Towd Point Mortgage Funding 2016 – Vantage1 plc

Annual Report and Financial Statements

Period from date of incorporation on 4 November 2016 to 31 December 2017

CONTENTS

DIRECTORS AND OTHER INFORMATION

Directors

D J Wynne
E M Hughes
Wilmington Trust SP Services (London) Limited

Company Secretary and Registered Office

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

Registered Number: 10462258

Banker

Elavon Financial Services D.A.C., UK Branch
125 Old Broad Street
London
EC2N 1AR

Statutory Auditor

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

Solicitor

Linklaters LLP
One Silk Street
London
EC2Y 8HQ

STRATEGIC REPORT - continued

The Directors present their annual report and audited financial statements for the period from the date of incorporation on 4 November 2016 to 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 13 December 2016 and as part of the transaction, the Company purchased the beneficial interest in a mortgage portfolio originated by GE Money Home Lending Limited ("GE Money") 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 February 2054 and are listed on the Irish Stock Exchange. The loan notes have a step up date in November 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 period. The Company had no employees during the current period.

In accordance with FRS 102 11.33, 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 period ended, the deemed loans asset and the liabilities under the notes decreased in line with the underlying mortgage portfolio they reflect.

Promontoria (Vantage) Limited continues to hold legal title to the mortgage assets and 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 76.6% at December 2017 and the redemption rate for the period was 9.93%.

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:

	Period from 4 November 2016 to 31 December 2017
Net interest income (£000's)	24,732
Accounts equal to or over 3 months in arrears by value	16.63%
Bad debt provisioning as a % of the total gross loan book	2.0%

STRATEGIC REPORT - continued

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 mortgage arrears and associated liquidity and interest rate profile.

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.

The Company's principal business objective rests on the purchase of the loans. Although the Loans are secured by first charges over residential properties, the Company considered the evaluation of a borrower's ability to service a loan according to its terms, to be the principal factor in assessing the credit risk and the decision to acquire the loans.

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 its portfolio of residential 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.

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 period.

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 29 May 2018 and signed on behalf by

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

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Company, together with the financial statements and auditors' report, for the period from incorporation on 4 November 2016 to 31 December 2017.

Dividends
No dividends have been paid or proposed for the period ended 31 December 2017.

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

M. H. Filer	Director	(appointed 4 November 2016) resigned 12 April 2017)
Wilmington Trust SP Services (London) Limited	Director	(appointed 4 November 2016)
D. J. Wynne	Director	(appointed 20 March 2017)
E. M. Hughes	Director	(appointed 1 March 2018)
A S Demosthenous	Director	(appointed 4 November 2016 resigned 1 March 2018)
Wilmington Trust SP Services (London) Limited	Company Secretary	(appointed 4 November 2016)

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 Capital Home Loans Limited ("CHL") 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.

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 period.

Employees
The Company does not have any employees. Primary and Special Servicing of the mortgage loan portfolio is carried out by a material outsourced supplier.

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 they ought to have taken as a director to make themselves 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 period then ended.

DIRECTORS' REPORT - continued

Auditor
KPMG LLP has been appointed as auditor of the Company and will continue in office in accordance with the UK Companies Act 2006.

Approval of financial statements
The board of Directors approved these financial statements on 28 May 2018

On behalf of the board

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

29 May 2018

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

The directors are responsible for preparing the Annual Report, 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 period. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *the Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 its profit or loss for that period. In preparing the 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 applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 its 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 MEMEBERS OF TOWD POINT MORTGAGE FUNDING 2016 – VANTAGE1 PLC

1 Our opinion is unmodified

We have audited the financial statements of Towd Point Mortgage Funding 2016 – Vantage1 plc ("the Company") for the period ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes, including the accounting policies.

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 period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; 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 those charged with governance.

We were appointed as auditor by the directors on 14 November 2016. The period of total uninterrupted engagement is for the one financial period 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, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMEBERS OF TOWD POINT MORTGAGE FUNDING 2016 – VANTAGE1 PLC - continued

	The risk	Our response
Loan impairment (Impairment provision balance £14.8m) *Refer to page 16 (accounting policy) and page 18 (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 are collateralised on a portfolio of loans consisting of United Kingdom residential mortgages. The deemed loans are measured at amortised cost which is established by reference to the underlying portfolio of loans. The period-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 discount 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 discount against collateral.	Our procedures included: **Historical comparison:** We assessed the reasonableness of key assumptions used in the model, being forced sale discount and probability of default, against the Company's historical experience. **Sensitivity analysis:** We assessed the impairment model for its sensitivity to changes in the key assumptions of probability of default and forced sale discount by performing stress testing. **Benchmarking assumptions:** We compared the key assumptions used in the model, being forced sale discount and probability of default, 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 £7.65m, determined with reference to a benchmark of Total Assets of £742m (of which it represents 1%).

We consider Total Assets to be the most appropriate benchmark for materiality as the company is set up to make a statutory profit and accordingly its strategy is not one purely of profit maximisation. Total assets are deemed to be the benchmark which users of the financial statements focus their attention on.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £0.38m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

INDEPENDENT AUDITOR'S REPORT TO THE MEMEBERS OF TOWD POINT MORTGAGE FUNDING 2016 – VANTAGE1 PLC - continued

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 period 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMEBERS OF TOWD POINT MORTGAGE FUNDING 2016 – VANTAGE1 PLC - continued

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 <u>www.frc.org.uk/auditorsresponsibilities</u>.

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
29 May 2018

STATEMENT OF COMPREHENSIVE INCOME
Period from date of incorporation on 4 November 2016 to 31 December 2017

	Notes	4 November 2016 to 31 December 2017 £'000
Interest income	1	25,434
Interest expense	2	(702)
Net interest income		**24,732**
Operating expense	4	(5,251)
Impairment loss on loans		(19,476)
Profit before income tax		**5**
Income tax charge	5	(1)
Total comprehensive profit for the period		**4**
Profit attributable to the owners of the Company		4

All amounts relate to continuing operations.

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

The notes on pages on 16 to 27 form part of these financial statements.

BALANCE SHEET
As at 31 December 2017

	Notes	31 Dec 2017 £'000
Assets		
Cash at bank and in hand	6	15,287
Deemed loans to seller	3	725,806
Other debtors	7	13
Prepayments and accrued income	8	17
Total assets		**741,123**
Liabilities		
Loan notes	9	(726,046)
Other creditors	10	(13,071)
Current tax liability	11	(1)
Accruals and deferred income	12	(1,988)
Total liabilities		**(741,106)**
Net assets		**17**
Capital and reserves		
Called up share capital	13	13
Retained earnings		4
Total shareholders' funds		**17**

The financial statements on pages 12 to 27 were approved by the Board of Directors on 29 May 2018 and were signed on its behalf by:

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

Registered Company Number: 10462258

STATEMENT OF CHANGES IN EQUITY
Period from date of incorporation on 4 November 2016 to 31 December 2017

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at the date of incorporation	-	-	-
Issuance of share capital	13	-	13
Total comprehensive income for the period	-	4	4
Balance at 31 December 2017	13	4	17

STATEMENT OF CASHFLOWS
Period from date of incorporation on 4 November 2016 to 31 December 2017

	4 November 2016 to 31 December 2017 £'000
Cash flows from operating activities	
Profit before taxation for period	5
Adjustments for	
Accretion of discounted loan notes	14,314
(Increase)/decrease in assets	
Deemed loans to seller	(725,806)
Other debtors	(13)
Prepayments and accrued income	(17)
Increase/(decrease) in liabilities	
Accruals and deferred income	1,988
Other creditors	13,071
Net cash flows arising from operating activities	(696,458)
Cash flows from financing activities	
Issuance of share capital	13
Issuance of loan notes	783,077
Repayment of loan notes	(71,345)
Net cash flows arising from financing activities	711,745
Net movement in cash and cash equivalents	15,287
Cash and cash equivalents at Incorporation	-
Cash and cash equivalents at 31 December 2017	15,287

ACCOUNTING POLICIES - continued

Statement of compliance
The Company is a public company limited by shares, incorporated and domiciled in the United Kingdom and registered in England and Wales. The address of its registered office is noted on page 2.

Basis of preparation
These financial statements were prepare in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 2054 with the earliest contractual maturity of the loan notes in issue being November 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 note 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.

Cash at bank and in hand
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.

Deemed loans
In accordance with FRS 102 11.33, 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.

ACCOUNTING POLICIES - continued

Deemed loans - continued

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

In accordance with Section 11 of Financial Reporting Standard 102, the provisions of IAS 39 have been adopted in full with respect to the recognition and measurement of financial instruments.

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').

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 Profit and Loss Account 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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

1 Interest income

	4 November 2016 to 31 December 2017 £'000
Deemed loan interest receivable	25,192
Other income	242
	25,434

All of the Company's revenues arose in the United Kingdom.

2 Interest expense

	4 November 2016 to 31 December 2017 £'000
Interest on loan notes	10,947
Deferred consideration receivable	(24,559)
Accretion of discounted loan notes	14,314
	702

3 Deemed loans to seller

	2017 £'000
Deemed loans to seller	740,641
Less: impairment provisions - see below	(14,835)
Deemed loans measured at amortised cost	725,806

Impairment losses on deemed loans to seller

	2017 £'000
Balance at beginning of period	-
Amounts written off	(4,641)
Charged to statement of comprehensive income	19,476
Balance at end of period	14,835

In December 2016, the Company purchased the rights to certain cash flows from £822 million 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 assets purchased and any related income generated by the portfolio, and have no recourse to CERH, the mortgage seller.

NOTES TO THE FINANCIAL STATEMENTS - continued

4 Operating expenses

	Period from 20 Oct 2016 to 31 Dec 2017 £'000
Servicing fees	4,663
Corporate services fee	15
Other fees	558
External audit fees	15
	5.251

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.

5 Income tax charge

	4 November 2016 to 31 December 2017 £'000
Total income tax charge at 19.32%	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 payments as defined in the terms and conditions of the loan notes.

6 Restricted cash balances

Cash balances held includes restricted cash balances to the value of £15.3m, which must be primarily utilised to make payments due on the Company's non-recourse funding prior to any other use.

7 Other debtors

	2017 £'000
Amounts due from parent undertaking	13

All amounts fall due within one year.

8 Prepayments and accrued income

	2017 £'000
Prepayments	17

NOTES TO THE FINANCIAL STATEMENTS - continued

9 Loan notes

	2017 £'000
Class A1	380,582
Class A2	32,867
Class B	50,944
Class C	57,518
Class D	40,263
Class E	45,193
Class F	60,804
Class Z	82,168
Discount on loan notes	(24,293)
Loan notes	726,046

In November 2016, the Company issued approximately £822m (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 2054. The class A1 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 A2, B, C, D, E, F and Z notes and SDC, DC1, DC2 and DC3 certificates in point of payment and security.

10 Other creditors

	2017 £'000
Deferred consideration payable	13,071

11 Current tax liability

	2017 £'000
Tax liability payable within one year	1

12 Accruals and deferred income

	2017 £'000
Accruals	1,988

13 Called up share capital

	2017 £'000
Allotted, called up and fully paid	
1 Ordinary share of £1	-
Allotted, called up and partly paid	
49,999 Ordinary shares of £1 each of which £0.25 has been paid up	13
	13

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Financial instruments

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 and liquidity risk.

(a) 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 to seller.

Exposure to credit risk

The Company is exposed to credit risk on the cash at bank and in hand, the deemed loans and other debtors. The maximum exposure to credit risk is as follows:

	2017 £'000
Cash at bank and in hand	15,287
Deemed loans	725,806
Other debtors	13
Maximum exposure to credit risk	741,106

At 31 December the average loan to value percentage of the underlying mortgage assets, to which the deemed loan relates was 76.6%. An arrears analysis of the underlying mortgage portfolio is shown in the following table:

	2017 £'000	2017 %
Not in arrears	474,353	65
Between one and two months in arrears	80,310	11
Between two and three months in arrears	48,170	7
More than three months in arrears	122,973	17
Total	725,806	100

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

Impaired deemed loans
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.

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Financial instruments – continued

(a) Credit risk - continued

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 underlying mortgage portfolio:

Credit risk - loan to value distribution (Indexed) LTV (Indexed)

	2017 %
Less than 70%	52
71%- 80%	14
81%- 90%	15
91%-.100%	12
More than 100%	7
At end of period	100

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Financial instruments – continued

(a) Credit risk - continued

Concentration by location - carrying amount	2017 £000's
London & South East	239,224
North East	94,700
North West & Wales	134,383
South & South West	51,960
Midlands	112,123
Other UK	107,039
Less: Impairment provisions	(14,835)
	725,806

The above table demonstrates a wide spread of assets across the UK.

(b) 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 its portfolio of residential mortgage loans.

The loan notes are listed on the Irish Stock Exchange, with a final maturity date in 2054. Interest on the notes is payable, quarterly in arrears, at the following rates:

Loan notes	Balance outstanding at end of period £'000	Interest rate up to November 2019	Interest rate after November 2019
Class A1 (£451.9m)	380,581	3m LIBOR + 1.200%	3m LIBOR + 2.100%
Class A2 (£32.9m)	32,867	3m LIBOR + 1.200%	3m LIBOR + 2.100%
Class B (£50.9m)	50,944	3m LIBOR + 1.500%	3m LIBOR + 3.000%
Class C (£57.5m)	57,518	3m LIBOR + 2.000%	3m LIBOR + 3.000%
Class D (£40.3m)	40,263	3m LIBOR + 2.500%	3m LIBOR + 4.375%
Class E (£45.2m)	45,193	Nil	Nil
Class F (£60.8m)	60,804	Nil	Nil
Class Z (£82.2m)	82,168	Nil	Nil
SDC Certificates	-	Nil	Nil
DC1 Certificates	-	Nil	Nil
DC2 Certificates	-	Nil	Nil

The class A1 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 A2, B, C, D, E, F and Z notes and SDC, DC1 and DC2 certificates in point of payment and security.

NOTES TO THE FINANCIAL STATEMENTS - continued

14 Financial instruments - continued

(c) 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 loans 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 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	15,287	15,287	15,287	-	-	-	-
Deemed loans	725,806	1,015,843	7,174	14,348	64,568	280,273	649,480
Other debtors	13	13	-	-	-	-	13
Prepayments	17	17	17	-	-	-	-
Total assets	741,123	1,031,160	22,478	14,348	64,568	280,273	649,493
Liabilities							
Loan notes	726,046	873,597	7,225	13,464	56,150	235,195	561,563
Current tax liability	1	1	-	-	1	-	-
Accruals	1,988	1,988	1,988	-	-	-	-
Other creditors	13,071	13,071	-	-	-	-	13,071
Total liabilities	741,106	888,657	9,213	13,464	56,151	235,195	574,948
Net cash flows		142,503	13,265	884	8,417	45,078	74,859

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

14 Financial instruments – continued

(d) Fair value risk

	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	15,287	15,287	-	-
Deemed loans	725,806	717,948	-	-
	741,093	733,235	-	-
Liabilities				
Loan notes	726,046	718,188	-	-

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 on the basis that the funding has recourse only to these assets.

NOTES TO THE FINANCIAL STATEMENTS - continued

15 Ultimate parent undertaking

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

The immediate parent company is Towd Point Mortgage Funding 2016 – Vantage1 Holdings Limited, 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-Vantage1 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.

16 Related party transactions

The Company has related party relationships with CERH, with Wilmington Trust SP Services (London) Limited and Capital Home Loans Limited ("CHL") (an affiliate of CERH). The Directors undertook no transactions directly with the Company during the period.

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

	During the period ended 31 December 2017 £'000	As at 31 December 2017 £'000
Deemed loans	725,806	725,806
Deferred consideration payable	13,385	13,385
Loan notes	82,168	82,168

The Company undertook the following transactions with CHL in the period:

	During the period ended 31 December 2017 £'000	As at 31 December 2017 £'000
Accountancy fees	18	18

The Company incurred corporate service fee costs payable to Wilmington Trust SP Services (London) Limited of £15k during the period.

NOTES TO THE FINANCIAL STATEMENTS - continued

17 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 deemed loans at the period end to assess for 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.