disclosures)*	**Subjective estimate** The Company holds a deemed loan receivable from CERH ('the Seller') for a portfolio of mortgage assets to which the Company has acquired a beneficial interest. The deemed loans is collateralised on a portfolio of loans consisting of United Kingdom residential mortgages. The deemed loan is measured at amortised cost which is established by reference to the underlying portfolio of loans. The year-end carrying value of the deemed loans requires judgement in respect of the cash flows generated from the loan portfolio held by the seller. A provision for impairment is made which represents the Company's best estimate of losses incurred within the portfolio of loans at the balance sheet date, The impairment provision is derived from a model that incorporates subjective judgements, including probability of default and forced sale discounts against collateral. There is a risk that the provision is not reflective of the incurred losses at the end of the period due to these subjective estimates. In particular, judgement is required on the key assumptions of probability of default and forced sale discounts against collateral.	As the Company has full access to the underlying loan records against which the deemed loans is collateralised, our procedures in testing impairment included: **Historical comparison:** We assessed the reasonableness of the key judgemental assumptions used in the provisioning models by creating expectations for the assumptions using historical performance and by assessing the impact of using alternative assumptions on the loan loss provision. **Sensitivity:** We assessed the impairment model for its sensitivity to changes in the key assumptions of probability of default and forced sales discount by performing stress testing. **Benchmarking assumptions:** We compared the key assumptions used in the model forced sale discounts with those of comparable companies. **Methodology implementation:** We checked the mathematical accuracy of the calculations contained within the impairment model, including the recalculation of formulas and verification of underlying inputs and assumptions. **Our results** We found the resulting estimate of the loan portfolio impairment provision to be acceptable

3 Our application of materiality and an overview of the scope of our audit
Materiality for the financial statements as a whole was set at £47.9m (2016: £57.4m), determined with reference to a benchmark of total assets of £4,794m (2016: £5,738m) (of which it represents 1% (2016: 1%)).

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £2.4m (2016: £1.9m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on 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.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports 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.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements including 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the annual report. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual report items.

In addition we considered the impact of laws and regulations in the specific areas of money laundering, sanctions list and financial crime, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual report items.

8 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.

A Simpson

Alexander Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St. Peters Square
Manchester
United Kingdom

M2 3AE
30 April 2018

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Notes	Year ended 31 December 2017 £'000	Period from 3 February to 31 December 2016 £'000
Interest income	2	184,023	161,609
Interest expense	3	(181,068)	(126,199)
Net interest income		**2,955**	**35,410**
Other operating expense		(9,596)	(8,333)
Impairment gain/(loss) on deemed loans	4	6,645	(27,074)
Profit before income tax	5	**4**	**3**
Income tax charge	6	(1)	(1)
Total comprehensive income for the year		**3**	**2**
Profit attributable to the owners of the Company		**3**	**2**

All amounts relate to continuing operations and all activities are in the UK.

There were no other recognised items of income or expenditure during the current year or prior period and so a separate statement of other comprehensive income has not been presented.

The notes on pages on 16 to 39 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Assets			
Cash at bank - restricted	7	292,731	307,618
Deemed loans to seller	4	4,433,798	5,430,641
Other debtors	9	4,057	13
Prepayments and accrued income	10	1	3
Total assets		**4,730,587**	**5,738,275**
Liabilities			
Non-recourse funding	11	4,621,108	5,602,042
Other creditors	12	90,604	20,603
Current tax liability	13	1	1
Accruals and deferred income	14	18,856	20,396
Deferred purchase price		-	95,218
Total liabilities		**4,730,569**	**5,738,260**
Equity			
Share capital	15	13	13
Retained earnings		5	2
Total equity attributable to equity holders of the Company		**18**	**15**
Total liabilities and equity		**4,730,587**	**5,738,275**

The financial statements on pages 12 to 39 were approved by the board of directors on 30 April 2018 and were signed on its behalf by:

Mignon Clarke-Whelan for and on behalf of Wilmington Trust SP Services (London) Limited
Director

Registered Company Number: 09985645

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

31 December 2017	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	13	2	15
Total comprehensive income for the year	-	3	3
Balance at 31 December 2017	13	5	18

31 December 2016	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at incorporation date	-	-	-
Issuance of share capital	13	-	13
Total comprehensive income for the period	-	2	2
Balance at 31 December 2016	13	2	15

STATEMENT OF CASH FLOWS
Year ended 31 December 2017

	Year ended 31 December 2017 £'000	3 February to 31 December 2016 £'000
Cash flows from operating activities		
Profit before taxation for year	4	3
Adjustments for		
Accretion of discounted loan notes	31,739	28,858
Tax paid	(1)	-
(Increase)/decrease in assets		
Deemed loans to seller	996,843	(5,430,641)
Other debtors	(4,044)	(13)
Prepayments and accrued income	3	(3)
Increase/(decrease) in liabilities		
Other creditors	70,001	20,603
Accruals and deferred income	(1,540)	20,396
Deferred purchase price	(95,218)	95,218
Net cash flows arising from operating activities	997,787	(5,265,579)
Cash flows from financing activities		
Issuance of share capital	-	13
Purchase of loans	-	6,174,256
Repayment of loan notes	(1,012,674)	(601,072)
Net cash flows arising from financing activities	(1,012,674)	5,573,197
Net movement in cash and cash equivalents	(14,887)	307,618
Cash and cash equivalents at 31 December 2016	307,618	-
Cash and cash equivalents at 31 December 2017	292,731	307,618

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 Company's statement of financial position.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of preparation
The Company was incorporated in the United Kingdom. Its principal activities are outlined in the Strategic Report.

The financial statements have been prepared on the historical cost basis. The accounting policies that the Company has applied in the preparation of the financial statements for the year ended 31 December 2017 have been set out below.

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 deemed loans to seller impairment provisions including security valuations and interest rate assumptions. 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 21.

Going concern
The Company as a securitisation special purpose vehicle has been structured so as to mitigate any known forms of financial risk associated with its loan notes in issue that have beneficial claim on the underlying pool of mortgage loan portfolio and other Company assets as adequate collateral as well as match-funded to maturity. The Company is funded by mortgage backed loan notes which are committed until 2046 with the earliest contractual maturity of the loan notes in issue being 20 April 2019 when the first optional redemption date clause may be exercised. Consequently, the directors are satisfied that the Company has adequate liquidity resources to continue in operational existence over the foreseeable future to meet its on-going obligations, in particular for its senior non-recourse debt providers. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 17 to the financial statements include the Company's financial risk management objectives, policies and processes for managing its capital.

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, bank overdrafts and short term borrowings and non-equity investments with a maturity of three months or less from the date of acquisition.

Restricted cash comprises cash held which is required by the Company's governing documentation to be utilised by a detailed priority of payments set out in the securitisation transaction document. These amounts are separate from any of the Company's own (unrestricted) cash balances in the statement of financial position and in the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

Deemed loans

In accordance with IAS 39, where transfer of a financial asset does not qualify for derecognition, the transferee does not recognise this transferred asset as its asset. The transferee recognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the mortgage portfolios transferred to the Company derecognition is considered to be inappropriate for CERH own Financial Statements as the Seller has retained significant risks and rewards of ownership of that financial asset. The Company's Financial Statements are therefore prepared on the basis that the acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised loan to CERH.

Deemed loans are a financial assets with fixed or determinable payments that are not quoted in an active market and that the Company has no intention of trading. They are initially recorded at fair value and subsequently measured at amortised cost less an allowance for incurred impairment losses. Income is recognised on an effective interest basis as interest income in the statement of comprehensive income. Substantially all of the underlying mortgage loans are collateral of the Company's deemed loans and were originated by LML as legal title holder.

The Company assesses impairment of these financial assets at each reporting date on a case by case basis for assets that are individually significant and collectively for assets that are not individually significant.

Loans are impaired only if there is objective evidence that the result of one or more events that have occurred after the initial recognition of the asset have had an impact on the estimated future cash flows of the underlying mortgage loan. For individual assets this includes changes in the payment status of the counterparty. Collective assessment groups together assets that share similar risk characteristics and applies a collective provisioning methodology, based on existing risk conditions or events which have a strong correlation with a tendency to default. This impairment is calculated by comparing the present value of the cash flows discounted at the effective interest rate applicable to the asset (after taking into account security held) with the carrying value in the statement of financial position.

Write-offs are charged against previously established provisions for impairment or directly to the statement of comprehensive income.

Determination of fair value of financial instruments

The Company measures financial instruments, 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:

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

Level 2 – Valuation techniques such as discounted cash flow method, comparison which 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies- continued

Determination of fair value of financial instruments – continued

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 are provided in note 16.

Segment reporting
A segment is a distinguishable component of the Company which is segregated based on data that the chief operating decision makers receive and use to make key decisions and which is subject to risks and rewards that are different from those of other segments.

Foreign currencies
The financial statements are presented in Pounds Sterling, which is the Company's functional currency. Except where otherwise indicated financial information presented in pounds sterling has been rounded to the nearest thousand ('000').

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

Income tax expense
Income tax expense comprises both current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent it relates to an item which is recognised directly in equity, in which case it is recognised directly in equity. As explained in note 6, income tax expense is calculated by reference to the profit of the Company which is retained in accordance with the priority of payments as defined in the terms and conditions of the loan notes. Current tax payable is provided on taxable profits at current taxation rates enacted or substantively enacted at the period end and also includes any adjustments to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, without discounting. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax liabilities and assets are offset only where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities
Financial liabilities include debt securities issued and bank loans and overdrafts. Financial liabilities are initially recorded at fair value and then subsequently measured at amortised cost calculated on an effective interest basis.

Interest income and expense
Interest income and expenses 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 and points 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

Deferred consideration

Under the terms of an agreement between the Company and a related undertaking, the Company has a liability for future deferred consideration which is contingent on the occurrence of certain future events, principally the realisation of excess income by the Company. This instrument is treated as a financial liability carried at amortised cost, however the directors consider that the future net income arising cannot ordinarily be forecast with reasonable accuracy and accordingly the carrying value of the instrument is revised each year to reflect actual contracted cash flows due, which are as part of other creditors in note 12.

Adoption of new and revised reporting standards

In the current period, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

Amendments to IAS 7 Disclosure Initiative

The Company has applied these amendments for the first time in the current period. 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 period. 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 period.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

New reporting standards not yet adopted - continued

The Company is not obliged to restate comparatives on the initial adoption of IFRS 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018. This assessment is preliminary because the Company is performing additional transitional work and therefore the actual impact may change due to:

- Assumptions and judgements being refined until finalisation of the financial statements for the year ending 31 December 2018;
- The Company carrying out its parallel running of its models and methodology and monitoring results for the expected credit loss ("ECL") calculation; and
- finalisation of the macroeconomic forecasting and sensitivities.

The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9 on the Company.

Classification and measurement
The standard introduces new requirements to determine the measurement basis of financial assets and liabilities.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through the profit or loss. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- 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 (SPPI) on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through the profit or loss. A financial asset is classified into one of these categories on initial recognition. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The Company has considered the business model objective for each category of financial assets and financial liabilities, for the Company this is largely the deemed loans to seller and loan notes. For the vast majority of assets, the objective is to hold the asset to collect the contractual cash flows. The Company has also made a preliminary assessment of the cash flow characteristics of its financial assets to conclude if these are solely payment of principal and interest, in order to assess whether the assets can be recognised at amortised cost, fair value through profit or loss, or fair value through other comprehensive income under IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

New reporting standards not yet adopted - continued

Impairment of financial assets

IFRS 9 replaces the incurred loss impairment model of IAS 39 with a forward-looking ECL model. This has the effect of recognising impairment of loan portfolios earlier than at present.

The key concepts for IFRS 9 in relation to impairment provisioning include the following categories:

- No significant increase in credit risk since origination ('Performing') (Stage 1);
- A significant increase in credit risk has occurred since origination ('Underperforming') (Stage 2); and
- Credit impaired whereby losses are incurred ('Credit impaired') (Stage 3);

Impairment provisions for all relevant financial assets are recognised based on either 12 month expected losses or lifetime expected losses. This will result in the acceleration of the recognition of impairment provisions and will lead to more volatile impairment charges in the income statement. However, whilst IFRS 9 represents a significant change compared to IAS 39, the quantum of impairment losses recorded against any one loan over the life of the loan will not change as IFRS 9 alters only the timing of the recognition of impairment losses.

IFRS 9 introduces a number of changes to approach as compared to the current methodology under IAS 39. The most significant will be the underlying mortgage loans which are collateral for the deemed loans to seller. The main changes are:

ECL is based on an assessment of the probability of default, loss given default and exposure at default discounted to give a net present value.

Probability of default ("PD")

For the portfolio of loans the measure of PD is based on information available to the Company from credit reference agencies and internal product performance data. For each asset class, the Company has a proprietary approach to extrapolate its best estimate of the point-in-time PD from 12 months to behavioural maturity, using PD models that have been developed to forecast the sensitivity of PD to key macroeconomic variables.

Loss given default ("LGD")

The LGD is generally broken down into two parts. These include the Company's estimate of the probability of possession given default, combined with the loss given possession. The LGD is based on the Company's estimate of a shortfall, based on the difference between the property value after the impact of a market value decline and sale costs, and the loan balance with the addition of unpaid interest and fees.

In all cases the LGD or its components are tested against recent experience to ensure that they remain current.

Exposure at default ("EAD")

EAD is designed to address increases in utilisation of committed limits and unpaid interest and fees that the Company would ordinarily expect to observe to the point of default, or through to the point of realisation of the collateral.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

New reporting standards not yet adopted – continued

Significant increase in credit risk (movement from Stage 1 to Stage 2)
The Company has identified a series of quantitative, qualitative and backstop criteria that will be used to determine if a loan account has demonstrated a significant increase in credit risk, and therefore should move from Stage 1 to Stage 2:

- If an account is 1 month or greater in arrears, then it is considered as a significant increase in credit risk since origination;
- The quantitative element is calculated based on the change in lifetime PD by comparing:
  - the remaining lifetime PD as at the reporting date; with
  - the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure;
- Where the lifetime PD at the reporting date is above the lifetime PD at origination by a percentage threshold determined by the credit committee, it is considered that there has been a significant increase in credit risk and the case is allocated to Stage 2; or
- Elements that are not included in the PD models but may reflect a significant increase in credit risk (e.g. types of forbearance such as payment of ground rent) are also considered.

Default (movement to Stage 3)
The Company has identified a series of quantitative and qualitative criteria that will be used to determine if an account meets the definition of default, and therefore should move to Stage 3:

- The account is greater than or equal to 3 months in arrears;
- The property is in possession or possession proceedings have commenced;
- The property (or other collateral asset) has been sold and the principal and interest due is not paid in full within one working day;
- The mortgage has matured and the principal and interest due has not been paid in full;
- The borrower has been declared bankrupt or becomes insolvent;
- The property (or other collateral asset) has been destroyed or abandoned; or
- Power of sale proceedings have commenced;

Forward looking information
The Company incorporates forward looking information into the assessment of significant increase in credit risk and the calculation of ECLs. The Company has initially identified the most significant macroeconomic factors including house price inflation, unemployment rate and bank base rate. These variables and their associated impact on PD, EAD and LGD are factored into the ECL models.

The Company has determined an approach to the selection and application of multiple scenarios. The Company does not have an in-house economics function and will therefore source economic data from a third party source to form the basis of the economic scenarios used.

The ECL model will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Company is currently expecting to consider three forward looking scenarios on a probability-weighted approach.

Implementation
The Company has completed its development of the necessary IFRS 9 impairment models and the models will continue to be tested for multiple dates and input assumptions to enable a reliable understanding of the calculated IFRS 9 impairment provision. At this time the Company is not able to disclose the potential impact on the financial statements as continued refinement is being performed to the model which could cause results to fluctuate of the first time adoption of the new standard.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Accounting Policies - continued

New reporting standards not yet adopted – continued

Implementation - continued
Application of IFRS 9 is expected to have an impact on the Company's results and financial position. Overall, impairment under IFRS 9 will increase the complexity of the Company's impairment modelling and result in earlier recognition of credit losses than under IAS 39.

Hedge accounting
The hedge accounting requirements of IFRS 9 are designed to create a stronger link with financial risk management. The Company has limited exposures on hedging instruments as these relate only to the interest rate swap derivatives in the securitisation vehicles. 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.

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 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 however will increase the Company's Assets and Liabilities included in the 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 Interest income

	Year Ended 31 December 2017 £'000	3 February to 31 December 2016 £'000
Deemed loan interest receivable	179,227	161,250
Other income	4,796	359
	184,023	161,609

All the Company's revenue from loans arose in the United Kingdom.

3 Interest expense

	Year Ended 31 December 2017 £'000	3 February to 31 December 2016 £'000
Interest expense on loan notes	87,848	80,577
Deferred consideration payable	61,481	16,764
Accretion of discounted loan notes	31,739	28,858
	181,068	126,199

4 Deemed loans to seller

	2017 £'000	2016 £'000
Deemed loans to seller	4,448,979	5,457,715
Less: impairment provisions - see below	(15,181)	(27,074)
Deemed loans measured at amortised cost	4,433,798	5,430,641

In April 2016, the Company purchased the rights to certain cash flows from £6,269m of mortgage assets from CERH. These assets are a portfolio of United Kingdom residential mortgages, wholly secured on properties in the United Kingdom. In order to fund the purchase of the rights, the Company issued a series of floating rate notes.

Under the terms of this arrangement, the rights of the providers of the finance for this transaction are limited to the deemed loans purchased and any related income generated by the portfolio, and have no recourse to CERH, the seller.

CERH is not obliged to support any losses which may arise in respect of the related assets. During the term of this transaction, any amounts realised from the mortgage portfolio in excess of that due to the providers of the funding, less any related administrative costs, will be ultimately payable to CERH in the form of deferred consideration, via the certificates, subject to all loan notes being repaid on the first optional redemption date.

NOTES TO THE FINANCIAL STATEMENTS - continued

4 Deemed loans to seller - continued

Impairment losses on deemed loans to seller	2017 £'000	2016 £'000
Balance at beginning of year	27,074	-
Amounts written off	(5,248)	-
(Credited)/charge to statement of comprehensive income	(6,645)	27,074
Balance at end of year	15,181	27,074

The entire deemed loans to seller has been pledged as collateral for the Company's non-recourse loan notes received.

	2017 £'000	2016 £'000
Specific provision	13,092	10,131
Collective provision	2,089	16,943
Total provision	15,181	27,074

5 Profit before income tax

	Year Ended 31 December 2017 £'000	3 February to 31 December 2016 £'000
Included within profit before tax are the following:		
Auditor remuneration		
- audit fee	104	90

The directors received no remuneration from the Company for their services as directors in the current financial period. The Company has no employees and services required are contracted from related parties (see note 20).

6 Income tax charge

	Year Ended 31 December 2017 £'000	3 February to 31 December 2016 £'000
Total income tax charge at 19.25% (period to 31 December 2016; 20%)	1	1

The Company is taxed under the "Permanent Regime" for securitisation companies (SI 2006/3296 The Taxation of Securitisation Companies Regulations 2006). Corporation tax is therefore calculated by reference to the profit of the securitisation company retained in accordance with the priority of payment as defined in the terms and conditions of the loan notes.

7 Restricted cash balances

Cash balances held includes restricted cash balances to the value of £292.7m (31 December 2016: £307.6m), which must be primarily utilised to make payments due on the Company's non-recourse funding prior to any other use.

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Liquidity facility

At 31 December 2017 the Company maintained a liquidity facility of £53.8m (2016: £69.3m) with Wells Fargo Bank. This facility has not been used by the Company during this year or the previous period.

9 Other debtors

	2017 £'000	2016 £'000
Amounts due from parent undertaking	13	13
Other debtors	4,044	-
	4,057	13

10 Prepayments and accrued income

	2017 £'000	2016 £'000
Prepayments	1	3

11 Non-recourse funding

	2017 £'000	2016 £'000
Loan notes	4,621,108	5,602,042

On 20 April 2016, the Company issued approximately £6,269m (nominal value) in loan notes in order to fund the purchase of the loan assets.

The loan notes are listed on the Irish Stock Exchange, with a final maturity date in April 2046. Interest on the notes is payable, quarterly in arrears, at the following rates:

Loan notes	Balance outstanding at end of year £'000	Interest rate up to April 2019	Interest rate after April 2019
Class A (£4,626.0m)	3,162,748	3m LIBOR + 1.18%	3m LIBOR + 1.77%
Class B (£441.2m)	441,200	3m LIBOR + 1.40%	3m LIBOR + 2.80%
Class C (£395.6m)	395,600	3m LIBOR + 1.70%	3m LIBOR + 3.40%
Class D (£182.6m)	182,600	3m LIBOR + 2.15%	3m LIBOR + 4.30%
Class E (£60.8m)	60,800	3m LIBOR + 3.00%	3m LIBOR + 5.00%
Class F (£121.7m)	121,700	3m LIBOR + 3.00%	3m LIBOR + 5.00%
Class G (£54.7m)	54,700	3m LIBOR + 3.00%	3m LIBOR + 5.00%
Class Z (£204.3m)	204,274	Nil	Nil
Class X (£182.6m)	38,790	3m LIBOR + 6.000%	Nil

The class A notes ("the senior notes") rank pari passu in point of payment and security without preference or priority amongst themselves but ahead of the remaining notes. The senior notes rank in priority to the B, C, D, E, F, G, X and Z notes and SDC, DC1, DC2 and DC3 certificates in point of payment and security.

The loan notes of Class A, B, C, E, F, G, X and Z as well as the SDC, DC1, DC2 and DC3 certificates were subscribed for by CERH to satisfy the Capital Requirement Regulations ("CRR") to hold at least 5% of the nominal value of the loan notes issuance.

NOTES TO THE FINANCIAL STATEMENTS - continued

11 Non-recourse funding – continued

The Company may, at its first optional redemption date ("FORD"), redeem all (but not some only) of the notes at their principal amounts outstanding:

(a) in the event of certain tax changes affecting the notes or the mortgages comprising the mortgage pool at any time;

(b) on the interest payment date falling in April 2019 or any interest payment date falling thereafter;

(c) on any interest payment date on which the aggregate principal amount outstanding of the notes is equal to or less than 10% of the aggregate principal amount outstanding of the notes at the issue date.

12 Other creditors

	2017 £'000	2016 £'000
Payable within one year	90,604	20,603

13 Current tax liability

	2017 £'000	2016 £'000
Payable within one year	1	1

14 Accruals and deferred income

	2017 £'000	2016 £'000
Accruals and deferred income	18,856	20,396

15 Called up share capital

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
2 Ordinary shares of £1	-	-
Allotted, called up and partly paid		
49,998 Ordinary shares of £1 each of which £0.25 has been paid up	13	13
	13	13

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Fair values of financial statements

	At amortised cost		At fair value through statement of comprehensive income	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
As at 31 December 2017				
Assets				
Cash at bank - restricted	292,731	292,731	-	-
Deemed loans to seller	4,433,798	4,372,826	-	-
	4,726,529	4,665,557	-	-
Liabilities				
Non-recourse funding	4,621,108	4,560,136	-	-

	At amortised cost		At fair value through statement of comprehensive income	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
As at 31 December 2016				
Assets				
Cash at bank - restricted	307,618	307,618	-	-
Deemed loans to seller	5,430,641	5,110,879	-	-
	5,738,259	5,418,497	-	-
Liabilities				
Non-recourse funding	5,602,042	5,282,280	-	-

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 on fair value hierarchy.

The fair values of financial instruments are measured according to the following fair value hierarchy:

Level 1 – financial assets and liabilities measured using quoted market prices (unadjusted).
Level 2 – financial assets and liabilities measured using valuation techniques which use observable market data.
Level 3 – financial assets and liabilities measured using valuation techniques which use unobservable market data.

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Fair values of financial statements - continued

	Carrying amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair Value £'000
As at 31 December 2017					
Assets					
Cash at bank - restricted	292,731	292,731	-	-	292,731
Deemed loans to seller	4,433,798	-	-	4,372,826	4,372,826
	4,726,529	292,731	-	4,372,826	4,665,557
Liabilities					
Non-recourse funding	4,621,108	-	-	4,560,136	4,560,136

	Carrying amount £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair Value £'000
As at 31 December 2016					
Assets					
Cash at bank - restricted	307,618	307,618	-	-	307,618
Deemed loans to seller	5,430,641	-	-	5,110,879	5,110,879
	5,738,259	307,618	-	5,110,879	5,418,497
Liabilities					
Non-recourse funding	5,602,042	-	-	5,282,280	5,282,280

The fair values of each of the above financial instruments have been derived by discounting expected future cash flows at prevailing interest rates. For Deemed loans to seller and non-recourse funding the fair value had been derived using an alternative approach. The principal underlying assumptions related to these cash flows are as follows;

- The fair value of deemed loans to seller, for the purpose of this disclosure, were derived by estimating the discounted expected future cash flows using market interest rates. Expected future cash flows take account of estimated future losses. Market interest rates are based on current lending activity in the mortgage market and adjusting for the appropriate credit spread differential and discounting the relevant projected cash flows to fair value. Where external evidence of fair value is available, this is used.
- The fair value of non-recourse funding and warehouse borrowing has been arrived at by adjusting the carrying value of the debt by a similar proportion to the adjustment made in arriving at the fair value of securitised deemed loans to seller to customers on the basis that the funding has recourse only to these assets.

The sensitivity of the level 3 fair values to reasonable alternative estimated discount rate is -/+£0.4m, although these alternatives would have no overall impact on the Company's result due to the offsetting nature of the deemed loans and the loan notes.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management

(a) Introduction and overview

The Company's financial instruments comprise amounts due from the mortgage seller, (which are backed by equivalent assets held by that entity), borrowings, comprising non-recourse funding raised from external investors as part of the securitisation transaction, cash and liquid resources and other sundry instruments such as debtors and creditors arising directly from the Company's operations. The main risks arising from the Company's financial instruments held are credit risk, interest rate risk, operational risk, market risk and liquidity risk. The Company's administrator reviews and agrees policies for managing each of these risks and they are, broadly, as follows:

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 deemed loans. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure (such as obligor default risk and sector or geographic risk). The Company via LML as mortgage servicer has established high level credit policies which are used to control the quality of lending and the management of any amounts in arrears.

Additionally, the Company provides for underlying mortgage loan losses which are known to have been incurred within the loan portfolio, based on both a specific review and a statistical analysis of its historical loan loss write-offs. This process of credit monitoring takes account of external or economic factors and may result in the adjustment of credit policies to suit product or sectoral needs. Due to the nature of the portfolio, significant new credit exposures to particular sectors or individuals do not typically arise. Credit risk is accordingly monitored largely through the management of arrears on these loans. A summary credit risk analysis has been included below.

Interest rate risk
Interest rate risk exists when assets and liabilities attract interest rates set according to different bases or which are reset at different times. The Company assumes interest rate risk principally from its dealings with the underlying mortgage loans. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Sensitivity to interest rate movements is set out below, and this provides some detail on the year-end re-pricing profile for the Company's financial assets and liabilities. A liability (or negative) gap exists when liabilities re-price more quickly or in greater proportion than assets during a given period. This tends to benefit net interest income when rates are falling. An asset (or positive) gap exists when assets re-price more quickly or in greater proportion than liabilities during a given period. This tends to benefit net interest income when rates are rising. Interest rate sensitivity may vary during re-pricing periods.

Operational risk
This is the potential for financial or reputational loss if key internal controls of the mortgage servicer were to fail. It includes loss from theft, error and systems breakdown. The administrator's compliance department and its key management are tasked with the monitoring and control of such risk on behalf of the Company. A self-assessment process of risk mapping is conducted formally each year by management, and testing of key areas of these controls is performed periodically.

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 has limited exposure to foreign exchange rate fluctuations. Interest rate risk management policies are separately documented above.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(a) Introduction and overview - continued

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, however the Company's principal liabilities, its loan notes, are structured specifically so as to mature broadly at the same time as the securitised assets are repaid. Additionally there are other liquidity facilities available to the Company in the event that mortgages do not yield funds. Regular reports on liquidity are submitted where appropriate, to the independent trustee of the Company's loan notes and to the relevant regulatory authorities.

The Company is also bound by certain financial and liquidity terms attaching to its non-recourse funding which effectively restricts certain of its cash balances on hand. Details of these have been provided below and further detail related to the Company's current liquidity position is set out in the basis of preparation note.

Capital management
Because of its special purpose nature, the Company's principal funding comes through its non-recourse debt, which is intended to be repaid fully from the mortgage assets on hand. Capital is considered by management to comprise share capital on hand, retained earnings and any subordinated loans received from time to time, is considered to be sufficient for the particular nature of the Company's activities and is in line with the Company's governing documentation. There have been no changes to the Company's approach to capital management during the year.

(b) Credit risk

(i) Deemed loans to seller - exposure to credit risk	2017 £'000	2016 £'000
Total carrying amount - maximum exposure to credit risk	4,433,798	5,430,641
Individually impaired	148,303	263,459
Allowance for impairment	(13,092)	(10,131)
Carrying amount	135,211	253,328
Collectively impaired	173,981	2,697,855
Allowance for impairment	(2,089)	(16,943)
Carrying amount	171,892	2,680,912
Neither past due nor impaired - carrying amount	4,028,878	2,370,278
Includes accounts with renegotiated terms	97,817	115,992
Total carrying amount	4,433,798	5,430,641

All of the above loans which are neither past due nor impaired have no arrears arising on them. The deemed loans to seller to customers balance and associated impairments reflect the values from the originator.

Impaired deemed loans to seller
Impaired deemed loans are loans for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the underlying mortgage asset. These are typically regarded as all loans in arrears for more than three months.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(b) Credit risk - continued

(i) Deemed loans to seller to customers - exposure to credit risk - continued

Past due but not impaired loans
These are loans for the underlying mortgage assets where contractual interest or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Company.

Loans with renegotiated terms
These loans for the underlying mortgage asset with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider but in accordance with FCA guidelines. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment
The Company establishes an allowance for impairment losses that represents its estimate of incurred losses for the deemed loans. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous mortgage assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

The key assumptions relating to the calculation of the specific loss impairment concerns the calculation of the present value of estimated future cash flows from collateralised loan balances. The collective loan loss impairment is calculated based on statistical models where the key assumptions relate to the arrears position of customer accounts and forced sale discounts.

Write-off policy
The Company writes off a deemed loan balance (and any related allowances for impairment losses) when it determines that the underlying mortgage assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The table below shows an analysis of the Loan to Value for the mortgage portfolio:

	2017 %	2016 %
Less than 60%	47	39
60%- 70%	22	22
71%- 90%	26	31
90%- 100%	3	6
More than 100%	2	2
Total	100	100

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(b) Credit risk - continued

(i) Deemed loans to seller - exposure to credit risk - continued

The Company monitors concentrations of credit risk by sector and by geographic location within the UK. An analysis of concentrations of credit risk at the reporting date is shown below:

	2017 £'000	2016 £'000
Concentration by sector - carrying amount		
Residential	4,448,979	5,457,715
Less: Impairment provisions	(15,181)	(27,074)
	4,433,798	5,430,641
Concentration by location - carrying amount		
London & South East	1,317,385	1,648,354
North East	743,891	907,346
North West & Wales	796,854	964,363
South & South West	351,376	439,145
Midlands	658,346	824,551
Other UK	581,127	673,956
Less: Impairment provisions	(15,181)	(27,074)
	4,433,798	5,430,641

(ii) Restricted cash on hand

At the year end all of the restricted cash on hand was held with Citibank which is rated by Moodys, S&P and Fitch. These ratings conform to the condition as set out by the governing securitisation documentation and are shown below (short term ratings):

	Moodys	S&P	Fitch
Citibank N.A.	P-1	A-1	F1

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(c) Liquidity risk

The tables below analyse the undiscounted gross cash flows arising on the Company's assets and liabilities by remaining contractual maturity at 31 December 2017:

At 31 December 2017	Carrying amount	Gross contractual cash flow	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash -restricted	292,731	292,731	292,731	-	-	-	-
Deemed loans to seller	4,433,798	7,080,788	78,463	156,925	706,164	2,987,363	3,151,873
Other debtors	4,057	4,057	-	4,044	-	-	13
Prepayments and accruals	1	1	1	-	-	-	-
Total assets	4,730,587	7,377,577	371,195	160,969	706,164	2,987,363	3,151,886
Liabilities							
Non-recourse funding	4,621,108	5,850,591	79,784	152,061	650,493	2,689,748	2,278,505
Other creditors	90,604	90,604	-	-	-	-	90,604
Current tax liability	1	1	-	-	1	-	-
Accruals and deferred income	18,856	18,856	18,856	-	-	-	-
Total liabilities	4,730,569	5,960,052	98,640	152,061	650,494	2,689,748	2,369,109
Net cash flows		1,417,525	272,555	8,908	55,670	297,615	782,777

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(c) Liquidity risk - continued

At 31 December 2016	Carrying amount	Gross contractual cash flow	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash – restricted	307,618	307,618	307,618	-	-	-	-
Deemed loans to seller	5,430,641	7,488,416	99,018	193,926	812,711	3,076,890	3,305,871
Other debtors	13	13	-	-	-	-	13
Prepayments and accruals	3	3	3	-	-	-	-
Total assets	5,738,275	7,796,050	406,639	193,926	812,711	3,076,890	3,305,884
Liabilities							
Non-recourse funding	5,697,260	6,572,004	108,600	161,125	743,793	2,721,836	2,836,650
Other creditors	20,603	20,603	-	-	20,603	-	-
Current tax liability	1	1	-	-	1	-	-
Accruals and deferred income	20,396	20,396	20,396	-	-	-	-
Total liabilities	5,738,260	6,613,004	128,996	161,125	764,397	2,721,836	2,836,650
Net cash flows		1,182,046	277,643	32,801	48,314	354,054	469,234

The cash flows in the above table are estimates, up to the step-up date, as the actual flows are dependent on the repayment of the underlying mortgage and future interest rate trends. The estimates are based on management's estimates. Payments are made in accordance with the priority of payments set out in the securitisation documentation.

The overall liquidity risk is effectively mitigated as a result of the structure of the repayment of capital being required only in line with the principal repayment of the underlying mortgage loans.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(d) Interest rate risk

The tables below summarises the interest rate re-pricing profiles of the Company's interest bearing financial assets and liabilities:

As at 31 December 2017	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank - restricted	292,731	-	-	-	-	-	-	-	292,731
Deemed loans to seller	4,433,798	-	-	-	-	-	-	-	4,433,798
Total financial assets	4,726,529	-	-	-	-	-	-	-	4,726,529
Non-recourse funding	-	(4,621,108)	-	-	-	-	-	-	(4,621,108)
Total financial liabilities	-	(4,621,108)	-	-	-	-	-	-	(4,621,108)
Net interest repricing gap	4,726,529	(4,621,108)	-	-	-	-	-	-	105,421
Cumulative repricing gap	4,726,529	105,421	105,421	105,421	105,421	105,421	105,421	105,421	105,421

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(d) Interest rate risk - continued

As at 31 December 2016	Up to 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
Cash at bank - restricted	307,618	-	-	-	-	-	-	-	307,618
Deemed loans to seller	5,430,641	-	-	-	-	-	-	-	5,430,641
Total financial assets	5,738,259	-	-	-	-	-	-	-	5,738,259
Non-recourse funding	-	(5,602,042)	-	-	-	-	-	-	(5,602,042)
Total financial liabilities	-	(5,602,042)	-	-	-	-	-	-	(5,602,042)
Net interest repricing gap	5,738,259	(5,602,042)	-	-	-	-	-	-	136,217
Cumulative repricing gap	5,738,259	136,217	136,217	136,217	136,217	136,217	136,217	136,217	136,217

NOTES TO THE FINANCIAL STATEMENTS - continued

17 Financial risk management - continued

(e) Currency risk
The Company is not exposed to any significant currency risk as all of its financial assets and liabilities are denominated in sterling.

(f) Sensitivity analysis
The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Additionally, as noted elsewhere in these accounts the Company is not exposed to currency risk.

18 Ultimate parent undertaking

The Company was established by contracts as part of an individual mortgage securitisation.

The ultimate parent company is Towd Point Mortgage Funding 2016 – Granite1 Holdings Limited ("Granite1 Holdings"), which is incorporated in the UK and registered in England and Wales and has the same registered address as the Company. The entire issued share capital of Towd Point Mortgage Funding 2016 - Granite1 Holdings Limited is held on a discretionary trust basis under a share trust deed by Wilmington Trust SP Services (London) Limited, a company incorporated in the UK and registered in England and Wales.

19 Related party transactions

The Company has related party relationships with CERH, with Wilmington Trust SP Services (London) Limited, with Landmark Mortgages Limited ("LML") (an affiliate of CERH) and with its other directors. The directors undertook no transactions directly with the Company during the year or in a prior period.

The Company undertook the following transactions with CERH in the year:

	During the year ended 31 December 2017 £'000	As at 31 December 2017 £'000	During the period ended 31 December 2016 £'000	As at 31 December 2016 £'000
Deferred consideration payable	61,481	90,604	16,764	16,764
Non-recourse funding	10,881	474,691	9,659	589,680

The Company undertook the following transactions with LML in the year:

	During the year ended 31 December 2017 £'000	As at 31 December 2017 £'000	During the period ended 31 December 2016 £'000	As at 31 December 2016 £'000
Servicing fees	9,282	1,813	7,496	3,046

The Company incurred corporate service fee costs payable to Wilmington Trust SP Services (London) Limited of £13k during the year. (period to 31 December 2016: £1k).

NOTES TO THE FINANCIAL STATEMENTS - continued

20 Significant judgements/estimates made by management

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

Significant estimate	Key details
Loan loss provisioning	The Company reviewed the portfolios of deemed loans at the year end to assess for loan loss provisioning. The definition of impaired assets and calculation of impairments details are set out in the deemed loans to seller accounting policy. In determining the loan loss provisioning amounts, management applied a set of assumptions to arrive at its best estimates of losses incurred in the assets at the statement of financial position date. Loan loss provisioning is calculated at specific and collective level. Specific or individual loan loss provisioning calculation is used when there is objective evidence that the mortgage loan account is impaired as a result of loss events that occurred after recognition of the loan account and at the reporting date. A considerable judgement is made by the Company involving the determination of estimates of the collateral realisable value, the time required between the commencement of litigation and the collateral sales date, and the costs required to liquidate the collateral. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the loan loss provisioning and consequently these impairment provisions can be subject to variation as time progresses and the circumstances of the loan become clearer. Collective loan loss provisioning calculation includes all loan accounts that were not included in the specific or individual loan loss provisioning assessment. The collective model is based on using historic data to estimate the loan loss provisioning for the current loans. This includes the PD and LGD, which are based on this historic performance of the loans with similar characteristics and apply this to the current loans.

21 Segment reporting

The Company's associated net results and assets are located in the United Kingdom and are derived from this business which is managed on a unified basis. The Company accordingly considers that it operates in one segment and that there are no separate reportable segments for which additional segment disclosures are required. Details on the geographical analysis of the Company's loan book and other details on its customers are set out in note 17. Additionally, there is no other segmental analysis reviewed by the Company's chief operating decision maker in this regard.