

Registered Number 10887005

GOSFORTH FUNDING 2017-1 PLC
Annual Report and Financial Statements
31 December 2018



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Gosforth Funding 2017-1 plc

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	10887005
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 1 Bridgewater Place Water Lane Leeds LS11 5QR

Gosforth Funding 2017-1 plc

STRATEGIC REPORT

For the period ended 31 December 2018

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

OVERVIEW OF GOSFORTH 2017-1 SECURITISATION TRANSACTION

Gosforth Funding 2017-1 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 pool of mortgage loans secured on residential property in England, Scotland and Wales was placed into a trust (the Trust Property). Gosforth Mortgages Trustee 2017-1 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 27 July 2017 as a public limited company and on 4 September 2017 received its section 761 Companies Act certificate to do business and borrow. The Company was dormant until it commenced operations on 25 September 2017.

On 25 September 2017, the Company purchased a beneficial interest in the Trust Property for a cash consideration of £1,346 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 pool 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 25 September 2017, the Company issued the following loan notes:

Class	Principal	Interest Rate
Class A1a	\$421,053,000	3m US\$ LIBOR + 0.47%
Class A1b	£222,726,000	3m GBP LIBOR + 0.32%
Class A2	£473,685,000	3m GBP LIBOR + 0.50%
Class M	£46,073,000	3m GBP LIBOR + 1.00%
Class Z	£97,904,000	Fixed at 0%

The notes have a final redemption date of 19 December 2059, with a call option on 19 December 2022 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 US\$ LIBOR on the Class A and Class M notes double.

STRATEGIC REPORT For the period 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 19 December 2059. 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 December 2059, 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 16 shows arrears affecting the residential mortgages that underpin the deemed loan (see page 30) 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 period this equated to £19,716, 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 £299,000 was due to the net effect of the fair value of gains of £282,000.

During the year, Virgin Money plc made repayments totalling £178,570,000 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 period. Detailed information about the performance of the pool of residential mortgage loans within the Trust is included in the monthly investor reports. The arrears

STRATEGIC REPORT For the period ended 31 December 2018

performance of the mortgage loans are detailed in the note 16 to the financial statements.

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 exposure to these 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 pool 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 pool. The notes to the financial statements provide a substantial amount of information on the quality of the underlying mortgage pool. A significant increase in the arrears and/or repossession losses associated with this mortgage pool 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 US Dollars. 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

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STRATEGIC REPORT

For the period ended 31 December 2018

respect of the deemed loan (as adjusted by the basis rate swap and cross currency swap), so that interest rate risk is reduced.

- **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 16 to the financial statements.

This report was approved by the Board on 28 March 2019 and signed on its behalf by:



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

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DIRECTORS' REPORT

For the period ended 31 December 2018

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

DIVIDENDS

Dividends of £nil were declared and paid during the period. The Directors do not recommend a final dividend for the period.

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.

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 customer behaviours, the liquidity

DIRECTORS' REPORT For the period ended 31 December 2018

position of the Company, counterparty vulnerability, operational capability and disruption to payment and other systems.

No changes in future activities are envisaged.

RESEARCH AND DEVELOPMENT

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 13 and note 16.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT AND 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.

DIRECTORS' REPORT

For the period 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 28 March 2019 and signed on its behalf by:



For and on behalf of Law Debenture Corporate Services Limited, Company Secretary.
Registered Number 10887005

Gosforth Funding 2017-1 plc

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2017-1 PLC

Opinion

We have audited the financial statements of Gosforth Funding 2017-1 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 20, 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 period 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

Key audit matters	• Recoverability of the deemed loan
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Materiality	• Overall materiality of £9.7m 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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2017-1 PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Recoverability of the deemed loan</p> <p><i>Refer to the Accounting policies (page 18); and Note 9 of the Financial Statements (page 26)</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 2017-1 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 2017-1 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 recoverability of 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 2017-1 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 £9.7 million, 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.

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 £4.8m. 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 £0.48m, 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.

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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2017-1 PLC

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.

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 2017-1 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.

Gosforth Funding 2017-1 plc

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSFORTH FUNDING 2017-1 PLC

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 22 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
28 March 2019

Gosforth Funding 2017-1 plc

STATEMENT OF COMPREHENSIVE INCOME For the period ended 31 December 2018

	Note	Period from 27 July 2017 to 31 December 2018 £'000
Interest and similar income	2	14,317
Interest and similar expense	3	(14,135)
Net interest income		182
Net fair value gains and losses	4	282
Administrative expenses	5	(161)
Profit before taxation		303
Taxation	6	(4)
Profit and total comprehensive income for the period attributable to equity shareholders		299

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 2017-1 plc

BALANCE SHEET As at 31 December 2018

	Note	2018 £'000
Assets		
Cash and cash equivalents	8	23,025
Deemed loan	9	895,307
Derivative financial instruments	13	11,621
Receivables	10	38,937
Total assets		968,890
Liabilities		
Debt securities in issue	11	961,624
Deposits by banks	12	5,910
Payables	14	1,003
Current tax liabilities		4
Total liabilities		968,541
Equity		
Share capital	15	50
Retained earnings		299
Total equity		349
Total equity and liabilities		968,890

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

The financial statements on pages 14 to 39 were approved by the Board of Directors on 28 March 2019 and signed on its behalf by:



Mark Filer

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

Gosforth Funding 2017-1 plc

STATEMENT OF CHANGES IN EQUITY For the period ended 31 December 2018

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance as at 27 July 2017	-	-	-
Issuance of ordinary shares	50	-	50
Profit and total comprehensive income for the period	-	299	299
Balance as at 31 December 2018	50	299	349

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

Gosforth Funding 2017-1 plc

CASH FLOW STATEMENT For the period ended 31 December 2018

	Period from 27 July 2017 to 31 December 2018 £'000
Profit before taxation	303
(Increase) in deemed loan	(895,307)
(Increase) in receivables	(38,937)
Increase in debt securities in issue	961,624
Increase in deposits by banks	5,910
(Increase) in derivative financial instruments	(11,621)
Increase in payables	1,003
Net cash provided from operating activities	22,975
Cash flows from financing activities	
Issue of share capital	50
Net cash provided from financing activities	50
Net increase in cash and cash equivalents	23,025
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	23,025

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

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Company.

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

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

1. ACCOUNTING POLICIES

1.1 Reporting entity

Gosforth Funding 2017-1 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 IFRS.

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 first and current period is from 27 July 2017 to 31 December 2018.

1.3 Deemed loan

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 pool 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 £1,345,936,935 less the initial subordinated loan from Virgin Money plc of £23,878,275. The Company recognises principal and interest cash flows from the underlying pool 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 period 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 net 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 written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.6 Loans and receivables and financial liabilities

The Company's deemed loan to Virgin Money plc, cash and cash equivalents and receivables are classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market, whose recoverability is based solely on the credit risk of the counterparty and where the Company has no intention of trading the loan or receivable.

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

Both loans and receivables and financial liabilities are initially recognised at fair value including direct and incremental transaction costs. 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.

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

1. ACCOUNTING POLICIES (CONTINUED)

1.7 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 pool 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 pool of mortgage loans which are not recognised by the Company for the 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 US\$ LIBOR 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.

1.8 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.

1.9 Impairment losses

The Company assesses its financial assets for objective evidence of impairment at each balance sheet date. An impairment loss is recognised if, and only if, there is a loss event (or events) that has occurred after initial recognition and on or before the balance sheet date, that has a reliably measurable impact on the estimated future cash flows of the financial assets. Losses that are incurred as a result of events occurring after the balance sheet date are not recognised in these financial statements.

1.10 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.

1.11 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").

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

1. ACCOUNTING POLICIES (CONTINUED)

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.

1.12 Foreign currency translation

The Company's financial statements are presented in Sterling, which is the functional currency of the Company. 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.

1.13 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.

1.14 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 £19,716 for the period ended 31 December 2018. 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.

1.15 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.

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

1. ACCOUNTING POLICIES (CONTINUED)

1.16 Critical accounting estimates

Fair value calculations

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on Management's best knowledge of the amount, actual results ultimately may differ from those estimates.

2. INTEREST AND SIMILAR INCOME

	Period from 27 July 2017 to 31 December 2018 £'000
Interest receivable on the deemed loan	13,951
Other interest receivable	366
	<hr/> 14,317 <hr/>

3. INTEREST AND SIMILAR EXPENSE

	Period from 27 July 2017 to 31 December 2018 £'000
Interest payable on debt securities in issue	13,078
Amortisation of issue costs	1,045
Collateral interest	12
	<hr/> 14,135 <hr/>

Gosforth Funding 2017-1 plc

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

4. NET FAIR VALUE GAINS AND LOSSES

	Period from 27 July 2017 to 31 December 2018 £'000
Fair value movements of future cash flows on cross currency swap	13,453
Translation gains and losses on underlying instruments:	(13,171)
	<u>282</u>

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

	Period from 27 July 2017 to 31 December 2018 £'000
Cash manager fee	10
Fees payable for the audit of the current period annual report and financial statements	31
Other administrative expenses	120
	<u>161</u>

The Company has no employees. 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 17) for a range of services including the provision of a Director. A management fee of £9,500 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 £31,000 includes £5,600 reallocated from Gosforth Mortgages Trustee 2017-1 Limited and £15,900 incurred on behalf of Gosforth Holdings 2017-1 Limited.

Gosforth Funding 2017-1 plc

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

6. TAXATION

Analysis of tax charge for the period:

	Period from 27 July 2017 to 31 December 2018 £'000
Current tax:	
UK corporation tax on taxable profit for the period	4
Tax charge	<u>4</u>

Factors affecting the tax charge for the period:

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 period is given below:

	Period from 27 July 2017 to 31 December 2018 £'000
Profit before tax	303
Tax charge at effective rate of 19%	(57)
Factors affecting charge:	
Income not taxable	53
Total tax charge	<u>(4)</u>

The charge 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 2017-1 plc

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

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

2018	Financial liabilities at amortised cost £'000	Loans and receivables £'000	Derivatives not in IAS 39 hedges £'000	Total £'000
Financial assets				
Cash and cash equivalents	-	23,025	-	23,025
Deemed loan	-	895,307	-	895,307
Derivative financial instruments	-	-	11,621	11,621
Receivables	-	38,937	-	38,937
Total financial assets	-	957,269	11,621	968,890
Financial liabilities				
Debt securities in issue	961,624	-	-	961,624
Deposits by banks	-	5,910	-	5,910
Payables	1,003	-	-	1,003
Total financial liabilities	962,627	5,910	-	968,537
Current tax liabilities				4
Total equity				349
Total equity and liabilities				968,890

Gosforth Funding 2017-1 plc

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

8. CASH AND CASH EQUIVALENTS

	2018 £'000
Cash and cash equivalents	<u>23,025</u>

The Company holds deposits of £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 £900,000 at suitably rated banks which pay a variable rate of interest based on 3 month GBP LIBOR and deposits of £16,200,000 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.

The Company also holds a deposit of £5,912,000 relating to collateral received from derivative counterparties pursuant to the provisions of the associated cross currency swap agreements.

9. DEEMED LOAN

	2018 £'000
Deemed loan	<u>895,307</u>

The mortgages 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
Amounts owed by Group undertakings	222
Amounts owed by related parties	38,698
Other receivables	11
Accrued interest receivable	6
	<u>38,937</u>

Gosforth Funding 2017-1 plc

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

11. DEBT SECURITIES IN ISSUE

	Currency of Issued Note	Interest Rate	2018 £'000
Class A1a Floating Rate Notes December 2059	USD	3m US\$ LIBOR + 0.47%	206,190
Class A1b Floating Rate Notes December 2059	GBP	3m GBP LIBOR + 0.32%	139,352
Class A2 Floating Rate Notes December 2059	GBP	3m GBP LIBOR + 0.50%	473,685
Class M Floating Rate Notes December 2059	GBP	3m GBP LIBOR + 1.00%	46,073
Class Z Fixed Rate Notes December 2059	GBP	Fixed at 0%	97,904
			<hr/>
			963,204
Less unamortised issue costs			(1,580)
			<hr/>
Debt securities in issue			961,624

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 16. 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 US\$ LIBOR. The floating rate notes re-priced on 19 March 2019.

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

Gosforth Funding 2017-1 plc

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

12. DEPOSITS BY BANKS

	2018
	£'000
Collateral pledged by derivative counterparties	5,910

The Company also holds securities posted by the swap counterparty as collateral off balance sheet, which it is not permitted to pledge or resell.

13. 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. 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
Derivatives in economic hedging relationships but not in accounting hedge relationships			
<i>Interest rate derivatives</i>			
Standby basis rate swap	-	-	-
<i>Currency derivatives</i>			
Cross currency interest rate swaps	194,851	11,621	-
Total recognised derivative instruments	194,851	11,621	-

Gosforth Funding 2017-1 plc

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

14. PAYABLES

	2018 £'000
Accrued interest payable	427
Amounts owed to Group undertakings	529
Other payables	47
	<hr/> 1,003 <hr/>

15. SHARE CAPITAL

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

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.

16. 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. No receivable balances are past due nor impaired.

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.

Gosforth Funding 2017-1 plc

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

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's primary exposure is the deemed loan due from Virgin Money plc, which represents an interest in a portfolio of residential mortgages held in trust by Gosforth Mortgages Trustee 2017-1 Limited. The credit risk associated with the mortgage portfolio is continually monitored by the Directors in conjunction with Virgin Money Holdings (UK) plc group 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 2017-1 Limited. They show the arrears performance of the Trust's non-repossessed mortgage loans, in which the Company has a beneficial interest.

2018	Number	Principal £'000	Arrears £'000	By number %	By principal %
Months in arrears					
Fewer than 1 Month	6,288	1,091,906	-	99.81%	99.84%
>=1<2 Months	8	1,272	9	0.12%	0.12%
>=2<3 Months	1	212	4	0.02%	0.02%
>=3<6 Months	2	198	2	0.03%	0.01%
>=6<9 Months	1	120	5	0.02%	0.01%
>=9<12 Months	-	-	-	0.00%	0.00%
>=12 Months	-	-	-	0.00%	0.00%
Total	6,300	1,093,708	20	100.00%	100.00%

The percentages in the above tables are calculated by reference to the total number of mortgage loans in the Trust of 6,300 and the principal balance of the Trust's mortgage assets of £1,093,708,000 as at 31 December 2018.

There were no properties in possession as at 31 December 2018 and £nil principal losses were suffered during the period.

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.

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

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

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

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 current and have not been impaired.

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	Canada	Total
	£'000	£'000	£'000
Cash and cash equivalents	6,825	16,200	23,025
Deemed loan to Virgin Money plc	895,307	-	895,307
Derivative financial instruments	11,621	-	11,621
Receivables	38,932	5	38,937
	952,685	16,205	968,890

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 un-audited Investor Reports, which can be found at the website address <https://uk.virginmoney.com/virgin/investor-relations/securitisation/mortgages/>

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 US Dollars. 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 Sterling carrying values at the balance sheet date and 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

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

sensitivity analysis to movement in currency rates.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

2018	USD
	£'000
Assets	
Notional value of derivatives affecting currency exposures	206,190
Total Assets	206,190
Liabilities	
Debt securities in issue	206,190
Total Liabilities	206,190
Net position	-

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.

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.

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

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

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
Assets						
Cash and cash equivalents	23,025	-	-	-	-	23,025
Deemed loan	7,831	8,984	17,948	136,668	723,876	895,307
Derivative financial instruments	-	-	-	-	11,621	11,621
Receivables	38,937	-	-	-	-	38,937
Total assets	69,793	8,984	17,948	136,668	735,497	968,890
Liabilities						
Debt securities in issue	-	-	-	-	961,624	961,624
Deposits by banks	5,910	-	-	-	-	5,910
Payables	1,003	-	-	-	-	1,003
Current tax liabilities	-	-	4	-	-	4
Total liabilities	6,913	-	4	-	961,624	968,541
Net liquidity gap	62,880	8,984	17,944	136,668	(226,127)	349

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

16. 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.

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
Liabilities						
Debt securities in issue and associated interest	43,940	42,243	80,261	916,585	-	1,083,029
Deposits by banks	5,910	-	-	-	-	5,910
	49,850	42,243	80,261	916,585	-	1,088,939

Fair values of non-derivative financial assets and liabilities

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, deposits from banks, 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
Financial assets					
Cash and cash equivalents	-	23,025	-	23,025	23,025
Deemed loan	-	895,307	-	895,307	895,307
Receivables	-	38,937	-	38,937	38,937
Financial liabilities					
Debt securities in issue	-	946,709	-	946,709	961,624
Deposits by banks	-	5,910	-	5,910	5,910
Payables	-	1,003	-	1,003	1,003

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

16. 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
Financial assets			
Derivative financial instruments	-	11,621	-

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

16. 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
Assets				
Sterling	913,740	16,213	38,937	968,890
US Dollar	-	-	-	-
	913,740	16,213	38,937	968,890
Liabilities				
Sterling	665,022	-	97,331	762,353
US Dollar	206,190	-	-	206,190
	871,212	-	97,331	968,543

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 2017-1 plc

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018

17. 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.

	Period from 25 July 2017 to 31 December 2018 £'000
Interest and similar income	
Interest receivable on the deemed loan	13,951
Other interest receivable	76
	<hr/> 14,027 <hr/>
Interest and similar expense	
Interest payable on debt securities in issue	<hr/> (2,239) <hr/>
Administrative expenses	
Cash manager fee	<hr/> 10 <hr/>

Deferred consideration is paid to Gosforth Mortgages Trustee 2017-1 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 £6,000 reallocated from Gosforth Mortgages Trustee 2017-1 Limited.

Gosforth Funding 2017-1 plc

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

17. RELATED PARTY TRANSACTIONS (CONTINUED)

	2018 £'000
Assets	
Deemed loan	895,307
Receivables	<u>38,698</u>
	<u>934,005</u>
Liabilities	
Debt securities in issue	184,940
Payables - accrued interest payable	<u>59</u>
	<u>184,999</u>

At 31 December 2018 the Company was due £38,697,650 from Gosforth Mortgages Trustee 2017-1 Limited relating to cash held in trust for the Company.

Included within receivables is an amount of £37,499 due from Gosforth Holdings 2017-1 Limited in relation to unpaid share capital.

As described in note 5, a management fee of £9,500 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 period. This includes a fee of £1,500 which is paid on behalf of Gosforth Holdings 2017-1 Limited. A further £5,600 is reallocated from Gosforth Mortgages Trustee 2017-1 Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2018

18. 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.

19. 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.

20. FUTURE ACCOUNTING DEVELOPMENTS

A number of new accounting standards and amendments to accounting standards have been issued by the IASB, are not yet effective and have not been early adopted by the Company. Those which may be relevant to the Company are set out below.

Pronouncement	Nature of change	IASB effective date
IFRS 15 'Revenue from Contracts with Customers'	IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' as a comprehensive standard to address current inconsistencies in accounting practice for revenue recognition. Financial instruments and other contractual rights or obligations within the scope of IFRS 9 are excluded from the scope of this standard. The Company has reviewed the requirements of the new standard and it is not expected to have a significant impact, as all of the Company's revenue is generated from financial instruments.	1 January 2018 (EU endorsed on 22 September 2016)
IFRS 9 'Financial Instruments'	IFRS 9 'Financial Instruments' replaces the existing standard for recognition and measurement standard for financial instruments. The standard revises the measurement categories for financial assets, replaces the 'incurred loss' approach to impairment losses with an expected credit loss methodology and introduces new disclosure requirements.	1 January 2018 (EU endorsed on 22 November 2016)