Redstone Mortgages Limited

Annual report and financial statements

For the year ended 31 December 2018

Registered number: 05098863

REDSTONE MORTGAGES LIMITED
Registered number: 05098863
Annual report and financial statements
For the year ended 31 December 2018

CONTENTS PAGE

REDSTONE MORTGAGES LIMITED
Registered number: 05098863
Annual report and financial statements
For the year ended 31 December 2018

COMPANY INFORMATION

Directors

Kristi Robinson
Richard Catherwood Smith
Phil Broadhurst

Company secretary
UniCredit Bank AG, London Branch
Moorhouse
120 London Wall
London
EC2Y 5ET

Registered office
Moorhouse
120 London Wall
London
EC2Y 5ET

Bankers
Barclays Bank Plc
London Corporate Banking
1 Churchill Place
Canary Wharf
London
E14 5HP

Statutory auditor
Deloitte LLP
Statutory Auditor
Hill House
1 Little New Street
London
EC4A 3TR

STRATEGIC REPORT

The directors present their strategic report for Redstone Mortgages Limited ("the Company") for the year ended 31 December 2018. The directors, in preparing this strategic report have complied with S414C of the Companies Act 2006.

Overview

The principal activity of the Company ceased to be the warehousing of UK residential mortgages on 29 December 2017, when it was instructed by its sole shareholder, UniCredit Bank AG, London Branch ("UniCredit"), to sell the beneficial ownership of its entire mortgage loan portfolio to Goldman Sachs International Bank ("GSIB"). The Company used the sale proceeds to repay all of its outstanding financing as well as pay a dividend to UniCredit.

The Company continued to hold legal title of the mortgage assets sold, as well as provide short term special servicing on behalf of GSIB until 8 May 2018. On this date Topaz Finance Limited ("Topaz") assumed the role of special servicer on behalf of GSIB, and also took legal title of the mortgage assets. As holder of the legal title of the mortgage assets, full regulatory responsibility for the mortgage assets sold to GSIB also transferred to Topaz.

The Company has provided certain corporate warranties and asset warranties to GSIB in respect of the mortgage assets sold. The Company is liable in respect of any claim made by GSIB until 29 June 2019. UniCredit acts as guarantor in the case of any claim made by GSIB involving or relating to a breach of any of the warranties, whether for damages, compensation or any other relief. No claims have been made to date by GSIB in respect of the corporate or asset warranties.

The Company has no intention to engage in any trading activity since the transfer of the legal title of the mortgage assets to Topaz.

The beneficial interest of the shortfall debt portfolio that arose prior to 30 June 2017 was not included in the portfolio of mortgage loans sold to GSIB, and the Company continued to retain the entitlement to any shortfall debt recoveries received in relation to this shortfall debt portfolio. In line with the wind down strategy of the Company, the process to formally write off the shortfall debt portfolio commenced during the year and was completed by the end of August 2018. No further shortfall recoveries were accepted by the Company after 15 June 2018. The Company had fully released all provisions for shortfall recoveries as at 31 December 2017, and therefore all subsequent recoveries received have been recognised in the Company profit and loss for the year ended 31 December 2018.

In April 2017, the Financial Conduct Authority ("FCA") published its final guidance for residential mortgage lenders and administrators; *"The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations"*. A review by the Company of operational procedures and practices in 2017 identified certain instances where it has not been in compliance with this guidance and had automatically capitalised arrears. The Company has made the necessary changes to its policies, procedures and systems to ensure compliance with the FCA's requirements and Mortgage Conduct Of Business rules ("MCOB"). The Company and its mortgage service provider, Computershare Mortgage Services Limited ("Computershare") implemented a remediation process in accordance with the FCA guidance, in April 2018 for customers who were deemed to have suffered financial detriment as a result of improper calculations. Total compensation payments of £280,000 (2017: nil) were calculated as being due to borrowers. The Company relied on the financial support of its parent, UniCredit, to directly fund the redress payments. As at 31 December 2018 an outstanding balance of £27,000 remains unpaid to affected borrowers (see Note 10).

The Company remains authorised by the FCA for regulated activities, but as the Company has ceased trading and has no intention to do so going forward, the Company is seeking approval from the FCA to cancel its authorisation; the Company aims to submit its application to the FCA to cancel its authorisation by April 2019. Regardless of this outcome, the Company will retain its regulatory responsibilities to those borrowers that held mortgages which were repaid before 30 June 2017, and were not included in the portfolio sale to GSIB ("ex-borrowers") for the period to 30 June 2023. The Company will therefore remain operational to the extent that it is able to continue to administer any claims, law enforcement requests or queries relating to ex-borrowers during this period.

A cash reserve was left in the company as at 31 December 2017 to cover the payment of expenses during the wind down period to 30 June 2023. The Company has also been provided with a financial letter of support from UniCredit. The expectation is that the Company can be fully wound down after June 2023.

STRATEGIC REPORT (continued)

Review of the business

The Company no longer has any assets or financing and therefore its transactions during the year have been limited. Aside from a small amount of bank interest receivable, and any recoveries of shortfall debt, the fee income generated from the special servicing role has been the Company's only source of income. The special servicing contract with GSIB terminated in May 2018.

The main costs of the business during the year were UniCredit management and guarantee fees, consultancy fees, mortgage servicer fees and regulatory fees. Following the transfer of the legal titles to Topaz, the servicing requirements of the Company reduced significantly. The management fee from UniCredit, being mainly to cover the cost of conducting the Company's operational business and for the provision of directors, was no longer charged after June 2018. Going forward the main expenses of the Company are expected to be for the provision of consulting and mortgage servicing fees which relate to administering ex-borrower activity.

Results

The results for the Company are set out on page 11.

Insufficient income has been generated by the Company to cover the ongoing administration costs of the business and the Company has made a loss on ordinary activities before taxation of £390,000 (2017: profit £41.7 million).

This was anticipated by the Directors, and a cash reserve was left in the company as at 31 December 2017 to cover the payment of expenses during the wind down period. The amount has been sufficient to cover ongoing costs of the business during the year.

Net interest income for the year was nil as the Company no longer owns any mortgage assets (2017: £14.8 million). Fee income of £1.3 million (2017: £752,000) is mainly the special servicer fee charged to GSIB.

Net shortfall recoveries on redemptions received, after accounting for commission expenses were £118,000 (2017: Net shortfall loss on redemptions of £818,000. This comprised the release of the £400,000 provision for shortfall debt recoveries, as well as £418,000 net shortfall losses on redemptions, after accounting for commissions expenses).

At the year-end, the Company had net assets of £582,000 (2017: £973,000), which includes the profit reserve of £482,000 (2017: £873,000) and share capital of £100,000 (2017: £100,000).

At the year end the Company had a cash position of £633,000 (2017: £910,000). The Company will continue to closely monitor its cash flow position for the period to 2023.

Key performance indicators

As the Company has disposed of its entire mortgage portfolio, the monitoring of a set of key performance indicators is no longer deemed necessary by management. The directors, however, continue to monitor customer claims and complaints, call statistics, regulatory outcomes, and financial crime statistics.

Total complaints have decreased considerably this year with an average of 14 complaints (2017: 55 complaints) being received per month (this reduction arises as a result of the transfer of the legal titles for the mortgage portfolio to Topaz in May 2018; since May 2018, the only complaints received (16 in total) were from ex-borrowers. Typically no more than one of these monthly complaints is subsequently referred to the Financial Ombudsman Service (2017: between one and two). Complaints generally relate to disputes over fee charges, general administration and customer service or are arrears related, with around 99% being resolved at the first stage of the complaints process (2017: around 99%).

STRATEGIC REPORT (continued)

Principal risks and uncertainties

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and oversight is provided by its parent, UniCredit.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and changes in the principal activities of the Company.

Prior to the disposal of the entire portfolio of mortgage assets on 29 December 2017, the principal risks and uncertainties facing the Company were broadly grouped as - economic, credit, operational and compliance risk.

Economic risk
As the Company no longer owns any mortgage assets economic risks are no longer deemed to be significant for the Company.

Credit risk
As the Company no longer owns any mortgage assets this risk is no longer deemed to be a significant risk for the Company.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities. The Company no longer has any long term loan financing, and the main liabilities of the Company as at 31 December 2018 relate to sundry creditor positions. The Company aims to mitigate any liquidity risk by maintaining sufficient cash as well as ongoing financial support from its parent company. Management review cash flow forecasts on a monthly basis to determine whether the Company has sufficient cash reserves to meet future working capital requirements, and these are discussed with UniCredit on a regular basis.

Operational risk
Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Company views the key risks as being the breakdown of IT systems, loss of borrower data and over reliance on third party administrators. These risks are managed by shared skill sets within outsourced service teams and ensuring that third party service providers have adequate internal control systems in place. There were no material operational losses noted during the financial year.

Compliance risk
The Company is authorised by the FCA for regulated activities, but as the Company has ceased trading and has no intention to do so going forward, the Company is seeking approval from the FCA to cancel its authorisation.

The Board remains committed to ensuring that adequate controls are in place to monitor data protection and anti-money laundering compliance requirements. The Board have reviewed the changes introduced by the general data protection regulation ("GDPR") and have ensured that all requirements were in place by the May 2018 implementation date.

The Company will be exposed to the financial costs and regulatory consequences of the need to take action to remedy any customer detriment arising from failures in areas such as ensuring products are fairly and clearly described and are administered in line with the way they have been marketed and sold to customers. The Company has robust policies and procedures in place with regard to treating ex-borrowers fairly and complaints handling. The Board is also committed to ensuring that conduct risk remains a key priority in the way it interacts with its ex-borrowers.

The Company has been provided with a financial letter of support from UniCredit confirming its commitment to continue to support the Company and ensure that it has the means to meet its contractual, financial and regulatory obligations at all times.

Brexit
The Directors have considered the principal risks and uncertainties associated with Brexit and assessed the impact of these on the Company. The Directors are of the opinion that as the Company has ceased trading and has no currency exposure, the risks arising from the outcome of Brexit are not significant for the Company.

STRATEGIC REPORT (continued)

Future developments

The expiry of the corporate and asset warranty period is 29 June 2019. After this date, the Company will remain operational to the extent that it is able to continue to administer any borrower claims, law enforcement requests or queries relating to ex-borrowers.

The expectation is that the Company will be fully wound down in 2023.

The business is subject to a small number of risks described in the Strategic Report under the Principal Risks and Uncertainties section, and until such time that the Company is fully wound down, the directors will continue to monitor and manage those risks.

This report was approved by the Board of directors and signed on its behalf by:

Kristi Robinson

Kristi Robinson
Director

Date 27/3/19

Redstone Mortgages Limited
Moorhouse
120 London Wall
London
EC2Y 5ET

DIRECTORS' REPORT

The directors present their annual report, together with the financial statements and auditor's report, for the year ended 31 December 2018.

Directors of the Company

The directors who held office during the year and up to the date of this report were:

Director	*Appointed*
Kristi Robinson	2 July 2007
Richard Catherwood Smith	28 September 2007
David Lautier	18 November 2009 (resigned 28 June 2018)
Phil Broadhurst	11 February 2011
Clare Law	15 March 2013 (resigned 28 June 2018)

During the year none of the directors held beneficial interests in the shares of the Company.

Recommended dividend

The Company did not pay or declare a dividend during the year (2017: £78.3 million dividend paid). The directors do not propose that any dividend be paid after the year end.

Events after the balance sheet date

There were no subsequent events to report.

Financial instruments

As at year end the Company has no financial instruments and has no derivative transactions and does not trade in financial instruments. The financial risk management objectives and policies of the Company, and the exposure of the Company to credit risk, liquidity risk and cash flow risk are detailed in the Strategic Report on pages 2 to 5.

Going concern

The proposed plan for the wind down of the Company is detailed in the Strategic Report on pages 2 to 5.

The Company has reported a loss for the year and is in a net asset position.

Cash flow forecasts have been prepared by management, which support that the cash reserve of the Company is adequate to enable it to continue to pay the overheads of the business until such time that the Company becomes fully wound down. The Company has also been provided with a financial letter of support from UniCredit confirming its commitment to continue to support the Company and to ensure that it has the means to meet its contractual, financial and regulatory obligations at all times. UniCredit acts as guarantor in respect of the corporate and asset warranties given to GSIB.

The overheads of the business will be the ongoing consultancy fees and general administration costs of running the Company. These are expected to continue to reduce in line with the reduced activity of the Company. There is no intention for the Company to engage in any trading activity.

The expiry of the corporate and asset warranty period is 29 June 2019. After this date, the Company will remain operational to the extent that it is able to continue to administer any borrower claims, law enforcement requests or queries relating to ex-borrowers for the remaining regulatory period to 30 June 2023. The expectation is that the Company will then be liquidated. As was the case in the prior year, these financial statements have been prepared on a basis other than that of a going concern.

DIRECTORS' REPORT (continued)

Directors' indemnities

In its capacity as sole shareholder of the Company, UniCredit has made indemnity provisions for the benefit of its directors. These were in place during the year and remain in force at the date of this report.

Political contributions

The company did not make any political donations during the year (2017: nil).

Employees

The company does not have any employees. All the operations associated with the business are carried out by third party service providers and group undertakings.

Disclosure of information to auditors

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 / she 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 this information.

The confirmation given should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself 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 the provisions of S418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Board Meeting.

This report was approved by the Board of directors and signed on its behalf by:

Kristi Robinson

Kristi Robinson
Director

Date 27/3/19

Redstone Mortgages Limited
Moorhouse
120 London Wall
London
EC2Y 5ET

DIRECTORS' RESPONSIBILITIES STATEMENT

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 period. Under that law they have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), 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 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and we confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the strategic report includes a fair review of the developments and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The responsibility statement was approved by the Board and signed on its behalf by:

Kristi Robinson

Kristi Robinson
Director

Date 27/3/19

Redstone Mortgages Limited
Moorhouse
120 London Wall
London
EC2Y 5ET

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Redstone Mortgages Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 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.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 1 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF REDSTONE MORTGAGES LIMITED (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in [the strategic report and] the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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.

Simon Stephens FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London United Kingdom
27 March 2019

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Net income from owned assets	2	-	14,014
Net income from securitisation assets	3	-	759
Fee income	4	1,294	752
Net Income		**1,294**	**15,525**
Net shortfall recoveries / (losses) on redemptions	5	118	(818)
Profit on disposal of mortgage assets		-	16,484
Gain on financial assets at fair value through profit and loss		-	19,575
Impairment charge		-	(2,215)
Gross profit		**1,412**	**48,551**
Administrative expenses	6	**(1,806)**	**(6,860)**
Operating (loss) / profit		**(394)**	**41,691**
Bank interest income		4	26
(Loss) / profit on ordinary activities before taxation		**(390)**	**41,717**
Taxation on (loss) / profit on ordinary activities	7	(1)	(15,058)
(Loss) / profit for the financial year		**(391)**	**26,659**

The notes on pages 15 to 25 form part of these financial statements.

There were no items of comprehensive income for the period and therefore no separate statement of other comprehensive income has been presented.

All of the Company's income is derived from discontinued activities.

STATEMENT OF FINANCIAL POSITION

	Notes	31 Dec 2018 £000	31 Dec 2017 £000
Current assets			
Debtors	8	45	339
Cash at bank	9	633	910
Total current assets		**678**	**1,249**
Creditors - amounts falling due within one year	10	(96)	(276)
Net current assets		**582**	**973**
Capital and reserves			
Called up share capital	14	100	100
Profit and loss account		482	873
Shareholders' funds		**582**	**973**

The notes on pages 15 to 25 form part of these financial statements.

These financial statements were approved by the Board of Directors on 27 March 2019.

Signed on behalf of the Board of Directors:

Kristi Robinson
Director

Phil Broadhurst
Director

STATEMENT OF CASH FLOWS

	Note	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Net cash outflow from operating activities	16	**(281)**	**(6,381)**
Investing activities			
Bank interest income		4	26
Proceeds from disposal of mortgage loans		-	920,258
Payments to acquire mortgage loans		-	(388,714)
Receipts from repayment and redemption of mortgage loans		-	92,835
Securitisation activities – subordinated loan		-	38,205
Net cash flows from investing activities		**4**	**662,610**
Financing activities			
Dividend paid	15	-	(78,266)
Repayment of long term loans – non recourse finance		-	(977,898)
Drawdown of long term loans – non recourse finance		-	388,714
Securitisation activities - deemed loan		-	(9,306)
Net cash flows from financing activities		**-**	**(676,756)**
Net decrease in cash at bank		**(277)**	**(20,527)**
Cash at bank at 1 January		**910**	**21,437**
Cash at bank at 31 December		**633**	**910**

The notes on pages 15 to 25 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	2018	2018	2018	2017
	Called up share capital	Profit and loss account	Total	Total
	£000	£000	£000	£000
At 1 January	100	873	**973**	**52,580**
(Loss) / profit for the financial year	-	(391)	**(391)**	**26,659**
Dividends paid (Note 15)	-	-	-	**(78,266)**
At 31 December	**100**	**482**	**582**	**973**

	2017	2017	2017	2016
	Called up share capital	Profit and loss account	Total	Total
	£000	£000	£000	£000
At 1 January	100	52,480	**52,580**	**45,915**
Profit for the financial year	-	26,659	**26,659**	**6,665**
Dividends paid (Note 15)	-	(78,266)	**(78,266)**	-
At 31 December	**100**	**873**	**973**	**52,580**

The notes on pages 15 to 25 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. Accounting policies

General information and basis of accounting

Redstone Mortgages Limited is a private Company limited by shares incorporated under the Companies Act in England, United Kingdom. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 5.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council.

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are presented in Pounds Sterling which is the functional currency of the Company and rounded to the nearest £'000.

Going concern

The proposed plan for the wind down of the Company is detailed in the Strategic Report on pages 2 to 5.

The Company has reported a loss for the year and is in a net asset position.

Cash flow forecasts have been prepared by management, which confirm that the cash reserves of the Company are adequate to enable it continue to pay the overheads of the business until such time that it becomes dormant. The Company has also been provided with a financial letter of support from UniCredit confirming its commitment to continue to support the Company and ensure that it has the means to meet its contractual, financial and regulatory obligations at all times. UniCredit acts as guarantor in respect of the corporate and asset warranties given to GSIB.

The overheads of the business will be the ongoing consultancy and servicing fees and general administration costs of running the Company. These are expected to continue to reduce in line with the activity of the Company. There is no intention for the Company to engage in any trading activity.

The expiry of the corporate and asset warranty period is 29 June 2019. After this date, the Company will need to remain operational to the extent that it is able to continue to administer any borrower claims, law enforcement requests or queries relating to ex borrowers for the period until June 2023. The expectation is that the Company will then be liquidated. As was the case in the prior year, these financial statements have therefore been prepared on a basis other than that of a going concern.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Critical judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting year.

When assessing provisions that need to be made in relation to customer redress, estimates are made in relation to the amount of provision that will be required based on customer identification, timing of redress activity and reimbursement.

There are no other significant accounting judgements, estimations or assumptions in respect of the current or prior year.

Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

All financial assets and liabilities are originally measured at transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit and loss), unless the arrangement constitutes a financing transaction. If the arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate for a similar debt instrument.

Financial assets and liabilities are offset in the statement of financial position when, and only when there exists a legally enforceable right to offset the recognised amounts and the Company intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the conditions of being "basic" financial instruments as defined by FRS 102.11.9 are subsequently measured at amortised cost less impairment.

Financial assets and liabilities

Debtors and creditors, including amounts owed by and to group undertakings, with no stated interest rate and receivable or payable within one year, are initially measured at historic cost and subsequently measured at amortised cost, less any impairment.

Trade creditors are stated at their original invoiced value, as the interest that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Assets, other than those measured at fair value, are assessed for indicators of impairment each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the statement of comprehensive income. Where an impairment loss later decreases or is eliminated, the amount of the reversal of the impairment loss is recognised as income in the statement of comprehensive income. The reversal is limited to the original amount of the impairment loss.

The Company measures all other financial assets and financial liabilities at fair value, with changes in fair value recognised in the profit and loss.

Cash at bank

Cash at bank comprises cash held in overnight bank deposit accounts which is subject to an insignificant risk of changes in value.

Share capital

Ordinary shares are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Recognition and de-recognition of financial assets

Derivatives are recognised on a trade date basis. All other financial instruments are recognised on a settlement date basis.

Financial assets are de-recognised when, and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Company, despite having retained some significant risks and rewards of ownership, have transferred control of the asset to another party and the other party has the practical ability sell the asset in its entirety to an unrelated third party and is able to exercise the ability unilaterally and without needing to impose additional restrictions on the transfer.

As at 31 December 2017 the entire mortgage portfolio that was sold to GSIB has been de-recognised from the balance sheet.

Financial liabilities are de-recognised only when the obligation specified in the contract is discharged, cancelled or expires. If, when a debt instrument is modified, or exchanged with an existing lender, the terms of the new or modified instrument are substantially different to those of the original instrument, the original debt is extinguished and a new debt instrument recognised.

Net Income from owned and securitisation assets

Net income from owned assets represents income receivable from the unsecuritised mortgage loans net of relevant borrowing costs and amortisation of premiums. Income receivable from the mortgage loans comprises interest, fees and commissions receivable and is recognised on an accruals basis using the effective interest rate method.

Net income from securitisation activities represents income receivable from the securitised mortgage loans and the subordinated loan net of relevant borrowing costs. Income from securitisation activities is recognised on an accruals basis using the effective interest rate method.

Fee income

Fee income is recognised on an accruals basis and includes the special servicing fees charged to GSIB and borrower administration charges.

Segmental reporting

The Company has not disclosed segmental information because in the opinion of the directors the Company operates in one business sector and generates all income in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Taxation

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. Net income from owned assets

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Interest receivable on mortgage loans measured at fair value through profit and loss	-	13,087
Interest receivable on mortgage loans measured at amortised cost	-	9,249
Loan interest payable and amortisation of premiums	-	(8,322)
	-	**14,014**

3. Net income from securitisation assets

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Interest receivable on mortgage loans measured at fair value through profit and loss	-	981
Interest receivable on mortgage loans measured at amortised cost	-	843
Interest receivable on subordinated loan	-	1,143
Deemed loan interest payable	-	(2,208)
	-	**759**

The Company sold the beneficial interest of its entire portfolio of mortgage assets to GSIB on 29 December 2017. The Company continued to hold legal title of the mortgage assets sold until Topaz took legal title of the mortgage assets on 8 May 2018. No interest income was earnt during the interim period between the sale of the mortgage assets to GSIB and the subsequent transfer of the legal title of the mortgage assets to Topaz.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Fee income

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Special servicing fees	1,292	-
Borrower administration fees	2	752
	1,294	**752**

Special servicing fees represent short term special servicing fees charged to GSIB in respect of the mortgage portfolio sold on 29 December 2017. The special servicing contract was terminated on 8 May 2018.

Borrower administration fees include fees charged to borrowers in respect of administration charges.

5. Net shortfall recoveries / (losses) on redemptions

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Shortfall recoveries	218	388
Shortfall losses	-	(652)
Commission costs	(100)	(114)
Shortfall recoveries provision	-	(440)
	118	**(818)**

Shortfall recoveries provision

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
At 1 January	-	440
Movement in provision	-	(40)
Shortfall debt portfolio write off	-	(400)
At 31 December	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Operating (loss) / profit

Operating (loss) / profit before taxation is stated after expensing the following within administrative expenses:

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Operating (loss) / profit is stated after charging		
Directorship services	211	157
Mortgage servicing fees	49	2,550
Management fee - UniCredit	1,269	3,003
Guarantee fees and charges – UniCredit	70	130
Loan facility commitment fees	-	117
Other administration fees and expenses	165	761
Auditor's remuneration		
Audit fee for the audit of the Company	42	142
	1,806	**6,860**

The company does not have any employees. All the operations associated with the business are carried out by third party service providers and group undertakings.

The directors did not receive any emoluments from the Company during the year (2017: nil). Directorship services include amounts charged by Kinvara Limited and Hay & Kilner LLP for the provision of directors, compliance and administration services. During the year, the following amounts (including VAT) were charged: Kinvara Limited £35,000 (2017: £34,000) and Hay and Kilner LLP £335, 000 (2017: £404,000).

The mortgage servicing is provided by Computershare.

The UniCredit management fee is charged to cover the management cost of conducting the Company's business and for the provision of directors for the period to 30 June 2018. Since June 2018 UniCredit has continued to provide corporate services to Redstone, and will continue to do so going forward. The Company has agreed with UniCredit that this will be on a nil fee basis.

Facility fees and charges from UniCredit relate to guarantee fees and loan facility commitment fees. During the year the Company paid £59,000 for bank guarantee fees (2017: £102,000). The UniCredit financing was repaid on 29 December 2017 and therefore no loan facility commitment fees were payable in 2018 (2017: £117,000). Fees for taxation services in 2018 were £10,000 (2017: £28,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Taxation charge on (loss) / profit on ordinary activities

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Current tax charge in the year	-	15,058
Prior year adjustment	1	-
Taxation on (loss) / profit on ordinary activities	**1**	**15,058**

The effective tax rate of 20% on the current year is the same as the standard rate of UK corporation tax (2017: 19.5%).

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
(Loss) / Profit on ordinary activities before tax	(392)	41,717
(Loss) / Profit on ordinary activities multiplied by the blended rate of UK corporation tax	-	8,031
Adjustments in respect of the securitisation regime	1	7,027
Total taxation on (loss) / profit on ordinary activities	**1**	**15,058**

The Company elected into the permanent securitisation tax regime on 26 March 2010. In accordance with the Taxation of Securitisation Companies Regulations 2006/3296, Regulation 14, for the period that the Company was a securitisation company, it was broadly chargeable to corporation tax on its "retained profit", being the amount that was required to be retained and credited to the general profit ledger in accordance with the waterfall provisions of its funding documents, plus any dividend distributions paid in the period (as adjusted for tax purposes). Following the disposal of the entire portfolio of mortgage assets by the Company on 29 December 2017, the Company is no longer deemed to be a securitisation company for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Debtors

	31 Dec 2018 £000	31 Dec 2017 £000
Other debtors	-	307
Amounts due from group undertakings	-	20
Prepayments and accrued income	45	12
	45	**339**

Amounts due from group undertakings are interest free and repayable on demand.

9. Cash at bank

	31 Dec 2018 £000	31 Dec 2017 £000
Cash held in deposit accounts	633	910

10. Creditors - amounts falling due within one year

	31 Dec 2018 £000	31 Dec 2017 £000
Trade creditors	19	39
Amounts due to Group undertakings	15	-
Provisions	27	-
Accruals	35	237
	96	**276**

In April 2017, the FCA published its final guidance for residential mortgage lenders and administrators; *"The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations"*. The Company has made the necessary changes to its policies, procedures and systems to ensure compliance with the FCA's requirements and MCOB rules. The Company and its mortgage service provider implemented a remediation process, in accordance with the FCA guidance, in April 2018 for customers who were deemed to have suffered financial detriment as a result of improper calculations. Total compensation payments of £280,000 (2017: nil) were calculated as being due to borrowers. The Company relied on the financial support of its parent, UniCredit, to directly fund the redress payments. As at 31 December 2018 an outstanding balance of £27,000 remains unpaid to affected borrowers and is included within provisions (2017: nil).

Amounts due to group undertakings are interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Commitments

The Company has provided certain corporate warranties and asset warranties to GSIB in respect of the mortgage assets sold. The Company is liable in respect of any claim made by GSIB until 29 June 2019. UniCredit acts as guarantor in the case of any claim made by GSIB involving or relating to a breach of any of the warranties, whether for damages, compensation or any other relief. No claims have been made to date by GSIB in respect of the corporate, tax or asset warranties.

12. Financial instruments

It is the directors' opinion that the fair value of cash at bank, debtors and creditors as at 31 December 2018 and 31 December 2017 approximates their fair value.

The Company sold all of its mortgage assets and repaid all of its related financial liabilities on 29 December 2017.

Financial risk management

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. As the Company no longer owns any mortgage assets this risk is no longer deemed to be significant risk for the Company.

Cashflow risk
Cashflow risk is the risk of exposure to variability in cash flows. As the Company no longer owns any mortgage assets this risk is no longer deemed to be significant risk for the Company

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities. The Company no longer has any long term loan financing, and the main liabilities of the Company as at 31 December 2018 relate to sundry creditor positions. The Company aims to mitigate any liquidity risk by maintaining sufficient cash as well as ongoing financial support from its parent company. Management review cash flow forecasts on a monthly basis to determine whether the Company has sufficient cash reserves to meet future working capital requirements, and these are discussed with UniCredit on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Financial instruments (continued)

Contractual undiscounted maturity analysis for financial liabilities

2018	Less than 3 months £000	3 months to 1 year £000	1 to 5 years £000	5+ years £000	Total £000
Trade creditors	19	-	-	-	19
	19	**-**	**-**	**-**	**19**

2017	Less than 3 months £000	3 months to 1 year £000	1 to 5 years £000	5+ years £000	Total £000
Trade creditors	39	-	-	-	39
	39	**-**	**-**	**-**	**39**

13. Capital management

The Company's capital management objectives are to ensure that the FCA minimum capital requirement of £100,000 is maintained.

The Company achieves these objectives through a monthly cash flow monitoring process.

14. Called up share capital

	31 Dec 2018 £000	31 Dec 2017 £000
Authorised, allotted, called-up and fully paid		
Equity: 100,000 ordinary shares of £1 each	**100**	**100**

The Company has one class of ordinary share which carry no right to fixed income.

15. Dividends and other appropriations

	31 Dec 2018 £000	31 Dec 2017 £000
Declared, paid and proposed		
Equity dividends on ordinary shares	**-**	**78,266**

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Reconciliation of operating (loss) / profit to net cash outflow from operating activities

	Year ended 31 Dec 2018 £000	Year ended 31 Dec 2017 £000
Operating (loss) / profit	(394)	41,691
Decrease in debtors	294	1,067
Decrease in creditors	(180)	(1,054)
Shortfall recoveries	-	818
Profit on disposal of mortgages	-	(16,484)
Fair value gain on financial instruments	-	(19,575)
Impairment charge	-	2,215
Corporation tax paid	(1)	(15,059)
Net cash outflow from operating activities	**(281)**	**(6,381)**

17. Subsequent events

The Directors have considered the principal risks and uncertainties associated with Brexit and assessed the impact of these on the Company. The Directors are of the opinion that as the Company has ceased trading and has no currency exposure, the risks arising from the outcome of Brexit are not significant for the Company.

The Company remains authorised by the FCA for regulated activities, but as the Company has ceased trading and has no intention to do so going forward, the Company is seeking approval from the FCA to cancel its authorisation; the Company aims to submit its application to the FCA to cancel its authorisation by April 2019.

The Company has no other subsequent events to report.

18. Related party transactions

During the year, the Company entered into transactions in the ordinary course of business with related parties, being namely the directors and UniCredit. Those transactions relating to the directors and UniCredit are disclosed in Note 6 and Note 10.

19. Controlling party

The immediate parent undertaking of the Company is UniCredit which is registered at Moorhouse, 120 London Wall, London EC2Y 5ET.

The Company was de- consolidated for accounting purposes from UniCredit as at 31 December 2017.

UniCredit 'ultimate parent company and controlling entity is UniCredit S.p.A., a company incorporated in Italy.