

Registered Number 10064951

GOSFORTH FUNDING 2016-2 PLC  
Annual Report and Financial Statements  
31 December 2018



## TABLE OF CONTENTS

	<b>Page</b>
Company Information	1
Strategic Report	2
Directors' Report	6
Independent Auditors' Report	9
Statement of Comprehensive Income	14
Balance Sheet	15
Statement of Changes in Equity	16
Cash Flow Statement	17
Notes to the Financial Statements	18

# Gosforth Funding 2016-2 plc

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## COMPANY INFORMATION

### DIRECTORS

Adrian Sargent  
L.D.C. Securitisation Director No. 1 Limited  
L.D.C. Securitisation Director No. 2 Limited

### COMPANY SECRETARY

Law Debenture Corporate Services Limited

### COMPANY NUMBER

10064951

### REGISTERED OFFICE

Fifth Floor  
100 Wood Street  
London  
EC2V 7EX

### PRINCIPAL PLACE OF BUSINESS

Jubilee House  
Gosforth  
Newcastle upon Tyne  
NE3 4PL

### INDEPENDENT AUDITORS

Ernst & Young LLP  
Statutory Auditor  
1 Bridgewater Place  
Water Lane  
Leeds

# Gosforth Funding 2016-2 plc

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## STRATEGIC REPORT

For the year ended 31 December 2018

The Directors present their Strategic Report for the year ended 31 December 2018.

### OVERVIEW OF GOSFORTH 2016-2 SECURITISATION TRANSACTION

Gosforth Funding 2016-2 plc (the "Company") is a Special Purpose Vehicle (SPV) that forms part of a securitisation structure that was established primarily as a means of raising wholesale funding for Virgin Money plc.

Under the securitisation structure a portfolio of mortgage loans secured on residential property in England, Scotland and Wales was placed into a trust (the Trust Property). Gosforth Mortgages Trustee 2016-2 Limited (the 'Trustee') was established to hold the legal interest in the Trust Property.

Virgin Money plc sold a beneficial interest in the Trust Property to the Company. To fund the purchase, the Company issued wholesale debt securities (loan notes), with the proceeds passed to Virgin Money plc.

Virgin Money plc continues to administer the mortgage loans in the Trust Property and manages the securitisation transaction, in its role as Administrator and Cash Manager. The Trustee holds the Trust Property on trust for both the Company and Virgin Money plc, each having joint and undivided beneficial interest.

The transaction documents related to the securitisation structure define certain prescribed roles and transaction terms, and should be read in conjunction with these financial statements. The transaction documents can be found at: <http://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages/>

### OVERVIEW OF THE COMPANY

The Company was incorporated in England and Wales on 15 March 2016 as a public limited company and on 18 April 2016 received its section 761 Companies Act certificate to do business and borrow. The Company was dormant until it commenced operations on 9 May 2016.

On 9 May 2016, the Company purchased a beneficial interest in the Trust Property for a cash consideration of £1,026 million. Virgin Money plc retains substantially all the risks and rewards associated with the mortgage loans. As such, the Company's interest in the Trust Property is recognised as part of a deemed loan to Virgin Money plc. The deemed loan is described in note 1 to the financial statements.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is to invest the proceeds of the issuance of loan notes in an interest in a portfolio of residential mortgage loans, and enter into all financial arrangements in connection with the securitisation transaction. The activities of the Company are managed in accordance with the securitisation transaction documents which can be found at the website address above. No future changes in activities are envisaged.

### LOAN NOTES IN ISSUE

On 9 May 2016, the Company issued the following loan notes:

Class	Principal	Interest Rate
Class A1a	€157,895,000	3m EURIBOR + 0.45%
Class A1b	£375,791,000	3m GBP LIBOR + 0.80%
Class A2	£419,118,000	3m GBP LIBOR + 0.85%
Class M	£41,176,000	3m GBP LIBOR + 1.80%
Class Z	£66,653,000	Fixed at 0%

The notes have a final redemption date of 24 July 2058, with a call option on 24 July 2021 at which point the Company may choose to redeem the outstanding notes. If the call option is not exercised on this date, margins above LIBOR and EURIBOR on the Class A and Class M notes double.

## STRATEGIC REPORT

For the year ended 31 December 2018

Unless previously redeemed in full, the Company shall redeem each class of notes at their principal amount outstanding together with all accrued interest on the final maturity date. There are optional provisions that allow the Company to redeem the notes in full before the final maturity date of 24 July 2058. These are outlined in the transaction documents.

The Class A1 and Class A2 notes are subject to controlled amortisation on each payment date, with the maximum repayment on each payment date set out in the transaction documents. Repayment on each payment date is ultimately dependent on there being sufficient principal receipts from the borrowers under the mortgage loans in the Trust Property or Seller cash contributions as outlined in the transaction documents. The Company is only obliged to make repayments of interest and principal in respect of the loan notes to the extent that repayments are received from Virgin Money plc in respect of the deemed loan.

Although the legal and contractual maturity of the loan notes issued by the Company is in July 2058, the rate at which the deemed loan due from Virgin Money plc and the loan notes will actually reduce will depend upon the Company's share of the Trust's principal receipts. Any significant changes in the level of the Trust's underlying mortgage redemptions or removals will have an impact upon the maturity profiles of the loan notes. Note 15 shows arrears affecting the residential mortgages that underpin the deemed loan (see page 33) due from Virgin Money plc.

As part of the securitisation structure the Company and Virgin Money plc have entered into a basis rate swap to swap mortgage interest receipts to interest flows that match the interest basis on the loan notes.

The loan notes are subject to other terms and conditions that are detailed in the transaction documents.

### FINANCIAL PERFORMANCE

The Company receives a share of income from the Trust Property in proportion to its share of the total mortgage assets of the Trust. Under the terms of the transaction, the Company is entitled to a pre-determined retained profit (before the net effect of fair value gains and losses on derivative instruments and translation gains and losses on underlying instruments). For the financial year this equated to £2,450 (2017: £2,450), which will be retained by the Company as profit before corporation tax due, and is reflected in the statement of comprehensive income. Income in excess of the required amount accrues to Virgin Money plc.

The profit for the year of £136,000 (2017: £114,000) was due to the net effect of the fair value of gains of £133,000 (2017: £111,000).

During the year, Virgin Money plc made repayments totalling £125,980,000 (2017: £144,530,000) to the Company in respect of the deemed loan. These repayments were used to repay part of the loan notes in accordance with the distribution requirements, as detailed in the Offering Circular which forms part of the securitisation transaction documents.

The key performance indicators used by management are predominantly consideration of whether there have been breaches of the transaction documents. However, there are certain measures which are verified and which are relevant to the Company including assessing whether:

- expected available revenue income is sufficient to meet interest payable in respect of Class A notes; and
- all counterparties involved in the transaction have a rating that remains adequate to support their ongoing roles in the programme.

These requirements have been met throughout the current year. Detailed information about the performance of the portfolio of residential mortgage loans within the Trust is included in the monthly investor reports. The arrears performance of the mortgage loans are detailed in the note to the financial statements.

Any changes to the credit ratings assigned to the loan notes in issue are monitored.

## STRATEGIC REPORT

For the year ended 31 December 2018

### PRINCIPAL RISKS AND UNCERTAINTIES

In order to manage and control its risks, the Company has implemented a comprehensive set of policies (in accordance with the transaction documents) and procedures which are outsourced to Virgin Money plc, as Administrator, for implementation. The principal risks faced by the Company and mitigating actions taken to reduce the Company's exposures to the risks are described below:

- **Credit risk:** this risk arises from exposure to loss if another party fails to meet its financial obligations to the Company, including failing to perform them in a timely manner. The Company's primary exposure is the deemed loan due from Virgin Money plc, which represents an interest in a portfolio of residential mortgages sold by Virgin Money plc, the Administrator of the mortgages and managed in accordance with the policies followed by the Administrator.

External rating agencies also monitor the performance of the mortgage portfolio. The notes to the financial statements provide a substantial amount of information on the quality of the underlying mortgage portfolio. A significant increase in the arrears and/or repossession losses associated with this mortgage portfolio could result in Virgin Money plc being unable to make all repayments of interest and principal due in respect of the deemed loan to the Company. This in turn could mean that the Company is unable to make all repayments of interest and principal due in respect of the loan notes. It should be noted however, that the Company is only obliged to make repayments of interest and principal in respect of the loan notes to the extent that the repayments received from the deemed loan due from Virgin Money plc allow. To protect the note holders should such a shortfall arise, there are reserve funds held within the Company, which can be drawn upon to meet interest and ultimately principal repayments.

- **Foreign currency risk:** this risk arises as a result of having assets, liabilities and derivative items denominated in currencies other than Sterling. The Company has loan notes in issue denominated in Euros. The Company has entered into cross currency swap agreements that substantially match the terms of the loan notes. As loan note principal is repaid, equivalent reductions are made to the outstanding swap notionals so that effective hedges are maintained. The effect of this policy is to minimise the risks associated with exchange rate fluctuations. Aside from loan notes denominated in foreign currencies the Company may hold foreign currency deposits relating to collateral received from derivative counterparties. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date and there will be no gains and losses on the settlement of these deposits as the asset and liability recognised in respect of these are equal and opposite.
- **Liquidity risk:** this risk arises from a mismatch in the cash flows generated from current and expected assets, liabilities and derivatives. The Company's policy is to ensure that interest and principal repayments due from the deemed loan to Virgin Money plc are timed to coincide with amounts due on the loan notes. The Company is only obliged to make repayments of interest and principal in respect of the loan notes to the extent that repayments are received from Virgin Money plc in respect of the deemed loan. To protect the note holders should a shortfall arise, there is a Liquidity Reserve Fund held within the Company, which can be drawn upon to meet senior interest payments.
- **Interest rate risk:** this risk arises as a result of timing differences in the re-pricing of assets and liabilities, unexpected changes in the slope and shape of yield curves and changes in correlation of interest rates between different financial instruments (often referred to as basis risk). The interest payable on the loan notes re-prices on the same quarterly basis as the interest receivable in respect of the deemed loan (as adjusted by the basis rate swap and cross currency swap), so that interest rate risk is reduced.

### STRATEGIC REPORT

For the year ended 31 December 2018

- **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk. This risk is mitigated by monitoring compliance with the requirements of the transaction documents. This activity is outsourced to Virgin Money plc.

Further information is provided in note 15 to the financial statements.

This report was approved by the Board on 26 April 2019 and signed on its behalf by:



Virginia Duncan

For and on behalf of Law Debenture Corporate Services Limited, Company Secretary.

# Gosforth Funding 2016-2 plc

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## DIRECTORS' REPORT

For the year ended 31 December 2018

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

### DIVIDENDS

Dividends of £nil (2017: £nil) were declared and paid during the year. The Directors do not recommend a final dividend for the year (2017: nil).

### DIRECTORS

The current composition of the Board of Directors together with details of appointments and retirements up to the date of this report is as follows:

Adrian Sargent

L.D.C. Securitisation Director No. 1 Limited

L.D.C. Securitisation Director No. 2 Limited

None of the Directors had a beneficial interest in the shares of the Company, or of the ultimate parent company, The Law Debenture Intermediary Corporation plc.

### EMPLOYEES

The Company does not have any employees (2017: nil).

### GOING CONCERN

Due to the way in which the securitisation is structured, the Company is only required to repay the issued loans notes in line with the controlled amortisation determined amounts on each payment date. Repayment on each payment date is dependent on there being sufficient principal receipts from the borrowers under the mortgage loans in the Trust Property. The Company is only obliged to make repayments of interest and principal in respect of the loan notes to the extent that repayments are received from Virgin Money plc in respect of the deemed loan. Consequently, the Directors are satisfied that the Company will have sufficient liquid resources available to meet its obligations as they fall due.

After reviewing the latest performance of the underlying mortgages, the Directors are satisfied that the Company will have adequate resources to continue in business for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements.

### DIRECTORS' INDEMNITIES

The Company has entered into deeds of indemnity for the benefit of Directors of the Company which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds were in force during the whole of the financial period and up to the date of approval of this report. In addition, the Company had appropriate Directors' and Officers' insurance cover in place throughout the period and up to the date of approval of this report.

### EVENTS AFTER THE REPORTING PERIOD

There have been no significant events between 31 December 2018 and the date of approval of these financial statements which would require a change or additional disclosure in the financial statements.

### FUTURE DEVELOPMENTS

Although the economy remains resilient, the UK faces a period of political and economic uncertainty in relation to the UK's departure from the European Union (EU), with the risk of a potentially negative impact on the UK macro economy.

Virgin Money plc, in its role as Administrator regularly reviews and monitors mortgage customer behaviours, the liquidity position of the Company, counterparty vulnerability, operational capability and disruption to payment and other systems.

No changes in future activities are envisaged.



## DIRECTORS' REPORT

For the year ended 31 December 2018

### RESEARCH AND DEVELOPMENT ACTIVITIES

The Company does not undertake formal research and development activities.

### CORPORATE GOVERNANCE

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

### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Information in relation to financial reporting and financial risk management objectives and policies in relation to the use of financial instruments can be found in note 12 and note 15.

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

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

Company law requires the Directors to prepare company financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

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

- select suitable accounting policies in accordance with International Accounting Standard (IAS 8): Accounting Policies, Changes in Accounting Estimates and Errors and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on financial performance; and
- state that the Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

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 Act. 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 other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and Directors' report that comply with that law and those regulations.

## DIRECTORS' REPORT

For the year ended 31 December 2018

### INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the Directors who is in office at the date of this report, confirms that, so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are also aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP resigned as auditor of the Company on 22 October 2018. The Board of Virgin Money Holdings (UK) plc recommended Ernst & Young LLP (EY) be appointed for the Virgin Money Group of entities (including the Company) effective for periods ending on or after 31 December 2018. The Company's Board subsequently approved a resolution proposing the appointment of EY as the Company's auditors.

As a result, EY have been appointed as auditors of the Company in accordance with section 489 of the Companies Act 2006.

This report was approved by the Board on 26 April 2019 and signed on its behalf by:



Virginia Duncan

For and on behalf of Law Debenture Corporate Services Limited, Company Secretary.  
Registered Number 10064951

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2016-2 PLC

### Opinion

We have audited the financial statements of Gosforth Funding 2016-2 plc for the period ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its total comprehensive income for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. 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 FRC's Ethical Standard as applied to listed entities, 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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Overview of our audit approach

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Key audit matters	• Recoverability of the deemed loan
Materiality	• Overall materiality of £6.7 m which represents 1% of Total Assets.

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### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2016-2 PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Recoverability of the deemed loan</b></p> <p><i>Refer to the Accounting policies (page 18); and Note 9 of the Financial Statements (page 28)</i></p> <p>The Company is a special purpose vehicle within a securitisation structure. It exists to advance wholesale funding to Virgin Money plc. This is achieved through the Company holding a beneficial interest in a mortgage portfolio held by Gosforth Mortgage Trustees 2016-2 Limited.</p> <p>Virgin Money plc has retained substantially all of the risks and rewards in respect of the mortgage portfolio. As a result, the Company does not recognise the mortgages on its balance sheet, and instead recognises a deemed loan with Virgin Money plc.</p> <p>The interest and capital repayments on the deemed loan are required before the Company's debt can be serviced, therefore, we considered the assessment of the loan for indicators of impairment to be a key audit matter.</p>	<p>We obtained and assessed management's impairment assessment.</p> <p>We reviewed the terms of the mortgages trust deed between the Company, Gosforth Mortgages Trustees 2016-2 Limited and Virgin Money plc and confirmed that the interest and principal repayments made during the year were in accordance with the mortgages trust deed.</p> <p>We examined the loan for indicators of impairment, which involved looking through to the securitised mortgage loan pool from which deemed loan repayments flow and assessing whether shortfalls in mortgage recoveries appeared likely.</p>	<p>We concluded to those charged with governance that based on the procedures performed, we are satisfied that the deemed loan was not impaired as at 31 December 2018.</p>

**An overview of the scope of our audit**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2016-2 PLC

### **Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £6.7m, which is 1% of total assets. We believe that total assets provides us with the appropriate basis for materiality as the Company is a special purpose vehicle that is structured to make a nominal profit, and so the most relevant aspect of the Company is its assets.

In the prior year audit, the predecessor auditor adopted a materiality of £8.0m for the Company financial statements, based on 1% of total assets.

### **Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £3.4m. We have set performance materiality at this percentage due to this being a first year audit.

### **Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the those charged with governance that we would report to them all uncorrected audit differences in excess of £0.34m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### **Performing a first year audit**

In preparation for our first year audit of the 31 December 2018 financial statements, we performed a number of transitional procedures.

Following our selection, we undertook procedures to establish our independence of the Company. This involved considering previous commercial relationships and personal financial arrangements, and confirming that all staff who work on the audit are independent of the Company. We held discussions with the Company's predecessor auditor and reviewed their 2017 financial statement audit work papers to obtain evidence regarding the opening balances. We gained an understanding of the Company's processes, including the risk assessment and key judgements made by the predecessor auditors. At the outset of our audit we gained an understanding of the business issues and met with key management of the Company.

We used the understanding the audit team had formed to establish our audit base and assist in the formalisation of our audit strategy for the 2018 audit.

### **Other information**

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2016-2 PLC

#### **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 period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

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 material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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

#### **Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report and the Directors' Report and the Financial Statements set out on page 7, 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.

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2016-2 PLC

#### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company.
- We understood how Gosforth Funding 2016-2 plc is complying with those frameworks by making enquiries of management and identifying the controls in place in order to comply.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing.
- The Company operates in the capital markets industry which is a specialised area. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team had the appropriate competence and capabilities.

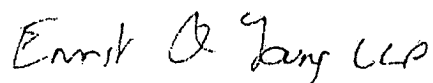
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Other matters we are required to address**

- We were appointed as the Company's External Auditor on 30 October 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to those charged with governance.

#### **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.



Steven Robb (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Leeds  
26 April 2019

## Gosforth Funding 2016-2 plc

### STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2018

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest and similar income	2	10,969	10,647
Interest and similar expense	3	(10,850)	(10,468)
<b>Net interest income</b>		<b>119</b>	<b>179</b>
Net effect of fair value gains and losses	4	133	111
Administrative expenses	5	(116)	(176)
<b>Profit before taxation</b>		<b>136</b>	<b>114</b>
Taxation	6	-	-
<b>Profit and total comprehensive income for the year attributable to equity shareholders</b>		<b>136</b>	<b>114</b>

The profit is derived from continuing operations and all activities are in the UK.

The accompanying notes are an integral part of these financial statements.



# Gosforth Funding 2016-2 plc

## BALANCE SHEET As at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Assets</b>			
Cash and cash equivalents	8	66,529	71,438
Deemed loan at amortised cost	9	597,822	721,896
Derivative financial instruments	12	4,950	8,791
Receivables	10	1,628	1,993
<b>Total assets</b>		<b>670,929</b>	<b>804,118</b>
<b>Liabilities</b>			
Debt securities in issue	11	667,608	801,331
Payables	13	3,267	2,868
<b>Total liabilities</b>		<b>670,875</b>	<b>804,199</b>
<b>Equity</b>			
Share capital	14	50	50
Retained earnings		4	(131)
<b>Total equity</b>		<b>54</b>	<b>(81)</b>
<b>Total equity and liabilities</b>		<b>670,929</b>	<b>804,118</b>

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 14 to 45 were approved by the Board of Directors on 26 April 2019 and signed on its behalf by



**Mark Filer**

For and on behalf of L.D.C. Securitisation Director No. 1 Limited  
Director

## Gosforth Funding 2016-2 plc

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### STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2018

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2017	50	(245)	(195)
Profit and total comprehensive income for the year	-	114	114
Balance as at 31 December 2017	50	(131)	(81)
<b>Balance as at 1 January 2018</b>	<b>50</b>	<b>(131)</b>	<b>(81)</b>
Profit and total comprehensive income for the year	-	136	136
<b>Balance as at 31 December 2018</b>	<b>50</b>	<b>5</b>	<b>55</b>

The accompanying notes are an integral part of these financial statements.

## Gosforth Funding 2016-2 plc

### CASH FLOW STATEMENT For the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Profit before taxation</b>	<b>136</b>	<b>114</b>
Decrease in deemed loan	124,074	143,094
Decrease in receivables	365	6
(Decrease) in debt securities in issue	(133,723)	(149,965)
(Decrease) in deposits by banks	-	(81)
Decrease in derivative financial instruments	3,841	929
Increase in payables	399	73
<b>Net cash (used in) operating activities</b>	<b>(4,908)</b>	<b>(5,830)</b>
Income taxes paid	(1)	(4)
<b>Net (decrease) in cash and cash equivalents</b>	<b>(4,909)</b>	<b>(5,834)</b>
Cash and cash equivalents at the beginning of the year	71,438	77,272
<b>Cash and cash equivalents at the end of the year</b>	<b>66,529</b>	<b>71,438</b>

Operating activities are the principal revenue producing activities of the Company and other activities which are not investing or financing activities.

The accompanying notes are an integral part of these financial statements.

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

### 1. ACCOUNTING POLICIES

#### **1.1 Reporting entity**

Gosforth Funding 2016-2 plc is a company incorporated and registered in England and Wales.

#### **1.2 Basis of preparation and measurement**

The financial statements, which should be read in conjunction with the Strategic Report and the Directors' Report, have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, including interpretations issued by the IFRS Interpretations Committee, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments held at fair value through profit or loss.

The accounting policies set out have been applied consistently to all years presented in these financial statements with the exception of new accounting policies in respect of IFRS 9 'Financial Instruments', which were adopted on 1 January 2018 and have not been applied retrospectively. IFRS 15 'Revenue from Contracts with Customers' was also adopted during the year, but did not have an impact on the Company.

#### **1.3 Deemed loan at amortised cost**

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Directors of the Company have concluded that Virgin Money plc has retained substantially all the risks and rewards of the portfolio of mortgage loans as Virgin Money plc holds the lowest classes of notes and has provided the Company with a subordinated loan. As a consequence, the Directors of the Company have concluded that the Company should not recognise the mortgage loans on its balance sheet but rather a deemed loan due from Virgin Money plc, where recourse to Virgin Money plc is limited to its share of the cash flows from the mortgage loans and any additional credit enhancement provided by Virgin Money plc.

The initial amount of the deemed loan due from Virgin Money plc corresponds to the consideration paid by the Company for the mortgage loans of £1,026,053,995 less the initial subordinated loan from Virgin Money plc of £35,979,035. The Company recognises principal and interest cash flows from the underlying portfolio of mortgage loans only to the extent that it is entitled to retain such cash flows in accordance with the Mortgages Trustee revenue and principal priority of payments as detailed in the Offering Circular. Cash flows attributable to Virgin Money plc are not recognised in the Company's statement of comprehensive income.

#### **1.4 Deferred consideration**

Deferred consideration depends on the extent to which the surplus income of the underlying mortgage loans to which the Company has a beneficial interest, exceeds the costs of the securitisation transaction. As the Company does not recognise income to which it is not beneficially entitled, deferred consideration is recognised in the statement of comprehensive income as a deduction against interest income. Deferred consideration payable is accounted for as a deduction against the deemed loan.

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

### 1. ACCOUNTING POLICIES (CONTINUED)

#### **1.5 Interest income and expense**

Interest income and expense are recognised in the statement of comprehensive income for all instruments measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or a financial liability, and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

Once a financial asset or a group of similar financial assets has been categorised as credit-impaired, interest income is recognised on the net carrying value (after impairment allowances) using the asset's original effective interest rate, being the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on derivatives economically hedging interest bearing financial assets or liabilities (but not designated as hedging instruments) are also recognised within net interest income.

#### **1.6 Financial assets and financial liabilities**

Classification is based on the objectives of the Company's business model for managing its financial assets and the contractual cash flow characteristics of the instruments.

The business model reflects how the Company manages the assets in order to generate cash flows. One of the following business models is identified for each financial instrument depending on how the risks are managed, past experience with the financial asset and how performance is measured and reported:

- hold to collect: it is intended to collect the contractual cash flows from the assets (Amortised cost classification);
- hold to collect and to sell: it is intended to collect both the contractual cash flows and cash flows arising from the sale of the asset (FVOCI classification); or
- hold to sell: it is intended to sell the financial asset in the short to medium term, or the asset is designated FVPL to minimise an accounting mismatch (FVPL classification).

Where the business model is 'hold to collect' or 'hold to collect and sell' the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company's deemed loan to Virgin Money plc, cash and cash equivalents and receivables are classified as financial assets at amortised cost. This classification is determined by the business model under which the Company uses the assets (hold to collect business model) and the nature of the assets cash flows. The cash flows have been determined to be solely payments of principal and interest, reflecting the basic lending arrangement.

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

### 1. ACCOUNTING POLICIES (CONTINUED)

#### **1.6 Financial assets and financial liabilities (continued)**

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments which are solely payments of principal and interest, where the Company has no intention of trading the asset

All of the Company's financial liabilities, including debt securities issued, are classified as financial liabilities at amortised cost.

Both financial assets at amortised cost and financial liabilities are initially recognised at fair value including direct and incremental transaction costs. Purchases and sales of financial assets are recognised on trade date. Subsequent recognition is at amortised cost using the effective interest method, less any provision for impairment.

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

Where quoted prices are not available, fair value is based upon cash flow models, which use, wherever possible independently sourced observable market parameters such as interest rate yield curves. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

#### **1.7 Derecognition of financial instruments**

Derecognition of financial assets and liabilities is the point at which the Company removes an asset or liability from its balance sheet. The Company's policy is to derecognise financial assets only when the contractual right to the cash flows expires. The Company derecognises financial liabilities only when the obligation specified in the contract is discharged, cancelled, has expired or is transferred to a third party.

#### **1.8 Derivative financial instruments and hedge accounting**

The Company undertakes transactions, namely basis rate swaps, to economically hedge the difference between the interest rates applicable to all of the mortgage loans in the portfolio and the floating rate of interest on the notes.

A basis rate swap agreement has been entered into with Virgin Money plc, as the basis rate swap provider, and a third party, as the standby basis rate swap provider.

Whilst the swaps with Virgin Money plc have the legal form of derivatives, they are not separately recognised as a derivative financial instrument in the Company's financial statements, as the amounts payable under the swaps reflect cash flows from the portfolio of mortgage loans which are not recognised by the Company for accounting purposes. They are therefore included in the financial statements within the deemed loan due from Virgin Money plc in order to reflect the substance of the arrangement.

A cross currency swap agreement has been entered into with a third party swap provider. This hedges the difference between the three month Sterling LIBOR received under the deemed loan and the three month EURIBOR payable on the Class A1a debt securities.

The cross currency swaps are measured initially at fair value and subsequently remeasured to fair value. Fair values are derived from valuation techniques including discounted cash flow models. As the cross currency swaps are not designated as part of a hedging relationship, changes in fair value are recorded in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 1. ACCOUNTING POLICIES (CONTINUED)

#### **1.9 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **1.10 Impairment losses**

The Company assesses all financial assets and off-balance sheet commitments for impairment at each reporting date. An Expected Credit Loss (ECL) is calculated based on changes in credit quality since initial recognition. A 12 month or lifetime ECL is recognised depending on whether a Significant Increase in Credit Risk (SICR) has occurred since initial recognition or whether an asset is considered to be credit-impaired.

The nature of the structured transaction which the Company is party to, means that the risk of default on its assets is very low, and consequently an expected credit loss has not been recognised.

#### **1.11 Share capital**

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Final dividends on shares are recognised in equity in the period in which they are approved by the Company's shareholders or paid. The Company's capital is represented by the share capital and reserves and these are managed in order that there is sufficient capital to meet the needs of the Company in its operations. The Company is not subject to any externally imposed capital requirements.

#### **1.12 Debt securities in issue**

Issued securities are classified as liabilities where the contractual arrangements result in the Company having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the Company. Financial liabilities are initially recognised at fair value net of transaction costs incurred and subsequently carried at amortised cost using the effective interest rate method (see 'interest income and expense').

The terms and conditions of the notes state that the Company is entitled to an optional early redemption of the notes at the step up date for a class of notes or on any payment date on which the aggregate Sterling principal amount outstanding of the notes is less than 10 per cent of the aggregate principal amount outstanding of the notes as at the closing date. The Directors of the Company have concluded that the economic characteristics and risks of this repayment option are closely related to the economic characteristics and risks of the notes. As such, the option is not separately accounted for as an embedded derivative. The effective interest rate has been calculated based on the assumption that the notes will be fully redeemed on or before the step up date.

#### **1.13 Foreign currency translation**

The Company's financial statements are presented in Sterling, which is the functional currency of the Company, rounded to the nearest thousand pounds sterling (£1,000) unless otherwise stated. Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. Non-monetary items measured at fair value are translated at the exchange rate at the date of valuation. Where these are held at fair value through the income statement, exchange differences are reported as part of the fair value gain or loss.

#### **1.14 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

The cash flow statement is prepared using the indirect (net) method of preparation.

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

### 1. ACCOUNTING POLICIES (CONTINUED)

#### **1.15 Taxation**

Taxation comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or other comprehensive income.

The Company is within the permanent regime for taxation of securitisation companies, under which they are taxed by reference to their contractually retained profits (to the extent that they are realised). Taxable profits under the permanent regime will normally equal the contractual profit as defined by the original transaction documentation, being £2,450 for the year ended 31 December 2018 (2017: £2,450). Consequently, neither current tax nor deferred tax will be affected by any fair value gains or losses arising on derivatives and other financial instruments.

Current tax is based on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

#### **1.16 Segmental reporting**

The Directors consider that the Company has one operating segment due to the similarity of risks faced in relation to the investment of the proceeds of the issue of asset backed loan notes and therefore is not required to produce additional segmental disclosure.

#### **1.17 Changes in accounting policy**

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. This new accounting standard has three core areas of change: Classification and Measurement; Hedge Accounting; and Impairment. IFRS 9 has not had a material impact on the Company

There are no other standards, amendments to standards or interpretations that are applicable in the year which have a material impact on the financial statements.

The deemed loan and receivables, which were previously classified as 'loans and receivables' are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified as amortised cost. There has not been a change to the measurement of these assets on adoption of IFRS 9.

In 2018, the Company also adopted amendments to existing standards that were endorsed for adoption by the EU and mandatory for annual reporting periods beginning on or after 1 January 2018.

The adoption of these interpretations and amendments to standards or interpretations had an insignificant impact on the Company and did not result in any change in accounting policies.

New accounting standards issued by the IASB that are relevant to the Company and effective in future periods are presented in note 19. There are no other standards, amendments to standards or interpretations that are applicable in the year which have a material impact on the financial statements.

#### **1.18 Critical accounting estimates**

##### *Fair value calculations*

The preparation of financial statements in conformity with IFRS requires Management to make estimates and judgements in the application of accounting policies that affect the reported amounts of assets, liabilities, income and expense. Estimates and judgements are based on historical experience and Management's best knowledge of the amount. Due to the inherent uncertainty in making estimates and judgements, actual results in future periods may be based on amounts which differ from those estimates. No material estimates and judgements have been applied in the preparation of these financial statements.



## Gosforth Funding 2016-2 plc

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

#### 2. INTEREST AND SIMILAR INCOME

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest receivable on the deemed loan	10,651	10,521
Other interest receivable	318	126
	<hr/> 10,969	<hr/> 10,647

#### 3. INTEREST AND SIMILAR EXPENSE

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Interest payable on debt securities in issue	9,683	8,868
Interest on cross currency swaps	709	964
Amortisation of issue costs	458	636
	<hr/> 10,850	<hr/> 10,468

## Gosforth Funding 2016-2 plc

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

#### 4. NET EFFECT OF FAIR VALUE GAINS AND LOSSES

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Fair value movements of future cash flows on standby basis rate swap	30	26
Fair value movements of future cash flows on cross currency swap	196	3,462
Translation gains and losses on underlying instruments	(93)	(3,377)
	<b>133</b>	<b>111</b>

The Company enters into certain derivative financial instruments which although highly effective as economic hedges, are not included in hedge accounting relationships. These derivatives hedge foreign currency securitised funding at amortised cost and the difference between the interest rates applicable to the mortgage loans in the portfolio and the floating rate of interest on the notes.

#### 5. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash manager fee	6	7
Fees payable for the audit of the annual report and financial statements	31	29
Other administrative expenses	79	140
	<b>116</b>	<b>176</b>

The Company has no employees (2017: nil). No emoluments were paid to the Directors for their services to the Company during the year. A management fee for administration services is charged by Virgin Money plc (see note 16) for a range of services including the provision of a Director. A management fee of £20,000 (2017: £12,000) was charged by Law Debenture Corporate Services Limited for a range of services including provision of L.D.C. Securitisation Director No. 1 Limited and L.D.C. Securitisation Director No. 2 Limited for the period. The audit fee of £29,000 (2017: £29,000) includes £5,000 (2017: £4,000) reallocated from Gosforth Mortgages Trustee 2016-2 Limited and £12,500 (2017: £15,000) incurred on behalf of Gosforth Holdings 2016-2 Limited.

## Gosforth Funding 2016-2 plc

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

#### 6. TAXATION

##### Analysis of tax credit for the year/period:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Current tax:</b>		
UK corporation tax on taxable profit for the year	-	-
<b>Tax credit</b>	-	-

##### Factors affecting the tax charge for the year:

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to the profit before tax to the actual tax charge for the year is given below:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Profit before tax	135	114
Tax charge at effective rate of 19% (2017: 19.25%)	(26)	(22)
<b>Factors affecting (charge):</b>		
Income not taxable	26	22
<b>Total tax charge</b>	-	-

The credit above has been calculated in accordance with the permanent regime for taxation of securitisation companies.

The main rate of corporation tax reduced from 20% to 19% on 1 April 2017, and will reduce further to 17% on 1 April 2020 in accordance with the Finance Act 2016.

## Gosforth Funding 2016-2 plc

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

#### 7. ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS

2018	Financial liabilities at amortised cost £'000	Financial assets at amortised cost £'000	Derivatives not in hedge accounting relationships £'000	Total £'000
<b>Financial assets</b>				
Cash and cash equivalents	-	66,529	-	66,529
Deemed loan at amortised cost	-	597,822	-	597,822
Derivative financial instruments	-	-	4,950	4,950
Receivables	-	1,628	-	1,628
<b>Total financial assets</b>	-	665,979	4,950	670,929
<b>Financial liabilities</b>				
Debt securities in issue	667,608	-	-	667,608
Payables	3,267	-	-	3,267
<b>Total financial liabilities</b>	670,875	-	-	670,875
<b>Total equity</b>				54
<b>Total equity and liabilities</b>				670,929

## Gosforth Funding 2016-2 plc

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

#### 7. ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT BASIS (CONTINUED)

2017	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Derivatives not in hedge accounting relationships £'000	Total £'000
Financial assets				
Cash and cash equivalents	-	71,438	-	71,438
Deemed loan	-	721,896	-	721,896
Derivative financial instruments	-	-	8,791	8,791
Receivables	-	1,993	-	1,993
Total financial assets	-	795,327	8,791	804,118
Financial liabilities				
Debt securities in issue	801,331	-	-	801,331
Deposits by banks	-	-	-	-
Payables	2,868	-	-	2,868
Total financial liabilities	804,199	-	-	804,199
Total equity				(81)
Total equity and liabilities				804,118

## Gosforth Funding 2016-2 plc

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

#### 8. CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Cash and cash equivalents	66,529	71,438

The Company holds deposits of £13,000 (2017: £13,000) at a third party bank which pays a fixed rate of interest up to a balance of £100,000. The Company has sterling demand deposits of £21,217,000 (2017: £13,025,000) at suitably rated third party banks which pay a variable rate of interest based on 3 month GBP LIBOR and deposits of £45,300,000 (2017: £58,400,000) with a selection of third party banks which pay a fixed rate of interest. These deposits meet the criteria 'Permitted Investments' as defined in the offering circular and mature within three months.

#### 9. DEEMED LOAN AT AMORTISED COST

	2018 £'000	2017 £'000
Deemed loan at amortised cost	597,822	721,896

The mortgage loans are all denominated in Sterling and are at variable rates of interest. The maturity of the deemed loan due from Virgin Money plc is calculated on the basis of the contractual maturity profile of the underlying mortgage loans.

#### 10. RECEIVABLES

	2018 £'000	2017 £'000
Amounts owed by Group undertakings	1,585	1,833
Amounts owed by related parties (note 16)	-	121
Other receivables	5	6
Accrued interest receivable	38	33
	1,628	1,993

## Gosforth Funding 2016-2 plc

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

#### 11. DEBT SECURITIES IN ISSUE

	Currency of Issued Note	Interest Rate	2018 £'000	2017 £'000
Class A1a Floating Rate Notes July 2058	EUR	3m EURIBOR + 0.45%	38,598	74,742
Class A1b Floating Rate Notes July 2058	GBP	3m GBP LIBOR + 0.80%	102,491	200,527
Class A2 Floating Rate Notes July 2058	GBP	3m GBP LIBOR + 0.85%	419,118	419,118
Class M Floating Rate Notes July 2058	GBP	3m GBP LIBOR + 1.80%	41,176	41,176
Class Z Fixed Rate Notes July 2058	GBP	Fixed at 0%	66,653	66,653
			<b>668,036</b>	<b>802,216</b>
Less unamortised issue costs			<b>(428)</b>	<b>(885)</b>
			<b>667,608</b>	<b>801,331</b>

The Class A Notes will rank in priority to the Class M Notes in point of security as to the payment of principal and interest. The Class M Notes will rank in priority to the Class Z Notes in point of security as to the payment of principal and interest.

The notes are contractually repayable in more than five years and have been shown as such in note 15. They will pay down on each quarterly payment date to the extent that principal repayments have been received in respect of the Company's deemed loan due from Virgin Money plc. Interest is payable on the notes at variable rates based on the three month Sterling LIBOR and three month EURIBOR. The floating rate notes re-priced on 24 January 2019.

The Company has not had any defaults of principal, interest or other breaches in respect of debt securities during the year.

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

### 12. DERIVATIVE FINANCIAL INSTRUMENTS

The Directors have authorised the use of derivative instruments for the purpose of supporting the strategic and operational business activities of the Company and reducing the risk of loss arising from changes in interest rates and exchange rate fluctuations. All use of derivative instruments within the Company is to reduce risk exposure, and the Company takes no trading positions in derivatives.

The objective, when using any derivative instrument, is to ensure that the risk to reward profile of any transaction is optimised. The intention is only to use derivatives to create economically effective hedges. However, because of the specific requirements of IAS 39, not all economic hedges are designated as accounting hedges, either because natural accounting offsets are expected or because obtaining hedge accounting would be especially onerous.

Fair values at 31 December 2018	Contract/ notional amount £'000	Assets £'000	Liabilities £'000
<b>Derivatives in economic hedging relationships but not in accounting hedge relationships</b>			
<i>Interest rate derivatives</i>			
Standby basis rate swap	-	45	-
<i>Currency derivatives</i>			
Cross currency interest rate swaps	33,633	4,905	-
<b>Total recognised derivative instruments</b>	<b>33,633</b>	<b>4,950</b>	<b>-</b>
Fair values at 31 December 2017	Contract/ notional amount £'000	Assets £'000	Liabilities £'000
<b>Derivatives in economic hedging relationships but not in accounting hedge relationships</b>			
<i>Interest rate derivatives</i>			
Standby basis rate swap	-	15	-
<i>Currency derivatives</i>			
Cross currency interest rate swaps	65,803	8,776	-
<b>Total recognised derivative instruments</b>	<b>65,803</b>	<b>8,791</b>	<b>-</b>



## Gosforth Funding 2016-2 plc

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

#### 13. PAYABLES

	2018 £'000	2017 £'000
Accrued interest payable	1,941	1,793
Amounts owed to Group undertakings	1,265	1,015
Amounts owed to related parties	1	3
Other payables	60	57
	<b>3,267</b>	<b>2,868</b>

#### 14. SHARE CAPITAL

	2018 £'000	2017 £'000
49,999 ordinary shares of £1 issued and one quarter paid up	50	50
1 ordinary share of £1 issued and fully paid up	-	-
	<b>50</b>	<b>50</b>

The shares have attached to them full voting, dividend and capital distribution (including winding up) rights. They do not confer any rights of redemption. The Company's authorised share capital is £50,000 (2017: £50,000).

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

#### 15. FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties faced by the Company and the objectives and policies for managing these risks are set out in the Strategic Report. Each of the major risk categories is listed below together with a brief description of the risk management framework.

##### **Risk management**

In order to manage and control its risks, the Company has implemented a comprehensive set of policies and procedures. The manner in which the principal risks faced by the Company are mitigated is described below.

##### **Credit risk**

Credit risk is the exposure to loss if another party fails to meet its financial obligations to the Company, including failing to perform them in a timely manner.

The Company trades only with recognised, credit worthy third parties. It is the Company's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

Master netting agreements are in place with the derivative counterparty, whose creditworthiness is continually monitored and assessed. In the event that the derivative counterparty is downgraded by the credit rating agencies below certain thresholds (as defined by the associated credit support agreements) and the relevant derivatives are assets to the Company, the counterparty is obliged to deposit collateral with the Company. This mitigates the risk that the derivative asset positions are impaired as a result of the counterparty failing to meet its obligations.

The Company's primary exposure is the deemed loan due from Virgin Money plc, which represents an interest in a portfolio of mortgage loans held in trust by Gosforth Mortgages Trustee 2016-2 Limited. The credit risk associated with the mortgage portfolio is continually monitored by the Directors in conjunction with Virgin Money plc and external rating agencies. Credit risk is reduced in respect of the notes by establishing a Reserve Fund to meet shortfalls.

The following tables are derived from the monthly Investors' Reports of Gosforth Mortgages Trustee 2016-2 Limited. They show the arrears performance of the Trust's non-reposessed mortgage loans, in which the Company has a beneficial interest.

## Gosforth Funding 2016-2 plc

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

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

2018	Number	Principal £'000	Arrears £'000	By number %	By principal %
<b>Months in arrears</b>					
Fewer than 1 Month	5,580	868,095	-	99.71%	99.76%
>=1<2 Months	9	1,440	8	0.16%	0.17%
>=2<3 Months	2	192	3	0.04%	0.02%
>=3<6 Months	4	374	11	0.07%	0.04%
>=6<9 Months	-	-	-	0.00%	0.00%
>=9<12 Months	1	87	5	0.02%	0.01%
>=12 Months	-	-	-	0.00%	0.00%
<b>Total</b>	<b>5,596</b>	<b>870,188</b>	<b>27</b>	<b>100.00%</b>	<b>100.00%</b>

2017	Number	Principal £'000	Arrears £'000	By number %	By principal %
<b>Months in arrears</b>					
Fewer than 1 Month	6,052	874,768	-	99.75%	99.74%
>=1<2 Months	10	1,490	11	0.16%	0.17%
>=2<3 Months	1	161	2	0.02%	0.02%
>=3<6 Months	4	630	13	0.07%	0.07%
>=6<9 Months	-	-	-	0.00%	0.00%
>=9<12 Months	-	-	-	0.00%	0.00%
>=12 Months	-	-	-	0.00%	0.00%
<b>Total</b>	<b>6,067</b>	<b>877,049</b>	<b>26</b>	<b>100.00%</b>	<b>100.00%</b>

The percentages in the above tables are calculated by reference to the total number of mortgage loans in the Trust of 5,596 (2017: 6,067) and the principal balance of the Trust's mortgage assets of £870,188,000 (2017: £877,049,000) as at 31 December 2018.

There was one property in possession as at 31 December 2018 (2017: one) and £nil (2017: £nil) principal losses were suffered during the year.

Virgin Money plc's general policy in their role as Administrator is to ensure that correct and appropriate forbearance tools are applied in the administration of accounts in arrears.

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

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

A mortgage is identified as being in arrears in the above table when, on any due date, the overdue amounts which were due on previous due dates equal, in the aggregate, one or more full monthly payments. In making an arrears determination, the administrator calculates as of the date of determination the difference between the sum of all monthly payments that were due and payable by a borrower on any due date up to that date of determination (less the aggregate amount of all authorised underpayments made by such borrower up to such date of determination) and the sum of all payments actually made by that borrower up to that date of determination. If the result arrived at by dividing that difference (if any) by the amount of the required monthly payment equals or exceeds 1 the loan is deemed to be in arrears. Arrears classification is determined based on the number of full monthly payments that have been missed. A borrower that has missed payments that in the aggregate equal or exceed 2 monthly payments (but for which the aggregate of missed payments is less than 3 monthly payments) would be classified as being between 2-3 months in arrears, and so on.

Losses suffered in respect of the mortgage portfolio held by the Trust reduce the share of cash available for distribution to the Company. This could result in the Company being unable to pay all interest and/or principal amounts due in respect of the loan notes. However, the Company is only obliged to make payments in respect of the loan notes to the extent of the amounts received in respect of the deemed loan due from Virgin Money plc.

All financial assets are not credit-impaired and none have experienced a significant increase in credit risk.

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

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### *Concentration risk*

Concentration risk refers to any exposure with the potential to produce losses large enough to threaten the Company's ability to maintain its core operations. This would include exposures to individual counterparties and counterparties in specific geographical locations.

The following table breaks down the Company's main credit exposures by country at their carrying amounts. Exposures are allocated to countries based on the country of domicile of the counterparty:

2018	UK £'000	France £'000	Canada £'000	Total £'000
Cash and cash equivalents	21,229	-	45,300	66,529
Deemed loan to Virgin Money plc	597,822	-	-	597,822
Derivative financial instruments	-	4,950	-	4,950
Receivables	1,595	-	33	1,628
	<b>620,646</b>	<b>4,950</b>	<b>45,333</b>	<b>670,929</b>

2017	UK £'000	France £'000	Canada £'000	Total £'000
Cash and cash equivalents	71,438	-	-	71,438
Deemed loan to Virgin Money plc	721,896	-	-	721,896
Derivative financial instruments	-	8,791	-	8,791
Receivables	1,993	-	-	1,993
	<b>795,327</b>	<b>8,791</b>	<b>-</b>	<b>804,118</b>

A further measure of concentration risk concerns the degree to which the Trust's mortgage assets are concentrated in high loan to value (LTV) loans. All mortgages have an LTV of 90% or less. Further information can be found in the unaudited Investor Reports, which can be found at the website address

<https://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages/>

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

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Foreign currency risk

Foreign currency risk arises as a result of the Company having liabilities that are denominated in currencies other than Sterling. In addition to issuing notes in Sterling, the Company has issued notes denominated in Euros. The Company's policy is to fully mitigate any exchange rate exposures by using cross currency swaps.

The table below shows foreign currency liabilities at Sterling carrying values and compares them to related cross currency swap notional amounts at the balance sheet date and non-Sterling cash and cash equivalents. The net currency exposure can be seen to be nil. As foreign currency exposure is highly hedged by the cross currency swaps in place, the Directors believe it is unnecessary to calculate any sensitivity analysis to movement in currency rates.

2018	Euros £'000
<b>Assets</b>	
Notional value of derivatives affecting currency exposures	38,598
<b>Total Assets</b>	<b>38,598</b>
<b>Liabilities</b>	
Debt securities in issue	38,598
<b>Total Liabilities</b>	<b>38,598</b>
<b>Net position</b>	<b>-</b>
 2017	 Euros £'000
<b>Assets</b>	
Notional value of derivatives affecting currency exposures	74,742
<b>Total Assets</b>	<b>74,742</b>
<b>Liabilities</b>	
Debt securities in issue	74,742
<b>Total Liabilities</b>	<b>74,742</b>
<b>Net position</b>	<b>-</b>

#### Liquidity risk

Liquidity risk arises from a mismatch in the cash flows generated from current and expected assets, liabilities and derivatives. Assets available to meet all of the liabilities as they fall due are cash and cash equivalents and the deemed loan. The liquidity profile of the deemed loan is designed to replicate exactly that of the debt securities in issue (on a post hedge basis where applicable).

Cash flows on the deemed loan due from Virgin Money plc are dependent on the underlying mortgage loans. The actual lives of the mortgage loans within the Trust reflect the underlying lives of the mortgage loans which in general have a maximum contractual term of 35 years, but the actual rate at which the mortgage loans are repaid may be in advance of the legal maturity date. Any principal receipts from the Company's beneficial interest in the mortgage trust will be utilised by the Company to repay the debt securities in issue.

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

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below analyses the Company's assets and liabilities into relevant maturity groupings based on the remaining contractual period at the balance sheet date. The analysis reflects the legal maturity of the underlying items in isolation and does not reflect the requirements of the securitisation documentation regarding the required priority of payments.

2018	Within 3 months £'000	After 3 months but within 6 months £'000	After 6 months but within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000	Total £'000
<b>Assets</b>						
Cash and cash equivalents	66,529	-	-	-	-	66,529
Deemed loan at amortised cost	4,969	6,369	13,194	97,970	475,320	597,822
Derivative financial instruments	-	-	-	-	4,950	4,950
Receivables	1,628	-	-	-	-	1,628
<b>Total assets</b>	<b>73,126</b>	<b>6,369</b>	<b>13,194</b>	<b>97,970</b>	<b>480,270</b>	<b>670,929</b>
<b>Liabilities</b>						
Debt securities in issue	-	-	-	-	667,608	667,608
Derivative financial instruments	-	-	-	-	-	-
Payables	3,267	-	-	-	-	3,267
Current tax liability	-	-	-	-	-	-
<b>Total liabilities</b>	<b>3,267</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>667,608</b>	<b>670,875</b>
<b>Net liquidity gap</b>	<b>69,859</b>	<b>6,369</b>	<b>13,194</b>	<b>97,970</b>	<b>(187,338)</b>	<b>54</b>

## Gosforth Funding 2016-2 plc

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

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

2017	Within 3 months £'000	After 3 months but within 6 months £'000	After 6 months but within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000	Total £'000
<b>Assets</b>						
Cash and cash equivalents	71,438	-	-	-	-	71,438
Deemed loan at amortised cost	5,129	7,432	14,943	126,299	568,093	721,896
Derivative financial instruments	-	-	-	-	8,791	8,791
Receivables	1,993	-	-	-	-	1,993
<b>Total assets</b>	<b>78,560</b>	<b>7,432</b>	<b>14,943</b>	<b>126,299</b>	<b>576,884</b>	<b>804,118</b>
<b>Liabilities</b>						
Debt securities in issue	-	-	-	-	801,331	801,331
Derivative financial instruments	-	-	-	-	-	-
Payables	2,868	-	-	-	-	2,868
Current tax liability	-	-	-	-	-	-
<b>Total liabilities</b>	<b>2,868</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>801,331</b>	<b>804,199</b>
<b>Net liquidity gap</b>	<b>75,692</b>	<b>7,432</b>	<b>14,943</b>	<b>126,299</b>	<b>(224,447)</b>	<b>(81)</b>



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

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### *Non derivative cash flows*

The tables below analyse the Company's non derivative contractual cash flows payable into relevant maturity groupings based on the remaining period at balance sheet date to expected maturity dates. The amounts disclosed are the expected undiscounted cash flows including future interest cash flows.

	Within 3 months £'000	After 3 months but within 6 months £'000	After 6 months but within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000	Total £'000
<b>2018</b>						
<b>Liabilities</b>						
Debt securities in issue	33,517	32,672	62,591	564,729	-	693,509
	Within 3 months £'000	After 3 months but within 6 months £'000	After 6 months but within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000	Total £'000
<b>2017</b>						
<b>Liabilities</b>						
Debt securities in issue	37,882	36,387	70,021	692,086	-	836,376

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

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Fair values of financial assets and liabilities measured at amortised cost

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value. The Class A and Class M debt securities are valued at the mid price and the Class Z debt securities using a discounted cash flow model. Cash and cash equivalents, interest bearing loans and borrowings, receivables and payables are recognised on an amortised cost basis, which is considered to be a close approximation to fair value.

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair Value £'000	Book Value £'000
<b>Financial assets</b>					
Cash and cash equivalents	-	66,529	-	66,529	66,529
Deemed loan	-	597,822	-	597,822	597,822
Receivables	-	1,628	-	1,628	1,628
<b>Financial liabilities</b>					
Debt securities in issue	-	667,175	-	667,175	667,608
Payables	-	3,267	-	3,267	3,267

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Fair Value £'000	Book Value £'000
<b>Financial assets</b>					
Cash and cash equivalents	-	71,438	-	71,438	71,438
Deemed loan	-	721,896	-	721,896	721,896
Receivables	-	1,993	-	1,993	1,993
<b>Financial liabilities</b>					
Debt securities in issue	744,669	64,513	-	809,182	801,331
Payables	-	2,868	-	2,868	2,868

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

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices).

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

Fair value of cash and cash equivalents approximates to carrying value because cash and cash equivalents have no history of credit losses and are short term in nature or re-price frequently.

Fair value of the deemed loan approximates to carrying value because it represents balances that are subject to a floating rate of interest that reprices on a quarterly basis.

Fair value of receivables and payables approximates to carrying value because they represent balances that are non interest bearing and expected to settle within a short time period.

Fair value of debt securities in issue are based on quoted prices where available or by using discounted cash flows applying market rates.

#### Fair value measurement

The following table summarises the fair value measurement basis used for assets and liabilities held on the balance sheet at fair value:

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Financial assets</b>			
Derivative financial instruments	-	4,950	-
2017	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Financial assets</b>			
Derivative financial instruments	-	8,791	-

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

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Interest rate risk

"Interest rate risk" arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the slope and shape of yield curves and changes in correlation of interest rates between different financial instruments (often referred to as basis risk). The interest payable on the loan notes re-prices on the same quarterly basis as the interest receivable in respect of the deemed loan (as adjusted by the basis rate swap) so that interest rate risk is reduced.

#### Interest rate profile of financial assets and liabilities

2018	Floating rate £'000	Fixed rate £'000	Non interest bearing £'000	Total £'000
<b>Assets</b>				
Sterling	623,989	45,312	1,628	670,929
Euros	-	-	-	-
	<b>623,989</b>	<b>45,312</b>	<b>1,628</b>	<b>670,929</b>
<b>Liabilities</b>				
Sterling	562,785	-	69,482	632,267
Euros	38,598	-	10	38,608
	<b>601,383</b>	<b>-</b>	<b>69,492</b>	<b>670,875</b>
<b>2017</b>	<b>Floating rate £'000</b>	<b>Fixed rate £'000</b>	<b>Non interest bearing £'000</b>	<b>Total £'000</b>
<b>Assets</b>				
Sterling	743,712	58,413	1,993	804,118
Euros	-	-	-	-
	<b>743,712</b>	<b>58,413</b>	<b>1,993</b>	<b>804,118</b>
<b>Liabilities</b>				
Sterling	660,821	-	68,619	729,440
Euros	74,742	-	17	74,759
	<b>735,563</b>	<b>-</b>	<b>68,636</b>	<b>804,199</b>

All floating rate assets and liabilities re-priced on 24 January 2019.

As the majority of assets and liabilities are floating rate due to interest rate swaps in place, the Directors believe it is unnecessary to calculate any sensitivity analysis to movements in interest rates.

#### Prepayment risk

"Prepayment risk" arises when it is possible that the assets may be realised earlier than it is possible to redeem the liabilities. This risk is mitigated by the "pass through" attributes of the structure whereby all principal payments on the mortgage loans up to the controlled amortisation amount are used to redeem the notes.

## Gosforth Funding 2016-2 plc

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

#### 16. RELATED PARTY TRANSACTIONS

The Company is considered a subsidiary of Virgin Money plc for accounting purposes on the basis that Virgin Money plc is exposed to the rights of variable returns from its involvement in the activities of the Company and has the ability to affect those returns through its power over the Company. Consequently the Directors consider Virgin Money plc to be a related party. A number of transactions are entered into with Virgin Money plc as part of the Company's normal day to day business.

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Interest and similar income</b>		
Interest receivable on the deemed loan	10,651	10,521
Other interest receivable	65	2
	<b>10,716</b>	<b>10,523</b>
 <b>Interest and similar expense</b>		
Interest payable on debt securities in issue	<b>(7,606)</b>	<b>(6,051)</b>
 <b>Administrative expenses</b>		
Cash manager fee	<b>7</b>	<b>7</b>

Deferred consideration is paid to Gosforth Mortgages Trustee 2016-2 Limited, which in turn pays this to Virgin Money plc on the same day in line with the transaction documents.

Included in the above cash manager fees is £4,000 (2017: £4,000) reallocated from Gosforth Mortgages Trustee 2016-2 Limited.

## Gosforth Funding 2016-2 plc

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

#### 16. RELATED PARTY TRANSACTIONS (CONTINUED)

	2018 £'000	2017 £'000
<b>Assets</b>		
Deemed loan	597,822	721,896
Receivables	–	121
	<b>597,822</b>	<b>722,017</b>
<b>Liabilities</b>		
Debt securities in issue	534,002	540,711
Payables - accrued interest payable	1,533	1,189
Payables - amounts owed to related parties	1	3
	<b>535,536</b>	<b>541,903</b>

At 31 December 2018 the Company was due £1,499,458 (2017: £1,795,546) from Gosforth Mortgages Trustee 2016-2 Limited relating to cash held in trust for the Company.

Included within receivables is an amount of £37,499 (2017: £37,499) due from Gosforth Holdings 2016-2 Limited in relation to unpaid share capital.

As described in note 5, a management fee of £20,128 (2017: £20,000) has been charged by Law Debenture Corporate Services Limited for a range of services including provision of L.D.C. Securitisation Director No. 1 Limited and L.D.C. Securitisation Director No. 2 Limited for the year. This includes a fee of £6,069 (2017: £6,031) which is paid on behalf of Gosforth Holdings 2016-2 Limited. A further £4,437 (2017: £4,633) is reallocated from Gosforth Mortgages Trustee 2016-2 Limited.

#### 17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company is considered a subsidiary of Virgin Money plc for accounting purposes on the basis that Virgin Money plc is exposed to the rights of variable returns from its involvement in the activities of the Company and has the ability to affect those returns through its power over the Company. Consequently the Directors consider Virgin Money plc to be a related party. A number of transactions are entered into with Virgin Money plc as part of the Company's normal day to day business.

The Company's ultimate parent is The Law Debenture Intermediary Corporation plc, a company registered in England and Wales, the shares being held under a trust arrangement. Copies of the financial statements of The Law Debenture Intermediary Corporation plc may be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ. The Company does not consider The Law Debenture Intermediary Corporation plc to be the controlling party.

Under IFRS, the Company's financial statements are consolidated into the financial statements of Virgin Money Holdings (UK) plc in accordance with IFRS 10 'Consolidated Financial Statements'. This is the smallest and largest group to consolidate the results of the Company. Copies of Virgin Money Holdings (UK) plc consolidated financial statements can be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ.

The Company's ultimate controlling party is CYBG plc.

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

#### **18. EVENTS AFTER THE REPORTING PERIOD**

There have been no significant events between 31 December 2018 and the date of approval of these financial statements which would require a change or additional disclosure in the financial statements.

#### **19. FUTURE ACCOUNTING DEVELOPMENTS**

A number of new accounting standards and amendments to accounting standards have been issued by the International Accounting Standards Board (IASB), are not yet effective and have not been early adopted by the Company. None of these new standards or amendments to accounting standards are expected to be relevant to the Company.