Annual report and financial statements

Gosforth Funding 2017-1 PLC

For the period ended 30 September 2020

Company Number: 10887005

Gosforth Funding 2017-1 PLC

Annual report and financial statements
For the period ended 30 September 2020

Contents

Officers and professional advisers

Directors	Justin Fox (appointed 30 July 2020) Miles Storey (resigned 30 July 2020) L D C Securitisation Director No. 1 Limited L D C Securitisation Director No. 2 Limited
Secretary	Law Debenture Corporate Services Limited
Registered office	Eighth Floor 100 Bishopsgate London EC2N 4AG
Independent auditors	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR

Strategic report

The Directors of Gosforth Funding 2017-1 PLC ("the Company") present their strategic report for the period ended 30 September 2020.

Principal activities and business structure

The Company is a Special Purpose Vehicle ("SPV") which forms part of Clydesdale Bank PLC's ("CB PLC") Gosforth 2017-1 Residential Mortgage Backed Securities Programme (the "Programme"). The Programme was established primarily for the purpose of raising wholesale funding for the Programme Originator ("Originator") CB PLC.

The Company is incorporated under the Companies Act 2006 and registered in England and Wales and is a wholly owned subsidiary of Gosforth Holdings 2017-1 Limited ("GH Ltd"), the immediate parent entity, which is incorporated under the Companies Act 2006 and registered in England and Wales. The ultimate controlling entity is Virgin Money UK PLC ("VMUK PLC"). VMUK PLC and its subsidiary undertakings, which include CB PLC, comprise the Virgin Money UK PLC Group ("Group"). Further detail of the group structure is disclosed in note 1.1.

The principal activity of the Company is the issuance of limited recourse Class A, Class M and Class Z Residential Mortgage Backed Securities (the "Notes"), under the Programme. The Notes in issue have a legal maturity date of 19 December 2059, with a call option of 19 December 2022. The Notes are listed on the London Stock Exchange.

The proceeds were then used to purchase an interest in a pool of residential mortgage loans held on trust (the "Trust Property") by Gosforth Mortgages Trustee 2017-1 Limited ("GMT Ltd"), a private limited company incorporated under the Companies Act 2006 and registered in England and Wales. The Trust Property was sold to GMT Ltd by the Originator who 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 CB PLC. The deemed loan is described in note 1.4 to the financial statements.

The Programme documentation relating to the Programme structure defines certain prescribed roles and terms and should be read in conjunction with these financial statements. The Programme documentation can be found at: https://www.virginmoneyukplc.com/investor-relations/debt-investors/gosforth-funding-transactions/.

With effect from 25 August 2020, the financial year end of the Company was changed from 31 December to 30 September to align with the year end of the ultimate controlling entity, VMUK PLC.

Financial analysis

The Class A1 and Class A2 notes are subject to controlled amortisation, with the maximum repayment on each payment date set out in the Programme documentation. Repayments are ultimately dependent on there being sufficient principal receipts from the borrowers under the underlying mortgage loans in the Trust Property or Originator cash contributions as outlined in the Programme documentation. The Company is only obliged to make repayments of interest and principal in respect of the Notes to the extent that repayments are received from CB PLC in respect of the deemed loan or applicable reserve funds are available.

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 Programme, the Company is entitled to retain a pre-determined profit balance (before the net effect of fair value gains and losses). For the period ended 30 September 2020 this equated to £783 (2019: £2,600). Income in excess of the required amount accrues to CB PLC as deferred consideration of £4,747,000 (2019: £7,129,000). Deferred consideration is described in note 1.4 to the financial statements.

The combined performance of the receipts of the deemed loan and payments made on the Notes has been in line with expectations.

The loss for the period of £80,000 (2019: £201,000) was due to the net effect of the fair value of loss of £81,000 (2019: £203,000). The loss results from fair value movements on the cross currency swap, which forms part of an economic hedge and is excluded from the calculation of pre-determined profit as the effect is expected to unwind over the life of the swap.

Key performance indicators ("KPIs")

The Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the Company.

Strategic report (continued)

Section 172(1) statement

In accordance with the Companies Act 2006 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the Directors provide this statement describing how they have had regard to the matters set out in section 172(1), when performing their duty to promote the success of the Company.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the Directors have engaged with and had regard to the interest of key stakeholders. In accordance with section 426B of the Companies Act 2006, this statement is also available at https://www.virginmoneyukplc.com/investor-relations/.

As an SPV, the governance structure and key policies to achieve the objectives of section 172(1) were set out in the Programme documentation at inception of the Programme. Therefore, compliance with the Programme documentation ensures regard for the matters set out in section 172(1) as follows:

- The programme documentation sets out the principal transactions that will be undertaken to achieve the purpose and objectives of the Company, while ensuring the Company's assets are safeguarded.
- The Company has appointed third parties to perform various roles as specified in the Programme documentation. Fees and conditions were agreed at inception and are paid in line with the Programme's priority of payments schedule.
- In accordance with the securitisation tax regime, the Company is only permitted to retain minimal profit.
- The limited nature and range of activities of an SPV mean the Company has no employees and engagement with community and environmental stakeholders is not relevant for consideration.
- The Company has a sole member, GH Ltd, which also forms part of the Programme. CB PLC is the originator of the Programme and where matters impact the wider Group, stakeholder engagement is led by the VMUK PLC Board.

Future developments

The Company was established to issue Notes under the Programme. The Company will continue to operate until all of the Notes have been fully redeemed. No changes in future activities are envisaged.

The economic impacts of COVID-19 have yet to fully crystallise. Although the duration and depth of the downturn is uncertain, risks to credit and margin performance are expected, with significant disruption to both supply and demand already occurring. Increasing unemployment could impact customers' ability to repay their lending.

The efficacy of monetary and fiscal policy, and the speed and ability with which the United Kingdom ("UK") can return to normal operating conditions, will determine the overall economic impact for the UK and the Group.

There is an increased possibility of a second Scottish independence referendum, driven by a greater visibility of policy differences through the COVID-19 response.

Principal risks and uncertainties

The Company is exposed to changes in market variables such as exchange rate movements and floating rate interest obligations arising from foreign currency interest bearing Notes which have been issued. These risks are mitigated as the Company entered into a funding basis swap arrangement, by the limited recourse nature of the Notes issued and by the use of the cross currency swap. The main features of the Company's internal control and risk management systems are set out in note 4.3.

The risks and challenges identified in the financial statements do not represent an exhaustive list of the risks and issues associated with the Company. Other risks and issues not specifically referenced may adversely impact the future financial position and performance of the Company. Accordingly, no assurances or guarantees of future performance, profitability or returns on capital are given by the Company.

Financial risk management

The Company's principal financial asset is the deemed loan and the risks associated are the performance of the underlying mortgage loans along with the floating rate interest obligations under the Notes issued. The financial risk management policies are discussed further in note 4.3 to the financial statements.

This report was approved by the Board of Directors on 25 January 2021 and was signed on its behalf by:

Mark Filer
For and on behalf of L D C Securitisation Director No. 1 Limited, Director
25 January 2021

Directors' report

The Directors present their report and the audited financial statements of the Company for the period ended 30 September 2020.

Corporate governance

The Directors have been charged with governance in accordance with the Programme documentation describing the structure and operation of the Programme. The governance structure of the Company is such that the key policies have been predetermined at inception and the operational roles have been assigned to third parties with their roles strictly governed by the Programme documentation.

The Programme documentation provides procedures that have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued and the structure of the entity, the Company is largely exempt from the requirements of the Financial Conduct Authority pertaining to the Disclosure and Transparency Rules as detailed in DTR 7.1 *Audit committees* and 7.2 *Corporate governance statements* (save for the rule DTR 7.2.5 requiring description of the features of the internal control and risk management systems*),* which would otherwise require the Company respectively, to have an audit committee in place and include a corporate governance statement in the report of the Directors. The Directors are therefore satisfied that there is no requirement for an audit committee or supervisory body entrusted to carry out the functions of an audit committee.

The main features of the Company's internal control and risk management system are set out in note 4.3.

Profits and appropriations

The statement of comprehensive income for the period is set out on page 12.

The Directors do not recommend the payment of a dividend for the period under review (2019: £14,000).

Future developments and financial risk management objectives and policies

Information regarding future developments and financial risk management objectives and policies of the Company in relation to the use of financial instruments that would otherwise be required to be disclosed in the Directors' report, and which is incorporated into this report by reference, can be found in the strategic report.

Directors and Directors' interests

The Directors of the Company during the period and up to the date on which the financial statements were approved are disclosed on page 1.

Directors' interests

None of the Directors had any interest, either during the period or at the end of the period, in any material contract or arrangement with the Company.

Appointments and resignations

Justin Fox was appointed as a director of the Company on 30 July 2020.

Miles Storey resigned as a director of the Company on 30 July 2020.

Directors' remuneration

None of the Directors were directly remunerated by the Company in respect of their duties as Directors of the Company. However, during the period, a fee in the amount of £12,000 (2019: £16,000) was expensed to Law Debenture Corporate Services Limited, for the provision of corporate administration services including services of two Directors to the Company. In relation to the remaining Directors, their service to the Company was performed as part of their employment with CB PLC and no remuneration was earned in respect of qualifying services provided to the Company. CB PLC has not recharged the Company for the cost of this service.

Company secretary

The Company secretary during the period, and subsequently, was Law Debenture Corporate Services Limited.

Third party indemnities

A qualifying third party indemnity provision for the benefit of the Directors was in force during the period under review and remains in force as at the date of approval of the annual report and financial statements.

Employees

The Company does not have any employees.

Directors' report (continued)

Stakeholder engagement

In accordance with the Companies Act 2006 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) the Directors provide this statement on page 3 describing how they have had regard to the matters set out in section 172(1), when performing their duty to promote the success of the Company.

In accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) this statement also provides details of how the Directors have engaged with and had regard to the interest of key stakeholders.

The Company is a controlled entity of VMUK PLC and as such follows many of the processes and practices of this company which are further referenced in this statement where relevant. In accordance with section 426B of the Companies Act 2006, this statement is also available at https://www.virginmoneyukplc.com/investor-relations/.

Political donations

No political donations were made throughout the period (2019: £Nil).

Research and development costs

The Company does not undertake formal research and development activities.

Related parties

Details of related party transactions are set out in note 4.2 of the financial statements.

Share capital

Information about share capital is shown in note 3.11.

Going concern

The Company's Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for at least 12 months from the approval of the financial statements. This assessment has taken into account the impact of COVID-19 on the Company's current financial position and results and the potential impact in future periods.

The Company's use of the going concern basis for preparation of the accounts is discussed in note 1.3.

Events after the balance sheet date

There have been no significant events between 30 September 2020 and the date of approval of the annual financial statements which would require a change to or additional disclosure in the financial statements.

Auditors and disclosure of information to the auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

The auditor, Ernst & Young LLP ("EY LLP") has expressed their willingness to continue in office until the next annual general meeting ("AGM"). Pursuant to section 489 of the Companies Act 2006, a resolution for the reappointment of EY LLP will be proposed at the forthcoming AGM of the Company.

This report was approved by the Board of Directors on 25 January 2021 and was signed on its behalf by:

Mark Filer
For and on behalf of L D C Securitisation Director No. 1 Limited, Director
25 January 2021

Statement of Directors' responsibilities

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

UK company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare 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 statement of comprehensive income of the Company for that period. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then 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 in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable; and
- make an assessment of the Company's ability to continue as a going concern.

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 Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This statement was approved by the Board of Directors on 25 January 2021 and was signed on its behalf by:

Mark Filer
For and on behalf of L D C Securitisation Director No. 1 Limited, Director
25 January 2021

Independent auditor's 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 30 September 2020 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity, Statement of cash flows and the related notes 1.1 to 4.4, 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 30 September 2020 and of its loss 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included an evaluation of Management's going concern assessment.

We considered the appropriateness of Management's evaluation in relation to the nature of the entity and its operations, its financial performance and position, and an assessment of the key factors which could affect the entity's ability to continue as a going concern. We examined Management's cashflow forecasts and compared these forecasts against our own assessment of the reasonable prospects of the entity. We additionally considered the recoverability of the assets of the company, including the Deemed Loan asset.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Recoverability of the deemed loan, including the impact of COVID-19
Materiality	• Overall materiality of £7.3m which represents 1% of Total Assets.

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. All audit work was performed directly by the audit engagement team.

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 auditor’s report to the members of Gosforth Funding 2017-1 PLC (continued)

Risk	Our response to the risk	Key observations communicated to those charged with governance
Recoverability of deemed loan, including the impact of COVID-19 *Refer to the Accounting policies (page 16); and Note 3.1 of the Financial Statements (page 23).* The Company is a special purpose vehicle within a securitisation structure. It exists to advance wholesale funding to the Virgin Money UK PLC group. This is achieved through the Company issuing listed debt, secured by a beneficial interest in a mortgage portfolio recognised by Clydesdale Bank PLC. Clydesdale Bank PLC has retained substantially all of the risks and rewards of ownership in respect of the mortgage portfolio. As a result, the mortgage loans do not meet the criteria for recognition on the Company’s balance sheet and instead a deemed loan is recognised with Clydesdale Bank PLC. The interest and capital repayments on the deemed loan are required to be received by the Company in order to service its external debt. Due to the significance of the deemed loan (representing 96% of total assets) and the associated interest and capital repayments which may also be impacted by the COVID-19 outbreak, we considered the recognition of income and recoverability of the loan (including an assessment of expected credit losses) to be a key audit matter.	We walked through the process and relevant controls by which the Directors assessed expected credit losses for the deemed loan in order to understand the assessment performed. We independently evaluated this assessment, which involved the following procedures: • Examining the terms of the mortgages trust deed between the Company, Gosforth Mortgages Trustees 2017-1 Limited and Clydesdale Bank PLC. • Confirming that interest and principal repayments made during the period were recognised appropriately, completely and in accordance with the mortgages trust deed. This included agreeing a sample of repayments to cash transactions in the period. • Examining the deemed loan for any indicators of potential future losses, which involved looking through to the securitised mortgage loan pool from which deemed loan repayments flow and assessing whether shortfalls in mortgage recoveries are expected. • Assessing the appropriateness of provisions for expected credit losses recognised by the Company and assessing the sufficiency and completeness of disclosures of the risk to the deemed loan. • Assessing the impact of COVID-19 on the recoverability of the deemed loan in respect of expected credit losses measurement, evaluating management’s COVID-19 assessment and reviewing the financial statement disclosures to determine whether they were consistent with management’s assessment of the potential impact of COVID-19 on the Company and in accordance with the requirements of IFRS.	We concluded to those charged with governance that, based on the procedures performed, we were satisfied that expected credit losses relating to the deemed loan were appropriately measured as at 30 September 2020. We concluded that the financial statement disclosures in respect of the impact of COVID-19 are appropriate and in accordance with the requirements of IFRS.

Independent auditor’s report to the members of Gosforth Funding 2017-1 PLC (continued)

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.

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 £7.3 million (2019: £8.1 million), which is 1% (2019: 1%) of total assets. We believe that the use of total assets is appropriate since the entity is a special purpose vehicle that is structured to make a nominal profit (before net gains and losses), and so the most relevant aspect of the entity 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 75% (2019: 75%) of our planning materiality, being £5.5 million (2019: £6.1 million). We have set performance materiality at this percentage due to our previous experience as auditors of the Company, from which we concluded that there is a lower expectation of material financial statement inaccuracies due to the effective control environment and no audit differences resulting from our prior period and current period work.

Reporting threshold

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

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £0.4 million (2019: £0.4 million), 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 contained within the annual report.

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 auditor's report to the members of Gosforth Funding 2017-1 PLC (continued)

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 statement set out on page 6, 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006, Market Abuse Regulations, Transparency Regulations, and Tax legislation.
- We understood how the Company is complying with those frameworks by inquiring 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, as referred to in the Key Audit Matters section above.
- The Company operates in the capital markets industry which is a regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had 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.

Independent auditor's report to the members of Gosforth Funding 2017-1 PLC (continued)

Other matters we are required to address

- We were appointed by the company on 30 October 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 years and 3 months, covering the periods ending 31 December 2019 to 30 September 2020.
- 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

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.

Ernst & Young LLP

Steven Robb (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
25 January 2021

Statement of comprehensive income for the period ended

	Note	9 months to 30 Sep 2020 £'000	12 months to 31 Dec 2019 £'000
Interest income	2.2	**5,461**	11,473
Interest expense	2.3	**(5,933)**	(14,311)
Other similar interest	2.4	**543**	2,962
Operating income		**71**	124
Operating expenses	2.5	**(70)**	(122)
Net gains and losses	2.6	**(81)**	(203)
Loss before tax		**(80)**	(201)
Tax expense	2.7	**-**	-
Total comprehensive loss attributable to equity holders		**(80)**	(201)

The notes on pages 16 to 34 form part of these financial statements.

Balance sheet
as at

	Note	30 Sep 2020 £'000	31 Dec 2019 £'000
Assets			
Deemed loan	3.1	**694,344**	789,910
Derivative financial assets	3.2	**2,363**	2,431
Reserve funds	3.3	**12,182**	14,135
Other assets	3.4	**68**	50
Cash and cash equivalents	3.5	**18,058**	4,250
Total assets		**727,015**	810,776
Liabilities			
Notes in issue	3.6	**708,852**	806,376
Due to other banks	3.8	**18,064**	4,213
Other liabilities	3.9	**46**	39
Current tax liability		**-**	-
Total liabilities		**726,962**	810,628
Equity			
Share capital	3.11	**50**	50
Retained earnings		**3**	98
Total equity		**53**	148
Total liabilities and equity		**727,015**	810,776

The notes on pages 16 to 34 form part of these financial statements.

The financial statements were approved by the Board of Directors on 25 January 2021 and were signed on its behalf by:

Mark Filer
For and on behalf of L D C Securitisation Director No. 1 Limited, Director
25 January 2021
Company No: 10887005

Statement of changes in equity

	Note	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 31 December 2018		50	299	349
Total comprehensive loss for the year		-	(201)	(201)
Balance at 31 December 2019		50	98	148
Total comprehensive loss for the period		-	(80)	(80)
Dividends paid	3.12	-	(15)	(15)
Balance at 30 September 2020		**50**	**3**	**53**

The notes on pages 16 to 34 form part of these financial statements.

Statement of cash flows
for the period

	Note	**9 months to 30 Sep 2020**	12 months to 31 Dec 2019
		£'000	£'000
Operating activities			
Loss before tax		**(80)**	(201)
Adjustments for non-cash movements included in loss before tax:			
Interest income	2.2	**(5,461)**	(11,473)
Interest expense	2.3	**5,933**	14,311
Other similar interest	2.4	**(543)**	(2,962)
Net gains and losses	2.6	**81**	203
Other non-cash intercompany recharge		**-**	16
Adjustments to working capital:			
Changes in operating assets	4.1	**(18)**	(1)
Changes in operating liabilities	4.1	**7**	(5)
Changes in amount due from other banks		**13,852**	(1,698)
Interest paid on collateral		**(3)**	(14)
Tax paid		**-**	(4)
Net cash flows provided by/(used in) operating activities		**13,768**	(1,828)
Investing activities			
Principal repayment of the deemed loan		**97,665**	147,208
Interest received on the deemed loan		**3,285**	16,690
Reduction of investment in reserve funds		**1,953**	2,944
Interest received on cash and cash equivalents		**73**	307
Net cash flows provided by investing activities		**102,976**	167,149
Financing activities			
Redemption of Notes	4.1	**(97,661)**	(147,208)
Interest paid on Notes		**(5,846)**	(13,651)
Interest received on cross currency swaps		**586**	3,063
Principal repayment of subordinated loan	4.1	**-**	(8,982)
Interest paid on subordinated loan		**-**	(245)
Payment of dividend	3.12	**(15)**	-
Net cash flows used in financing activities		**(102,936)**	(167,023)
Net increase/(decrease) in cash and cash equivalents		**13,808**	(1,702)
Cash and cash equivalents at beginning of period		**4,250**	5,952
Cash and cash equivalents at end of period	3.5	**18,058**	4,250

The notes on pages 16 to 34 form part of these financial statements.

Notes to the financial statements
Section 1: Basis of preparation and accounting policies

1.1 General information

The Company is incorporated under the Companies Act 2006 as a public limited company and registered in England and Wales.

The immediate parent company is GH Ltd, a company incorporated under the Companies Act 2006 and registered in England and Wales. The ultimate parent company is The Law Debenture Intermediary Corporation PLC ("LD PLC"), a company registered in England and Wales, the shares being held under a trust arrangement. LD PLC do not consolidate the results of the Company.

CB PLC, a company incorporated under the Companies Act 2006 and registered in Scotland, is the Originator of the Programme. The smallest group in which the results of the Company are consolidated is that headed by CB PLC. The ultimate controlling entity is VMUK PLC, a company incorporated under the Companies Act 2006 and registered in England and Wales. VMUK PLC and its subsidiary undertakings, which include CB PLC, comprise the Virgin Money UK Group. The Virgin Money UK Group is the largest group in which the results of the Company are consolidated. The financial statements of VMUK PLC may be obtained from the registered office at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

1.2 Basis of accounting

The Company's financial statements have been prepared 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 information has been prepared under the historical cost convention, as modified by the application of fair value measurements.

With effect from 25 August 2020 the financial year end of the Company was changed from 31 December to 30 September to align with the year end of the ultimate controlling entity, VMUK PLC. Accordingly, the current financial statements are prepared for 9 months from 1 January 2020 to 30 September 2020 and as a result, the comparative figures stated in the statement of comprehensive income, statement of changes in equity, statement of cash flows and the related notes are not comparable.

1.3 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report. In addition, note 4.3 to the financial statements includes the Company's risk management objectives.

The Company has access to financial resources through its interest in the deemed loan. It is the intention of the Directors of the Company to continue operations while the Programme supports the funding and liquidity needs of the Group. Other comprehensive losses are solely related to the fair value movements of the economic hedging swap, which are expected to unwind over the life of the swap and should have no direct impact on the Company's ability to perform as a going concern. Due to the limited recourse nature of the Notes, the ultimate risk is borne by the Noteholders, therefore any shortfall in the proceeds from the deemed loan will be a risk to the Noteholders rather than the Company.

The Directors believe the Company is well placed to manage its business risks successfully in line with the Programme documentation. This includes the impact of COVID-19 on the Company's current financial position and results and the potential impact in future financial periods. Accordingly, the financial statements have been prepared on a going concern basis.

1.4 Accounting policies

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in pounds sterling ("GBP"), which is also the Company's presentation currency, rounded to the nearest thousand pounds (£'000) unless otherwise stated.

(b) Foreign currency

The Company records an asset, liability, expense or revenue arising from a transaction using the closing exchange rate between the functional and foreign currency on the transaction date. At each subsequent reporting date, the Company translates foreign currency monetary items at the closing rate. Foreign exchange ("FX") differences arising on translation or settlement of monetary items are recognised in the statement of comprehensive income during the period in which the gains or losses arise.

Notes to the financial statements (continued)
Section 1: Basis of preparation and accounting policies (continued)

1.4 Accounting policies (continued)

(c) Interest income, interest expense, and other similar interest

Interest income is reflected in the statement of comprehensive income using the effective interest rate ("EIR") method which discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the non-credit impaired financial asset. Interest expense is reflected in the statement of comprehensive income using the same EIR method on the amortised cost of the financial liability.

When calculating the EIR, cash flows are estimated considering all contractual terms of the financial instrument (e.g. prepayment, call and similar options) excluding future credit losses ("ECL"). The calculation includes all amounts paid or received that are an integral part of the EIR such as transaction costs and all other premiums or discounts. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Interest income and expense on derivatives economically hedging interest bearing financial assets or liabilities (but not designated as hedging instruments) and other financial assets and liabilities held at fair value through profit or loss ("FVTPL") (either mandatory or by election) are recognised within other similar interest.

(d) Net gains and losses

Net gains and losses contain the fair value movement of the derivative financial instruments and the FX movements on the Notes.

(e) Taxation

Income tax expense is the tax payable on the current period's taxable income, based on the applicable tax rate, adjusted by changes in deferred tax assets and liabilities, and is based on the permanent tax regime for securitisation companies.

(f) Financial instruments

Recognition and derecognition

A financial asset or a financial liability is recognised on the balance sheet when the Company becomes party to the contractual provisions of the instrument. Purchases and sales of financial assets classified within fair value through profit and loss ("FVTPL") or fair value through other comprehensive income ("FVOCI") are recognised on trade date.

The Company derecognises a financial asset when the contractual cash flows from the asset expire or it transfers the right to receive contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership are transferred. Financial liabilities are derecognised when the Company has discharged its obligation to the contract, or the contract is cancelled or expires.

Classification and measurement

The Company measures a financial asset or liability on initial recognition at its fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability (with the exception of financial assets or liabilities at fair value through profit or loss, where transaction costs are recognised directly in the statement of comprehensive income as they are incurred).

Financial assets

Subsequent accounting for a financial asset is determined by the classification of the asset depending on the underlying business model and contractual cash flow characteristics. This results in classification within one of the following categories:

i. Amortised cost

A financial asset is measured at amortised cost when (1) the asset is held within a business model whose objective is achieved by collecting contractual cash flows; and (2) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding. Financial assets held at amortised cost are assessed for impairment using the ECL methodology. Further detail is provided in note 1.5.

ii. FVOCI

A financial asset is measured at FVOCI when (1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (2) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding unless the financial asset is designated as FVTPL on initial recognition.

Notes to the financial statements (continued)
Section 1: Basis of preparation and accounting policies (continued)

1.4 Accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

iii. FVTPL

A financial asset is measured at FVTPL if it (1) does not fall into one of the business models described above; (2) is specifically designated as FVTPL on initial recognition in order to eliminate or significantly reduce a measurement mismatch; or (3) is classified as held for trading.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling in the near term, forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

The Company's cash and cash equivalents, reserve funds and deemed loan are classified as financial assets at amortised cost. This classification is determined by the business model under which the Company uses the assets ('held 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.

The Company has no financial assets classified as FVOCI. The derivative financial instruments are classified as FVTPL.

Financial liabilities

Financial liabilities are measured at amortised cost, except for financial liabilities at FVTPL. Such liabilities include derivatives (other than derivatives that are financial guarantee contracts or are designated and effective hedging instruments), and liabilities designated at FVTPL on initial recognition. All of the Company's financial liabilities are classified as financial liabilities at amortised cost.

Fair value measurement

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.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Where no such active market exists for the particular asset or liability, the Company uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises profits or losses on the transaction date.

The carrying value of financial assets at FVTPL reflects the credit risk attributable to the counterparty. Changes in the credit profile of the counterparty are reflected in the fair value of the asset and recognised in the statement of comprehensive income.

(g) Deemed loan

Where 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 Company has concluded that CB PLC has retained substantially all the risks and rewards of the portfolio of mortgage loans held by the Trustee. As a consequence, the Company has concluded that the Company should not recognise the beneficial interest in the mortgage loans on its balance sheet but rather a deemed loan at amortised cost due from CB PLC.

Initial recognition of the deemed loan corresponds to the initial consideration paid by the Company for the interest in the Trust Property. 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 Company revenue and principal priority of payments as detailed in the Programme documentation. Cash flows attributable to CB PLC are not recognised in the Company's statement of comprehensive income.

Deferred consideration

Deferred consideration arises when there is surplus income of the underlying mortgage loans to which the Company has a beneficial interest, to the extent that it exceeds the costs and allowable profit of the Company. Fair value movements are excluded from this calculation as they are expected to naturally unwind over the life of the swaps. Deferred consideration is payable to CB PLC as the Originator of the Programme. As the Company does not recognise income to which it is not beneficially entitled, deferred consideration payable is accounted for as a deduction against the deemed loan and the associated expense is recognised in the statement of comprehensive income as a deduction against deemed loan interest income.

Notes to the financial statements (continued)
Section 1: Basis of preparation and accounting policies (continued)

1.4 Accounting policies (continued)

(h) Derivative financial instruments

The Company uses derivative financial instruments to manage exposure to interest rate and foreign currency risk. Interest rate risk arises when there is a mismatch between fixed interest rate and floating interest rates, and different repricing characteristics between assets and liabilities. Currency risk arises when assets and liabilities are not denominated in the functional currency of the entity. Derivatives are recognised on the balance sheet at fair value on trade date and are remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The notional amount of a derivative contract is not recorded on the balance sheet but is disclosed in note 3.2.

As the transfer of the Trust Property did not qualify for derecognition, the basis swap derivatives have not been separately recognised on the balance sheet, but the effect of the derivatives has been recognised as a component of the deemed loan.

Whilst the cross currency swap economically hedges risk to the Company, it has not been designated into a formal hedge relationship and is therefore classified as held for trading. Changes in the value of held for trading derivatives are immediately recognised in the income statement. Interest income or expense on the held for trading derivatives are included in other similar interest.

(i) Reserve funds

Reserve funds are held in line with the Programme documentation, which places restrictions on the timing and use of the funds. The reserve funds are held as a combination of cash at bank, and in money market loans, measured at amortised cost.

(j) Other assets

Other assets include intercompany receivables and pre-paid expenses. Other assets are recognised initially at fair value and subsequently measured at amortised cost.

(k) Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership. These balances are generally of a short-term nature, and repayable on demand or within a short timescale, generally three months. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

(l) Notes in issue

The Residential Mortgage Backed Securities in issue comprise the Notes. The Notes are initially recorded in the balance sheet at the fair values of proceeds received net of any transaction costs. On subsequent reporting dates, the Notes are measured at amortised cost. The EIR has been calculated based on the assumption that the Notes will be fully redeemed on the step-up date.

The accrual for interest payable on the Notes is recognised unless the collectability of the income from the underlying assets in which the proceeds from the limited recourse Notes were invested is in doubt, in which case no interest expense is recognised as there is no obligation to pay interest to the Noteholders in those circumstances.

(m) Due to other banks

Balances within due to other banks represent cash collateral placed with the Company by derivative counterparties, pursuant to the provisions of the associated swap agreements. Collateral is recognised initially at fair value and subsequently measured at amortised cost.

(n) Other liabilities

Other liabilities include non-interest earning intercompany payables and accrued expenses. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost.

(o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of tax effects.

(p) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's Directors. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

(q) Capital management overview

The Company is not subject to externally imposed capital requirements outside the scope of Programme documentation. The Company considers its capital to reflect share capital which can be found in the balance sheet on page 13.

Notes to the financial statements (continued)
Section 1: Basis of preparation and accounting policies (continued)

1.5 Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The most significant judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The most significant inputs in relation to the Company’s derivative financial instruments, impacting the carrying value are future expectations of interest rates. These are derived from observable market data. The valuation of these financial instruments is described in more detail in note 3.10.

Impairment of financial assets

At initial recognition, allowance is made for ECLs resulting from default events that are forecast within the next 12 months (12-month ECL). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for ECL resulting from all possible default event over the expected life of the financial instrument (lifetime ECL). In assessing a significant increase in credit risk, the Company monitors the level of credit enhancement within the programme as detailed in the monthly reporting, as well as consider the presence of any trigger events as per the Programme documentation.

Financial assets where 12-month ECL are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Unlike other financial instruments, the deemed loan is, by its construction, an instrument that incorporates credit enhancement. The interest due on the deemed loan is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the cash flow for a particular payment period is insufficient. ECL for the deemed loan would only therefore be recognised where the ECL on the underlying assets were large enough that no credit enhancement remained, which is not currently the case. As at 30 September 2020, Management judges ECLs based on the available supportable information to be immaterial and as a result no ECL disclosures are presented. Any subsequent additional uptake in payment holidays as a result of COVID-19 result in a deferral of payment only and do not constitute or indicate losses on the underlying pool, or additional ECLs.

1.6 New accounting standards and interpretations

(a) New accounting standards and interpretations adopted during the period

None of the International Accounting Standards Board (“IASB”) pronouncements adopted in the current financial period had a material impact on the Company and therefore have not been listed.

(b) New accounting standards and interpretations not yet adopted

The IASB has issued a number of minor amendments to IFRSs that are not mandatory for the current financial period and have not been early adopted by the Company. These amendments are not expected to have a material impact for the Company and have therefore not been listed.

Notes to the financial statements (continued)
Section 2: Results for the period

2.1 Employee costs and Directors' emoluments

The Company does not have any employees thus there are no associated costs included within these financial statements (2019: £Nil). The administrative duties of the Company have been outsourced to an external services provider, Law Debenture Corporate Services Limited. Refer to page 4 for details of Directors' emoluments.

2.2 Interest income

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Interest income on the deemed loan	**5,388**	11,058
Interest income on cash and cash equivalents	**73**	415
	5,461	11,473

Interest income on the deemed loan represents the income on the underlying mortgage loans, reduced by the net income on the basis swap and deferred consideration expense of £4,747,000 (2019: £7,129,000).

2.3 Interest expense

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Interest expense on Notes	**5,573**	13,450
Amortisation charge (note 3.7)	**358**	620
Interest expense on subordinated loan	**-**	228
Interest expense on amounts due to other banks	**2**	13
	5,933	14,311

2.4 Other similar interest

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Interest income on cross currency swap	**543**	2,962

2.5 Operating expenses

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Cash management fee	**2**	7
Other operating expenses	**68**	115
	70	122

During the period, the company expensed £24,000 (2019: £22,000) of audit fees which are included in other operating expenses. This includes costs incurred on behalf of GH Ltd.

Notes to the financial statements (continued)
Section 2: Results for the period (continued)

2.6 Net gains and losses

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Fair value movements of future cash flows on cross currency swap	**5,715**	(4,728)
Translation gains and losses on the Notes	**(5,796)**	4,525
	(81)	(203)

The Company enters into certain derivative financial instruments, which although highly effective as economic hedges, are not designated in hedge accounting relationships. These derivatives economically hedge foreign currency risk on the principal and interest of the Notes.

2.7 Taxation

The Company is taxable under The Taxation of Securitisation Companies Regulations 2006 ("Securitisation Regulations"), which is effective for accounting periods beginning on or after the 1st January 2007. As the payments condition has been satisfied at all times during the accounting period, the calculation of corporation tax is based upon the Company's retained profits.

The Company is entitled to retain an amount of £783 (2019: £2,600) before any net gains or losses, as profit for the period ended 30 September 2020. This profit meets the definition of retained profits under the Securitisation Regulations and is taxable at the current taxation rate.

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Tax expense comprises:		
Current tax expense	**-**	-
The total charge can be reconciled to the accounting profit as follows:		
Loss before tax	**(80)**	(201)
Income tax credit calculated at standard UK tax rate of 19% (2019: 19%)	**(15)**	(38)
Effects of:		
Loss not taxable	**15**	38
Income tax expense recognised in the statement of comprehensive income	**-**	-

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

Since 1 April 2017, the statutory rate of UK corporation tax has been 19%. The previously enacted corporation tax reduction to 17% on 1 April 2020 was cancelled in the Budget of 11 March 2020, and a resolution effecting this passed by Parliament on 17 March 2020. The unrecognised deferred tax asset is based on the tax rate in force at 30 September 2020 of 19%. The change to the tax rate has no impact on the amount disclosed in the financial statements.

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital

3.1 Deemed loan

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Principal balance	**694,270**	788,422
Accrued interest receivable	**74**	1,488
	694,344	789,910

The deemed loan represents the beneficial interest in the underlying mortgages and deferred consideration payable of £12,724,000 (2019: £15,056,000). The mortgage loans are all denominated in GBP and are at various variable or fixed rates of interest.

3.2 Derivative financial instruments

Use of derivatives

The Company enters into certain derivative financial instruments, which although highly effective as economic hedges, are not designated in hedge accounting relationships. These derivatives economically hedge foreign currency and interest rate risk on the principal and interest of the Notes.

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Fair value of derivative financial instruments		
Held for trading	**2,363**	2,431

Cash collateral received on derivatives totalled £18,064,000 (2019: £4,213,000) and is included within due to other banks (note 3.8). In addition to cash collateral, the Company holds securities collateral in respect of derivative transactions of £3,285,000 (2019: £15,876,000) which is not recognised on the balance sheet as the securities are held in a custody account and do not meet recognition requirements under IFRS9.

The derivative financial instruments held by the Company are further analysed below. The notional contract amount is the amount from which the cash flows are derived and does not represent the principal amounts at risk relating to these contracts.

30 September 2020	**Notional contract amount**	**Fair value of assets**	**Fair value of liabilities**
	£'000	**£'000**	**£'000**
Held for trading			
Cross currency swap	**52,084**	**2,363**	**-**

31 December 2019	Notional contract amount	Fair value of assets	Fair value of liabilities
	£'000	£'000	£'000
Held for trading			
Cross currency swap	109,024	2,431	-

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.3 Reserve funds

The Company maintains a liquidity reserve fund, the balance of which is held as a combination of cash at bank and in money market loans. The Programme documentation specifies the terms under which the reserve fund can be utilised.

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Liquidity reserve fund	**12,182**	14,135

3.4 Other assets

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Unpaid share capital	**38**	38
Other receivables	**30**	12
	68	50

3.5 Cash and cash equivalents

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Cash and cash equivalents	**18,058**	4,250

The Company holds accounts with HSBC, CB PLC, Citibank and BNP and a range of money market loans which meet the criteria of 'Permitted Investments' as defined in the Programme documentation and mature within three months.

The accounts have been established in the Company's name for the following purposes:

- to hold the Company's available principal and revenue receipts until each quarterly Note payment date;
- to apply proceeds to pay various creditors in accordance with the relevant priority of payments;
- to hold collateral placed with the Company by derivative counterparties; and
- to retain the remaining balance as the Company's profits and paid up share capital.

3.6 Notes in issue

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Principal balance	**709,356**	806,963
Unamortised issue costs (note 3.7)	**(603)**	(961)
Accrued interest payable	**99**	374
	708,852	806,376

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.6 Notes in issue (continued)

Class of Notes	Credit Rating	Currency	Initial consideration	Interest	Margin	Step-up date	Adj margin
			FX '000				
A1a	AAA rated	USD	311,430	3M USD LIBOR	0.47%	19 September 2022	0.94%
A1b	AAA rated	GBP	222,726	3M GBP LIBOR	0.32%	19 September 2022	0.64%
A2	AAA rated	GBP	473,685	3M GBP LIBOR	0.50%	19 September 2022	1.00%
M	AAA rated	GBP	46,073	3M GBP LIBOR	1.00%	19 September 2022	2.00%
Z	Unrated	GBP	97,904	0%	n/a	n/a	n/a

The Notes are repayable quarterly in order of priority starting from Class A1 to Class Z, to the extent there are sufficient funds available.

The Notes are interest bearing and have a step-up provision for the interest margin. The adjusted margin is the rate that is payable if the principal is not paid by the step-up date.

The ultimate maturity date for all classes of Notes is 19 December 2059.

Movement in the period

9 months to 30 September 2020 Class of Notes	**Principal balance brought forward**	**Notes redeemed**	**FX [(1)] movement**	**Principal balance carried forward**
	£'000	**£'000**	**£'000**	**£'000**
USD Class A1a Notes	111,330	(62,681)	5,796	**54,445**
GBP Class A1b Notes	77,971	(40,722)	-	**37,249**
GBP Class A2 Notes	473,685	-	-	**473,685**
GBP Class M Notes	46,073	-	-	**46,073**
GBP Class Z Notes	97,904	-	-	**97,904**
	806,963	(103,403)	5,796	**709,356**

12 months to 31 December 2019 Class of Notes	Principal balance brought forward	Notes redeemed	FX [(1)] movement	Principal balance carried forward
	£'000	£'000	£'000	£'000
USD Class A1a Notes	206,190	(90,335)	(4,525)	111,330
GBP Class A1b Notes	139,352	(61,381)	-	77,971
GBP Class A2 Notes	473,685	-	-	473,685
GBP Class M Notes	46,073	-	-	46,073
GBP Class Z Notes	97,904	-	-	97,904
	963,204	(151,716)	(4,525)	806,963

[(1)] The FX movement includes both realised movements on Notes redeemed during the period and unrealised movements on Notes held at the end of the period.

Interest

Interest is payable quarterly in arrears. The payment of interest on the Notes is dependent on the receipt of income from the underlying mortgage loans. If the Company does not receive income from the underlying mortgage loans there is no obligation to pay interest to the Noteholders or the swap counterparty.

Redemption

Redemption of the Notes will be made from the principal proceeds received on the deemed loan on the relevant payment date, in accordance to the seniority of the Notes and availability of funds.

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.6 Notes in issue (continued)

Limited recourse and segregation of assets and liabilities

The Notes are limited in recourse to the swap agreements and to the underlying mortgage loans within the deemed loan. Following termination of a swap agreement and its enforcement against the counterparty and the enforcement of the Mortgages Trust Deed there will be no other assets of the Company available to meet any outstanding claims of the Noteholders, who will bear any shortfall pro rata to their holdings of Notes.

3.7 Unamortised issue costs

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Opening balance	**961**	1,581
Amortisation charge (note 2.3)	**(358)**	(620)
Closing balance	**603**	961

3.8 Due to other banks

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Collateral pledged by derivative counterparties	**18,064**	4,212
Accrued interest payable	**-**	1
	18,064	4,213

3.9 Other liabilities

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Other payables	**46**	39

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.10 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring the fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

- Level 1 fair value measurements - quoted prices (unadjusted) in active markets for an identical financial asset or liability;
- Level 2 fair value measurements - inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 fair value measurements - inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial instruments held at amortised cost

There are various limitations inherent in this fair value disclosure particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment, but is not relevant to assets such as the deemed loan.

The tables below show a comparison of the carrying amounts, as reported on the balance sheet, and fair values of those financial assets and liabilities measured at the amortised cost where the carrying value amounts of the financial assets and financial liabilities recorded at amortised cost in the balance sheet are not approximately equal to their fair value.

	30 September 2020					31 December 2019				
			Fair value measure using:					Fair value measure using:		
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Financial assets held at amortised cost										
Deemed loan	**694,344**	**692,048**	-	-	692,048	789,910	792,667	-	792,667	-
Financial liabilities held at amortised cost										
Notes in issue	**708,852**	**702,626**	-	-	702,626	806,376	796,826	-	796,826	-

The Company's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

Deemed loan – The fair value of the deemed loan is predominantly based on the fair value of the underlying mortgage loans that is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity and incorporates behavioural adjustment where appropriate.

Notes in issue – The fair value is determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

Notes to the financial statements (continued)
Section 3: Assets, liabilities and capital (continued)

3.10 Fair value of financial instruments (continued)

Fair value measurements recognised on the balance sheet

The following tables provide an analysis of financial instruments that are measured at fair value subsequent to initial recognition, using the fair value hierarchy described above.

	30 September 2020					31 December 2019				
			Fair value measure using:					Fair value measure using:		
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Financial assets held at fair value										
Derivative financial assets	**2,363**	**2,363**	-	2,363	-	2,431	2,431	-	2,431	-

The Company's fair values disclosed for financial instruments at fair value are based on the following methodologies and assumptions:

> *Derivative instruments* – The fair value of derivatives, including currency swaps, are obtained from discounted cash flow models or option pricing models as appropriate.

Transfers between levels during the period were as a result of a change in the underlying methodology.

3.11 Share capital

	30 Sep 2020	31 Dec 2019
	£	£
Issued, allotted and paid-up share capital		
1 ordinary share - fully paid	**1**	1
49,999 ordinary shares - £0.25 partly paid-up	**49,999**	49,999
	50,000	50,000

The entire share capital of the Company is held by GH Ltd.

3.12 Dividends paid

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Dividend paid to GH Ltd	**15**	-

Notes to the financial statements (continued)
Section 4: Other notes

4.1 Notes to the statement of cash flows

	9 months to 30 Sep 2020	12 months to 31 Dec 2019
	£'000	£'000
Changes in operating assets		
Net increase in other receivables	**(18)**	(1)
Changes in operating liabilities		
Net increase/(decrease) in other payables	**7**	(5)

Liabilities arising from financing activities

	Notes in issue	Subordinated loan	Total
	£'000	**£'000**	**£'000**
At 31 December 2018	962,199	8,999	971,198
Cash flows:			
Redemptions	(147,208)	(8,982)	(156,190)
Non-cash flows:			
Movement in accrued interest	(201)	(17)	(218)
FX movement [(1)]	(9,033)	-	(9,033)
Other movement [(2)]	619	-	619
At 31 December 2019	806,376	-	**806,376**
Cash flows:			
Redemptions	(97,661)	-	**(97,661)**
Non-cash flows:			
Movement in accrued interest	(277)	-	**(277)**
FX movement [(1)]	56	-	**56**
Other movement [(2)]	358	-	**358**
At 30 September 2020	**708,852**	**-**	**708,852**

[(1)] FX movement on the principal balance of Notes in issue, comprises of a net gain of 2020: £5,742,000 (2019: £4,508,000) on the cross currency swap at points of redemption less £5,796,000 unfavourable (2019: plus £4,525,000 favourable) movement on the remaining Notes based on the closing FX rate.

[(2)] Other movement relates to the capitalisation and amortisation of transaction costs in relation to the issuance of Notes.

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.2 Related party transactions

The Company had intercompany transactions with the immediate parent company GH Ltd and the Originator of the Programme CB PLC. The transactions with these related parties are disclosed below.

Transactions during the period	9 months to 30 Sep 2020 £'000	12 months to 31 Dec 2019 £'000
CB PLC		
Notes redeemed [(1)]	**4,880**	7,813
Interest paid on Notes	**781**	1,471
Principal repayments made on subordinated loan	**-**	8,982
Interest paid on subordinated loan	**-**	228
Cash management fee paid	**2**	7
Bank interest received	**6**	19
Movement in collateral balances held	**13,852**	(1,699)
Interest paid on collateral	**2**	13
Principal payments received on the deemed loan	**94,152**	147,208
Interest received on the deemed loan	**5,388**	11,058
GH Ltd		
Audit fee incurred on behalf of GH Ltd	**5**	5
Other expenses incurred on behalf of GH Ltd	**5**	6

Balances at end of the period	30 Sep 2020 £'000	31 Dec 2019 £'000
CB PLC		
Notes in issue[(1)]	**(177,365)**	(177,174)
Collateral balances held	**(18,064)**	(4,213)
Deemed loan receivable	**694,344**	789,910
	498,915	608,523
GH Ltd		
Receivable for unpaid share capital	**38**	38

[(1)] During the period, CB PLC purchased Notes from a 3rd party, resulting in the balance of internally held Notes increasing despite scheduled paydowns.

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk

Introduction and overview

The principal activity of the Company is to issue limited recourse Notes, under the Gosforth 2017-1 Programme, for onward investment in the Trust Property of mortgage loans, represented by the deemed loan. Therefore, the role of financial assets and financial liabilities is central to the activities of the Company; the financial liabilities provide the funding used to invest in the deemed loan, which represents the Company's principal financial asset. Financial assets and liabilities provide the majority of the assets and liabilities of the Company.

In addition to the investment in the deemed loan, and the issuance of Notes, the Company has also entered into a cross currency swap. This swap economically hedges the currency and interest rate risk associated with the mis-match between the floating GBP interest generated by the underlying mortgage loans and the USD interest paid on the Class A1a Note.

The strategies used by the Company in achieving its objectives regarding the use of financial instruments were set at the issuance date, aligning the cash flow profiles of the Notes with the combined receivables from the underlying mortgage loans and the basis rate swap. The Company has attempted to match the properties of its financial liabilities to its assets to avoid significant elements of risk generated by mis-matches of maturity and interest rate risk.

The Notes are recorded at the value of the net proceeds less issue costs received and are carried at amortised cost. The ultimate amount repaid to the Noteholders will depend on the proceeds from the underlying mortgage loans within the deemed loan.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework which is in line with the Programme documentation.

This note presents information about the Company's exposure to risk and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are provided below.

Credit risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's deemed loan.

The Company limits its exposure to credit risk by investing only with counterparties that have a suitable credit rating as defined in the Programme documentation. Credit risk is reduced in respect of the Notes by establishing a reserve fund to meet shortfalls. The risk of default on the deemed loan is borne by the Noteholders.

Derivatives

The Company's derivative financial instrument contracts are subject to International Swaps and Derivatives Association ("ISDA") master netting agreements, as well as Credit Support Annexes ("CSA"), where relevant, around collateral arrangements attached to those ISDA agreements. These agreements have been determined to be legally enforceable but do not meet all of the criteria for net presentation within the balance sheet.

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.

Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	30 Sep 2020	31 Dec 2019
	£'000	£'000
Deemed loan	**694,344**	789,910
Derivative financial assets	**2,363**	2,431
Reserve funds	**12,182**	14,135
Other assets	**68**	50
Cash and cash equivalents	**18,058**	4,250
	727,015	810,776

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk (continued)

Maturity analysis of assets and liabilities

The following tables represent a breakdown of the Company's balance sheet according to the assets and liabilities contractual maturity.

Maturity analysis of the deemed loan and the Notes has been based upon these being redeemed at the step-up date.

	30 September 2020						
	Call	**3 months or less**	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets							
Deemed loan	**-**	**30,669**	**85,363**	**578,312**	**-**	**-**	**694,344**
Derivative financial assets	**-**	**3**	**2,360**	**-**	**-**	**-**	**2,363**
Reserve funds	**-**	**-**	**-**	**-**	**-**	**12,182**	**12,182**
Other assets	**-**	**30**	**-**	**-**	**-**	**38**	**68**
Cash and cash equivalents	**18,058**	**-**	**-**	**-**	**-**	**-**	**18,058**
	18,058	**30,702**	**87,723**	**578,312**	**-**	**12,220**	**727,015**
Liabilities							
Notes in issue	**-**	**31,310**	**87,147**	**590,395**	**-**	**-**	**708,852**
Due to other banks	**-**	**-**	**-**	**-**	**-**	**18,064**	**18,064**
Other liabilities	**-**	**46**	**-**	**-**	**-**	**-**	**46**
	-	**31,356**	**87,147**	**590,395**	**-**	**18,064**	**726,962**

	31 December 2019						
	Call	3 months or less	3 months to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Deemed loan	-	33,741	93,503	662,666	-	-	789,910
Derivative financial assets	-	46	-	2,385	-	-	2,431
Reserve funds	-	-	-	-	-	14,135	14,135
Other assets	-	50	-	-	-	-	50
Cash and cash equivalents	4,250	-	-	-	-	-	4,250
	4,250	33,837	93,503	665,051	-	14,135	810,776
Liabilities							
Notes in issue	-	34,444	95,452	676,480	-	-	806,376
Due to other banks	-	1	-	-	-	4,212	4,213
Other liabilities	-	39	-	-	-	-	39
Current tax liability	-	-	-	-	-	-	-
	-	34,484	95,452	676,480	-	4,212	810,628

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk (continued)

Liquidity and funding risk

Liquidity risk is the risk that the Company is unable to meet its current and future financial obligations as they fall due at acceptable cost.

The Company's obligation to the Noteholders of a particular class of Notes is limited to the net proceeds receivable under the deemed loan and any available reserve fund. Should the net proceeds be insufficient to make all payments due in respect of the Notes, the other assets of the Company will not be available for payment and the deficit is instead borne by the Noteholders according to established priorities.

In light of the current COVID-19 outbreak, and the measures in place to stop the spread, additional risk analysis has been performed, particularly in relation to the liquidity of the Company and the ability to settle liabilities as they fall due. The Programme is significantly over collateralised and carries additional credit enhancements, such as cash reserve funds and M & Z class Notes held internally to the Group, which would absorb the first of any losses. The investor reports, which are published monthly, contain details of both the underlying mortgage pool and the additional credit enhancements and can be found at: https://www.virginmoneyukplc.com/investor-relations/debt-investors/gosforth-funding-transactions/.

Cash flows payable under financial liabilities by contractual maturity

The following are the gross undiscounted contractual cash flows of the financial liabilities. Liquidity analysis of Notes has been based upon these being redeemed at the step-up date.

	30 September 2020						
	Call	**3 months or less**	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Notes in issue	**-**	**32,159**	**89,593**	**593,296**	**-**	**-**	**715,048**
Due to other banks	**-**	**-**	**-**	**-**	**-**	**18,064**	**18,064**
Other liabilities	**-**	**46**	**-**	**-**	**-**	**-**	**46**
	-	**32,205**	**89,593**	**593,296**	**-**	**18,064**	**733,158**

	31 December 2019						
	Call	3 months or less	3 months to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Notes in issue	-	36,724	102,120	688,556	-	-	827,400
Due to other banks	-	1	-	-	-	4,212	4,213
Other liabilities	-	39	-	-	-	-	39
	-	36,764	102,120	688,556	-	4,212	831,652

The balances in the cash flow tables above do not agree directly to the balances in the balance sheet as the table incorporates all future cash flows, on an undiscounted basis, related to both principal and interest.

The Company's exposure to liquidity risk is mitigated by matching the repayment profile of the deemed loan with the repayment profiles of the Notes.

Market risk

LIBOR Replacement

The Group has a LIBOR transition programme to manage the impact of the Bank of England's ("BoE") plan to discontinue the use of LIBOR as a reference rate after 2021. The work is focused to implement a migration strategy for existing Notes based on consensual Noteholder agreement and transition before the end of 2021. A similar approach is being taken with existing derivatives, the strategy to proactively manage the back-book of LIBOR derivatives is underway.

The Group has maintained engagement with the BoE Working Group on Sterling Risk Free Reference Rates and other industry forums. The programme will ensure that the risks of being unable to offer products with suitable reference rates will be mitigated and that full consideration is given to the potential for any conduct issues that may arise through the transition.

Notes to the financial statements (continued)
Section 4: Other notes (continued)

4.3 Management of risk (continued)

Interest rate risk

Interest rate risk comprises the sensitivity of the Company's current and future net interest income to movements in market interest rates. The operations of the Company are subject to the risk of interest rate fluctuations, to the extent that there is a difference between the amount of the interest-earning assets and the amount of the interest-bearing liabilities that mature or reprice in specified periods with the potential for both gains and losses. To mitigate this risk the programme is structured so as to match asset and liability cash flows.

At the reporting date, the Company’s interest bearing financial instruments were as follows:

	30 Sep 2020	31 Dec 2019
	£’000	£’000
Deemed loan	**694,270**	789,910
Interest bearing Notes in issue	**(611,452)**	(708,472)
	82,818	81,438

Sensitivity analysis

The Company has mitigated the interest rate risk associated with the Notes by entering into basis swap agreements whereby the swap counterparty pays the Company amounts based on a rate equal to the interest payable on the Notes in return for the interest earned by the Company on its deemed loan. Any remaining difference in rate is due to currency rates and is subject to currency risk mitigated by the use of cross-currency swaps. Therefore, any change in interest rates would not affect the statement of comprehensive income of the Company.

Currency risk

The Company is exposed to movements in exchange rates between its functional currency (GBP) and USD denominated financial instruments.

At the reporting date, the company had the following exposure to foreign currency risk:

	30 Sep 2020	31 Dec 2019
	£’000	£’000
Currency denominated monetary liabilities		
USD denominated A1a Notes	**54,445**	111,330

The Company's policy is to fully mitigate any exchange rate exposures by using cross currency swaps.

Sensitivity analysis

The impact of any movements in the exchange rates on any USD denominated Notes are offset by FX movements on the related cross currency swaps. Therefore, any change in FX rates would not affect the statement of comprehensive income of the Company.

Prepayment risk

Prepayment risk is the risk that the deemed loan may be realised earlier than it is possible to redeem the liabilities. This may arise due to redemptions of mortgage loans in the underlying pool. In the event that mortgage loans are redeemed sooner, the prepayment proceeds are distributed in accordance with the Programme documentation and additional mortgage loans are assigned to the pool as required.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems or from external events. All administration functions have been outsourced by the Company to reputable organisations with strong operational risk controls.

4.4 Events after the balance sheet date

There have been no significant events between 30 September 2020 and the date of approval of the annual financial statements which would require a change to or additional disclosure in the financial statements.