DIVERSITY FUNDING NO. 1 LIMITED

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 NOVEMBER 2016

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GENERAL INFORMATION

Directors
Neil Townson
James Fairrie

Secretary
Intertrust Corporate Services (UK) Limited**
35 Great St Helen's
London
EC3A 6AP

Registered Office
44 Esplanade
St Helier
Jersey
JE4 9WG
Channel Islands

Independent Auditors
PricewaterhouseCoopers CI LLP
37 Esplanade
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Jersey
JE1 4XA
Channel Islands

Calculating Agent
Wells Fargo Securitisation Services Limited
25 Canada Square
Level 32
Canary Wharf
London
E14 5LQ
United Kingdom

Seller
Lehman Commercial Mortgage Conduit Limited
(in administration)
Level 23
25 Canada Square
London
E14 5LQ
United Kingdom

Principal Paying Agent
HSBC Bank Plc
8 Canada Square
London
E14 5HQ
United Kingdom

Liquidity Facility Provider
Lloyds TSB Corporate Markets
10 Gresham Street
London
EC2V 7AE
United Kingdom

Mortgages Trustee
Diversity Mortgages Trustee No.1 Limited
44 Esplanade
St Helier
Jersey
JE4 9WG
Channel Islands

Note Trustee
HSBC Trustee (C.I.) Limited
PO Box 88
1 Grenville Street
St Helier
Jersey
JE4 9PF
Channel Islands

Servicer
Capita Mortgage Management Limited
Crown House
Crown Street
Ipswich
Suffolk
IP1 3HS
United Kingdom

Originator
Northern Rock plc (since renamed Virgin Money plc)
Northern Rock House
Newcastle upon Tyne
NE3 4PL
United Kingdom

**At 12 December 2016, Elian Corporate Services (UK) Limited was renamed as Intertrust Corporate Services (UK) Limited.

DIVERSITY FUNDING NO. 1 LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 NOVEMBER 2016

The Directors present their report and audited financial statements of Diversity Funding No.1 Limited (the Company) for the year ended 30 November 2016.

Incorporation

The Company was incorporated in Jersey, Channel Islands as a public company on 30 October 2007 in the name of Diversity Funding No. 1 Limited.

Principal activities

The Company was established as a special purpose structure pursuant to the Memorandum of Association authorised on 30 October 2007 for the sole purpose of issuing variable reference rate Notes (the **Notes**) in connection with the securitisation of commercial mortgages originated by Northern Rock plc (the **Originator**) since renamed Virgin Money plc. The Notes are listed on the London Stock Exchange.

Principal risks and uncertainties

The Directors are responsible for identifying and analysing the risks faced by the Company, setting appropriate risk controls and monitoring risks and adherence to the Prospectus. The Company's approach to risk management is set out in note 21 of the financial statements.

Results and dividends

The statement of comprehensive income for the year is set out on page 7. The Directors do not recommend the payment of a dividend in respect of the year ended 30 November 2016 (2015: Nil).

Going concern

Through the structuring of the transaction, as defined in the Company's Prospectus, the obligations under the Notes are limited to the recoveries by the Company of the remaining interest in mortgages. The Company remains able to settle its obligations as they fall due and through the limited recourse nature of the Notes, there is no solvency risk arising from an inability to repay the Notes. Therefore, the Directors consider it appropriate that the Company's financial statements are prepared on a going concern basis.

Directors

The Directors in office when these financial statements were approved are shown on page 1, all of whom were Directors for the whole year, unless otherwise stated. Directors' fees are dealt with in note 18.

Secretary

The secretary of the Company throughout the year, and subsequently up to the date of this report, was Intertrust Corporate Services (UK) Limited (formerly known as Elian Corporate Services (UK) Limited).

Independent Auditors

The auditors, PricewaterhouseCoopers CI LLP, have indicated their willingness to continue in office. A resolution to re-appoint PricewaterhouseCoopers CI LLP as the Company's independent auditors will be put to the forthcoming Annual General Meeting.

Adjustments and restatements to the 2015 and 2014 financial statements

Upon review of the accounting books and servicer reports, it was determined that the Company inadvertently made errors in accounting for some of its transactions. The Directors have decided to restate the balances of the previously signed financial statements to reflect the true and fair financial performance and financial position of the Company. Details of the restatements are disclosed in note 25 of the financial statements.

Directors' responsibilities for the financial statements

A statement of directors' responsibilities for the financial statements is included on page 4.

By order of the board

For **Intertrust Corporate Services (UK) Limited**

Dated: 31 May 2017

35 Great St Helen's
London
EC3A 6AP
United Kingdom

DIVERSITY FUNDING NO. 1 LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 NOVEMBER 2016

The Directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS). Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state that the financial statements comply with IFRS; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements except for the departure from IFRS 7 and IFRS 13 due to non-disclosure of the fair value of certain financial assets and liabilities as disclosed in note 17 of the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and IFRS. 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.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In accordance with articles 113B(4) and 113C(2) of the Companies (Jersey) Law 1991, the Directors acknowledge the auditors' right of access at all times to the Company's records and acknowledge that it is an offence for anyone to recklessly or knowingly supply information to the auditors that is false or misleading and to fail to promptly provide information requested.

Notwithstanding that the Company's Notes are listed on the London Stock Exchange it was not anticipated at incorporation that the Notes would be actively traded. The Directors, therefore, decided that there was no benefit in creating an audit committee (or equivalent supervisory body).

On behalf of the Board of Directors

________________ Secretary

31 May 2017 Date

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIVERSITY FUNDING NO.1 LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Diversity Funding No.1 Limited (the "Company") which comprise the statement of financial position as of 30 November 2016 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of Jersey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualification

As disclosed in Note 17 to the financial statements, no disclosure has been made within the financial statements of the fair value of certain financial assets and financial liabilities. Disclosure of this information is required by International Financial Reporting Standards (Specifically IFRS 7 – Financial Instruments: Disclosures and IFRS 13 – Fair value measurement). It has not been possible for the directors of the Company to determine a reasonable fair value for interest in mortgages and loan notes. Furthermore, in the opinion of the directors, the cost of determining a fair value for the interest in mortgages and loan notes outweigh the benefit of such a calculation.

It is not practical for us to disclose the omitted information as that information has not been made available by management. Refer to Note 17 for further detail on management's considerations.

Qualified Opinion

In our opinion, except for the omission of the disclosure of the fair value of certain financial assets and financial liabilities referred to above, the financial statements give a true and fair view of the financial position of the Company as of 30 November 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIVERSITY FUNDING NO.1 LIMITED (Continued)

Report on other legal and regulatory requirements

We read the other information contained in the Directors' Report and Audited Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the general information, the directors' report and the statement of directors' responsibilities.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

R.M. Brewer

Rebecca Brewer
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants
Jersey, Channel Islands
31 May 2017

DIVERSITY FUNDING NO. 1 LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 NOVEMBER 2016

	Notes	2016 £	*2015* *Restated* £	*1 December 2014* *Restated* £
ASSETS				
Non-current assets				
Interest in mortgages	8	114,487,072	258,345,900	395,568,939
Current assets				
Other receivables	9	14,206,316	28,005,571	8,306,537
Cash and cash equivalents	10	2,976	1,623	2,096
		14,209,292	28,007,194	8,308,633
TOTAL ASSETS		128,696,364	286,353,094	403,877.572
EQUITY				
Capital and reserves attributable to the Owner				
Share capital	15	2	2	2
Retained earnings	16	3,074	3,074	2,674
TOTAL EQUITY		3,076	3,076	2,676
LIABILITIES				
Current liabilities				
Other payables	11	193,310	135,861	179,337
Income tax payable	4	-	100	120
Finance costs payable	12	347,903	326,403	411,786
		541,213	462,364	591,243
Non-current liabilities				
Variable reference rate notes payable	14	128,152,075	285,887,654	403,283,653
TOTAL LIABILITIES		128,693,288	286,350,018	403,874,896
TOTAL EQUITY AND LIABILITIES		128,696,364	286,353,094	403,877,572

The financial statements set out on pages 7 to 32 were approved and authorised for issue by the Board of Directors on 31 May 2017 and signed on its behalf by:

Director

NEIL TOWNSON

The notes on pages 11 to 32 form an integral part of these financial statements.

DIVERSITY FUNDING NO. 1 LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 NOVEMBER 2016

	Notes	2016 £	*2015* *Restated* £
INCOME			
Mortgage loan interest income	5,8	6,354,610	11,900,327
Bank interest income	5	63,416	63,197
Movement in impairment provision on interest in mortgages	8	15,398,874	3,706,434
Movement in write back of liability in loan notes	14	-	4,487,295
TOTAL INCOME		21,816,900	20,157,253
EXPENSES			
Administration expenses	7	2,011,159	1,922,904
Write off of interest in mortgages	8	11,556,121	8,262,682
Movement in write back of liability in loan notes	14	3,879,779	-
TOTAL EXPENSES		17,447,059	10,185,586
OPERATING PROFIT		4,369,841	9,971,667
Finance costs	6	4,369,841	9,971,167
PROFIT BEFORE INCOME TAX		-	500
INCOME TAX EXPENSE	4	-	100
TOTAL COMPREHENSIVE INCOME		-	400
TOTAL COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS ATTRIBUTABLE TO:			
OWNER OF THE PARENT ENTITY		-	400

The notes on pages 11 to 32 form an integral part of these financial statements.

DIVERSITY FUNDING NO. 1 LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 NOVEMBER 2016

	Note	Share capital £	Retained earnings £	Total £
Balance at 1 December 2015		2	3,074	3,076
Total comprehensive income		-	-	-
Balance at 30 November 2016		2	3,074	3,076
Balance at 1 December 2014, as previously stated		2	2,674	2,676
Effects of restatements	25	-	-	-
Balance at 1 December 2014, as restated		2	2,674	2,676
Total comprehensive income		-	400	400
Balance at 30 November 2015		2	3,074	3,076

The notes on pages 11 to 32 form an integral part of these financial statements.

DIVERSITY FUNDING NO. 1 LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 NOVEMBER 2016

	Notes	2016 £	*2015* *Restated* £
CASH FLOW FROM OPERATING ACTIVITIES			
Mortgage loan interest income received		8,177,975	13,443,209
Interest from bank accounts received	5	63,416	63,197
Administration expenses paid		(1,975,949)	(1,989,955)
Taxation paid		-	(120)
CASH GENERATED FROM OPERATING ACTIVITIES		6,265,442	11,516,331
CASH FLOW FROM INVESTING ACTIVITIES			
Principal receipts from interest in mortgages		159,699,611	111,448,450
CASH GENERATED FROM INVESTING ACTIVITIES		159,699,611	111,448,450
CASH FLOW FROM FINANCING ACTIVITIES			
Interest paid to the Liquidity Facility Provider	6	(947)	-
Interest paid to the Noteholders		(4,347,395)	(10,056,550)
Partial repayment of variable reference rate Notes	14	(161,615,358)	(112,908,704)
CASH USED IN FINANCING ACTIVITIES		(165,963,700)	(122,965,254)
Net increase/(decrease) in cash and cash equivalents		1,353	(473)
Cash and cash equivalents at the beginning of the year		1,623	2,096
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	10	2,976	1,623

The notes on pages 11 to 32 form an integral part of these financial statements.

1. GENERAL INFORMATION

Diversity Funding No. 1 Limited (the **Company**) is a public company registered in Jersey, Channel Islands. The address of its registered office is 44 Esplanade, St Helier, Jersey, Channel Islands, JE4 9WG.

The issued share capital of the Company comprises 2 Ordinary shares of £1 each which are held by Intertrust Corporate Trustee (Jersey) Limited (formerly known as Elian Corporate Trustee (Jersey) Limited) as trustee for the Diversity Funding No.1 Charitable Trust. The Company has no subsidiaries.

The Company is a securitisation vehicle for mortgage loans secured by first charges over commercial and residential properties within the United Kingdom originated by Northern Rock plc (the **Originator**), since renamed Virgin Money plc.

For the purpose of these financial statements the following definitions have been applied:

Originator	Virgin Money plc (formerly Northern Rock plc)
Servicer	Capita Mortgage Management Limited
The Seller	Lehman Commercial Mortgage Conduit Limited
The Mortgages Trustee	Diversity Mortgages Trustee No. 1 Limited
The Issuer	Diversity Funding No. 1 Limited
Note/Security Trustee	HSBC Trustee (C.I.) Limited

The Company was incorporated on 30 October 2007 and commenced its activity on 28 November 2007 when it issued £1,144.6 million of variable reference rate notes payable (referred to in these financial statements as the **Notes**) in order to purchase an equivalent interest in the Mortgages Trustee in respect of mortgage loans originated by Northern Rock. Capita Mortgage Management Limited replaced Northern Rock as Servicer in March 2009.

At 30 November 2016, the outstanding balance of the Company's interest in mortgage loans amounted to £168 million (gross of any impairment provision) (2015: £327 million) (see Note 21 below).

The Notes are listed on the London Stock Exchange.

2. ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently, unless otherwise stated, in dealing with items which are considered material in relation to the Company's financial statements.

2.1 *Basis of preparation*

These financial statements have been prepared in compliance with International Financial Reporting Standards (**IFRS**) (except for such departure as described in Note 17) and interpretations issued by the International Financial Reporting Interpretations Committee (**IC**). The financial statements are prepared under the historical cost convention.

Restatements of previously issued financial statements were made to correct the prior period errors identified during the year. Details of the restatements are disclosed in note 25.

Standards adopted during the year

There were no new standards, amendments and interpretations effective as of 1 December 2015 that were relevant to the Company.

Standards issued, not yet effective and not early adopted

At the date of authorisation of these financial statements, the following Standards and Amendments to Standards which have not been applied in these financial statements were in issue but not yet effective:

Annual Improvements to IFRSs 2012-2014 Cycle (effective on 1 January 2016)
Amendments to IAS 1 Presentation of Financial Statements (effective on 1 January 2016)

2. ACCOUNTING POLICIES (continued)

2.1 *Basis of preparation (continued)*

Standards issued, not yet effective and not early adopted (continued)

Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiatives (effective on 1 January 2017)
IFRS 9 Financial Instruments (effective on 1 January 2018)
IFRS 15 Revenue from Contracts with Customers (effective on 1 January 2018)

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Company in future periods, except for IFRS 9 that will impact both the measurement and disclosures of financial instruments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2.2 *Significant accounting estimates and judgement*

In the process of applying the Company's accounting policies, the Directors have used their judgement and made estimates and assumptions in determining the amounts recognised in the financial statements. These estimates and assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors best knowledge of the amount, event or actions, results ultimately may differ from those estimates.

The approach to determine the impairment allowance is sensitive to changes in economic and credit conditions, including the interdependency of house prices, unemployment rates, interest rates, borrowers' behaviour, and consumer bankruptcy trends. It is, however, inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance. The determination of these allowances often requires the exercise of considerable judgement by the Directors involving matters such as local economic conditions and the resulting trading performance of the customer and the value of the security held, for which there may not be a readily accessible market. In particular, significant judgement is required by the Directors in the current economic environment in assessing the borrower's cash flows and debt servicing capability together with the realisable value of real estate collateral.

Impairment allowances for portfolios of smaller balance homogenous loans, which are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the Statement of Financial Position (SOFP) date, are determined on a collective basis. Collective impairment allowances are calculated on a portfolio basis using an approach which takes into account factors such as historical experience, the credit quality of the portfolio, and the value of any collateral held, which is estimated.

The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Judgement applied in assessing the Company's ability to continue as a going concern entity is disclosed in note 2.20.

2.3 *Mortgage Loans transferred to the Company by the Seller*

Under IFRS, if a transferor retains substantially all the risks and rewards associated with the transferred assets the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. Following transfer of the Notes by the Seller to a third party in 2011, transferring the risks and rewards associated with the pool of mortgage loans, the Company reclassified the loan due from the Seller as interest in mortgages on its SOFP in 2011.

2.4 *Segmental reporting*

Operating segments are reported in a manner consistent with internal reporting to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors, which makes all operational and strategic decisions.

2. ACCOUNTING POLICIES (continued)

2.4 *Segmental reporting (continued)*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

The Directors consider that the Company has only one geographical segment (United Kingdom) and one business segment (investment in mortgage assets) as detailed in note 22.

2.5 *Foreign currency translation*

(a) Functional and the presentation currency

The primary activity of the Company is to securitise a portfolio of mortgage loans denominated in sterling which were originated by Northern Rock. The limited recourse loan to the Seller is denominated in sterling. The Notes held by the investors are denominated in sterling.

The Directors consider sterling to be the Company's functional and presentation currency, as it most faithfully represents the economic effects of its underlying transactions, and therefore the financial statements are presented in sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the relevant transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.6 *Financial assets*

Financial assets arise where the Company has a contractual right to receive cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is: a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments, a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments or puttable instruments classified as equity or certain liabilities arising on liquidation classified by IAS 32 as equity instruments.

Financial assets are initially recognised at fair value and classified into the category of Loans and other receivables, and subsequently recognised at amortised cost using the effective interest rate method. Loans and other receivables comprises the interest in mortgages and other receivables. At the end of each reporting period, interest in mortgages are assessed for objective evidence of impairment. If an interest in mortgage is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated recoverable amount, taking into account the value of the secured properties relating to that interest in mortgage. The impairment loss is recognised through the Statement of Comprehensive Income (SOCI) and if there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised through the SOCI. Financial assets are derecognised as detailed in Note 2.12.

Interest in mortgages

Interest in mortgages has been initially recognised at fair value corresponding to the consideration paid by the Company to the Mortgages Trustee for its interest in the pool of mortgage loans. Interest in mortgages has subsequently been adjusted for principal receipts from the underlying mortgage loans which have been retained by the Company, mortgage loan interests due and capitalised, mortgage loan interests received, write-offs and impairment provisions as detailed in Note 8.

2. ACCOUNTING POLICIES (continued)

2.6 *Financial assets (continued)*

Interest in mortgages (continued)
As detailed in Note 25, the Company had inadvertently made errors in previous years in recording the movements affecting the interest in mortgages balance such as mortgage loan interest income, write-offs of interest in mortgages and mortgage principal receipts and interests owed from Mortgages Trustee. These errors have been rectified in these financial statements.

2.7 ***Financial liabilities***
Financial liabilities arise where the Company has a contractual obligation to deliver cash or another financial asset to another entity. They are initially recognised at fair value. Subsequent to initial recognition, the Company measures all of its financial liabilities at amortised cost using the effective interest rate method.

Financial liabilities are derecognised as detailed in Note 2.12.

Variable reference rate Notes
The Notes were issued by the Company to external investors and designated on issue to be treated as financial liabilities held at amortised cost. The scheduled redemption amount of the Notes at the scheduled maturity dates will be the lesser of (i) the nominal amount or (ii) the amount received by the Company in respect of redemption of the underlying mortgages and other assets held by the Company. Accordingly, the corresponding reduction has been recorded in the amounts payable on the Notes.

According to the waterfall process, which prioritises the settlement of liabilities as described in the Prospectus, the Company is entitled to write down the principal value of the Notes starting with the most junior tranches. This would occur in the event that insufficient proceeds from the underlying mortgages are received. The shortfall is applied to the most junior ranking Notes first, escalating up to the most senior ranking.

As from the third quarter of 2009 the Sequential Pay Trigger, as described in the Prospectus, was breached. This occurs if, either (i) the aggregate Current Balance of Mortgage Loans which are in arrears for more than 90 days represents more than 4 per cent of the aggregate Current Balance of Mortgage Loans, or (ii) the amount of funds expected to be standing to the credit of the Issuer Reserve Fund Account immediately prior to the application of such funds as part of Issuer Available Revenue Receipts on the relevant Payment Date is less than 0.60 per cent of the then Principal Amount Outstanding of the Notes prior to the application on such Payment Date of any Issuer Available Principal Receipts.

Both conditions above were breached in previous years and although condition (i) had been rectified since November 2014 it was breached again starting May 2016, condition (ii) remains in breach. The effect of the breach is to prioritise the repayment of the most senior notes instead of a pro-rata application of Loan Principal receipts across all of the Class Notes. Details of the Notes repaid during the year are shown in Note 14.

The terms and conditions of the Notes state that the Company is entitled to an optional early redemption of the Notes. This option is exercisable at par at any time if the outstanding principal amount of the Notes in aggregate falls below 10% of the amount originally issued. The Directors of the Company have concluded that the economic characteristics and risks of this prepayment option are closely related to the economic characteristics and risks of the Notes. As such, the option is not separately accounted for as an embedded derivative.

The Notes issued by the Company are limited recourse in nature, such that upon maturity of the Notes, the only proceeds available to the Noteholders will be the amounts received by the Company from the underlying mortgage pool.

2.8 ***Offsetting financial instruments***
Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2. ACCOUNTING POLICIES (continued)

2.9 *Impairment of financial assets*

The Company assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, an impairment allowance is calculated based upon the difference between the Director's best estimate of the ultimate recoverable amount of the loan or group of loans and the loan or group of loans current carrying value. Impairment allowances are recorded within the SOCI as "Impairment provision on interest in mortgages."

Evidence of impairment on the interest in mortgages will include the failure to make interest and capital payments on the underlying mortgages, notice of default or bankruptcy by a borrower or other indications that a borrower is unlikely to meet their obligations under the mortgages as they fall due.

If, in subsequent periods, there is objective evidence that the underlying mortgages are no longer impaired or if there has been an increase in the net realisable value of the assets on which the mortgages are secured, the impairment loss is reversed through the SOCI.

All impaired mortgage loans which exceed a certain threshold are individually assessed for impairment having regard to expected future cash flows including those that could arise from the realisation of security. Loans which have not been performing and which have been identified by the Directors as having specific repayment difficulties, or in cases where the borrower has gone into administration, have been assessed for impairment. Impairment allowances for portfolios of smaller balance homogenous loans, which are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the SOFP date, are determined on a collective basis. Collective impairment allowances are calculated on a portfolio basis using an approach which takes into account factors such as historical experience, the credit quality of the portfolio, and the value of any collateral held, which is estimated.

A collective impairment allowance is calculated for impaired mortgage loans with balances greater than their property valuations and have not been specifically provided for. The allowance is equal to 40% of the mortgage loan balance in excess of the property valuations.

2.10 *Write-off of interest in mortgages*

The gross carrying amount of interest in mortgages is written off, either partially or in full, to the extent that there is no realistic prospect of recovery. Amounts written off are recognised in the statement of comprehensive income.

2.11 *Collateral assets management*

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in the form of real estate property. The fair value of the collateral is generally assessed, at a minimum, at inception and after every two year period or when the need arises.

Real estate property is valued based on data provided by third parties such as mortgage brokers, housing price indices on similar locations, third party professional valuers and other independent sources.

The Servicer monitors the status of the repossessed assets, including those expected to be repossessed, and reports to the Directors on a regular basis. The Company's policy is to immediately sell the repossessed assets and no asset is used for internal operations or recognised in the Company's records.

2. ACCOUNTING POLICIES (continued)

2.12 *Derecognition of financial assets and financial liabilities*

Derecognition is the point at which the Company removes an asset or liability from the statement of financial position.

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.13 *Other receivables*

Other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

2.14 *Cash and cash equivalents*

For the purposes of the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, the liquidity facility and any highly liquid investments which have an original maturity date within three months of the date of acquisition that form an integral part of the Company's cash management.

2.15 *Revenue recognition*

The Company recognises revenue when the amount of the revenue can be reliably measured and it is probable that the future economic benefits will flow to the Company for each of the Company's activities as described below:

a) Mortgage loan interest income, comprising fixed and variable rate loan interest, is recognised on an accruals basis based on the interest due to the Company from the underlying mortgages including fees, costs and additional interests on balances in arrears.
b) Bank interest income is recognised on an accruals basis.

2.16 *Interest expense*

Interest expense arising on the Loan Notes is based on the Weighted Average Reference Rate (WARR) plus a margin (the margin varies between the various Classes of Notes). The WARR is more or less equivalent to the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The EIR calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

2.17 *Administration expenses*

Fees not regarded as integral to the overall return on financial instruments are recognised on an accruals basis according to when the relevant service is provided or on the performance of a significant act.

2.18 *Income tax*

The current tax expense is based on the taxable profit for the year, using the tax rate that has been enacted or substantively enacted by the statement of financial position date.

2.19 *Share capital*

(a) Share capital

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Ordinary shares are classified as equity.

2. ACCOUNTING POLICIES (continued)

2.19 ***Share capital (continued)***

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a decrease in retained earnings and a related liability in the period in which they are approved by the Company's shareholders.

2.20 ***Going concern***

Through the structuring of the transaction, as defined in the Company's Prospectus, the obligations under the Notes are limited to the recoveries by the Company of the remaining interest in mortgages. The Company remains able to settle its obligations as they fall due and through the limited recourse nature of the Notes, there is no solvency risk arising from an inability to repay the Notes. Therefore, the Directors consider it appropriate that the Company's financial statements are prepared on a going concern basis.

3. EMPLOYEES

The Company had no employees during the year ended 30 November 2016 or the prior year ended 30 November 2015.

4. INCOME TAX EXPENSE

For tax purposes, the Company is resident in the United Kingdom and is therefore not liable for any tax in Jersey.

The Company is subject to taxation in accordance with special rules issued by the HMRC for securitisation companies.

In accordance with the waterfall payments, provided there is sufficient revenue from the loan receivables, an Issuer Margin of £125 is retained every quarter resulting in an annual taxable profit of £500. The Company did not recognise the Issuer Margin for the year ended 30 November 2016 (2015: £500) and therefore the maximum tax payable at the reporting date is £nil (2015: £100).

The tax on the Company's profit before tax is the same as the theoretical amount that would arise using the basic tax rate as follows:

	2016 £	2015 £
Profit before tax	-	500
Tax calculated at a rate of 20.00% (2015: 20.00%)	-	100

5. INTEREST INCOME

	2016 £	*Restated* 2015 £
Mortgage loan interest income	6,354,610	11,900,327
Bank interest income	63,416	63,197
	6,418,026	11,963,524

The mortgage pool comprises loans which are subject to variable rates of interest set by the Servicer based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest. Loans subject to a floating rate of interest are unhedged.

6. FINANCE COSTS

	2016	2015
	£	£
Note interest expense		
Class A Notes	468,722	4,644,733
Class B Notes	801,104	1,059,042
Class C Notes	1,079,768	1,229,212
Class D Notes	1,005,906	1,496,880
Class E Notes	901,397	1,298,875
Class F Notes	111,997	242,184
Class G Notes	-	241
	4,368,894	9,971,167
Liquidity facility interest	947	-
	4,369,841	9,971,167

Payments of interest on the Class A Notes will be made ahead of payments of interest on the Class B Notes, payments of interest on the Class B Notes will be made ahead of payments of interest on the Class C Notes, payments of interest on the Class C Notes will be made ahead of payments of interest on the Class D Notes, payments of interest on the Class D Notes will be made ahead of payments of interest on the Class E Notes, payments of interest on the Class E Notes will be made ahead of payments of interest on the Class F Notes and payments of interest of the Class F Notes will be made ahead of payments of interest on the Class G Notes.

Interest on the Notes is payable on a quarterly basis on the 10th business day of each of February, May, August and November in each year.

The rate of interest payable will be determined by the Servicer, Capita Mortgage Management Limited, in the sum of:
- the WARR as notified to the Calculating Agent by the Servicer; and
- the Relevant Margin in respect of such class of Notes.

For the purposes of these Conditions, the **Relevant Margin** shall be:
- for the Class A Notes, 0.40 per cent. Per annum;
- for the Class B Notes, 0.75 per cent. Per annum;
- for the Class C Notes, 1.25 per cent. Per annum;
- for the Class D Notes, 1.75 per cent. Per annum;
- for the Class E Notes, 3.00 per cent. Per annum;
- for the Class F Notes, 3.50 per cent. Per annum; and
- for the Class G Notes, 3.60 per cent. Per annum;

7. ADMINISTRATION EXPENSES

	2016	*Restated* 2015
	£	£
Administration fees	121,387	103,114
Calculation and reporting agent fee	8,458	8,562
Cash manager fee	2,853	3,147
Trustee fee	4,280	4,845
Liquidity facility provider fee	49,178	93,629
Servicing fee	1,659,841	1,632,459
Legal and professional fees	38,564	44,414
Audit fee	125,828	29,550
Sundry expenses	770	3,184
	2,011,159	1,922,904

8. INTEREST IN MORTGAGES

	2016 £	*Restated* 2015 £
Interest in mortgages from the Seller net of provision brought forward	258,345,900	395,568,939
Mortgage loan principal repayments	(146,485,380)	(131,005,829)
Mortgage loan interest due and capitalised	6,354,610	11,900,327
Mortgage loan interest received	(7,570,811)	(13,561,289)
Interest in mortgages	110,644,319	262,902,148
Movement in impairment provision on interest in mortgages (see Note 2.2)	15,398,874	3,706,434
Write off interest in mortgages	(11,556,121)	(8,262,682)
Interest in mortgages/loan receivable net of provisions carried forward	114,487,072	258,345,900
Interest in mortgages	167,609,572	326,867,274
Impairment provision on interest in mortgages (see Note 2.2)	(53,122,500)	(68,521,374)
	114,487,072	258,345,900

The movement on the impairment provision on interest in mortgages are as follows:

	2016 £	2015 £
Opening balance	68,521,374	72,227,808
Movement in impairment provision on interest in mortgages (see Note 2.2)	(15,398,874)	(3,706,434)
Ending balance	53,122,500	68,521,374

Note 17 to these financial statements sets out the rationale with regard to the Directors assessment of the valuation of interest in mortgages and the basis of this determination.

As stated in Note 2.6, the recovery of interest in mortgages is limited to the cash flows from the underlying mortgage loans. Note 21 to these financial statements sets out the Directors' assessment of the risks to which the Company is exposed in respect of this mortgage pool and the steps taken to mitigate these risks.

9. OTHER RECEIVABLES

	2016 £	*Restated* 2015 £
Mortgage principal and interest receipts owed from Mortgages Trustee	14,160,601	27,981,996
Prepaid expenses	45,715	23,575
	14,206,316	28,005,571

10. CASH AND CASH EQUIVALENTS

	2016 £	2015 £
Cash at bank	2,976	1,623

The account is maintained with HSBC Bank Plc which has long term senior ratings of Aa2 with Moody's and AA- with Standard & Poors and Fitch.

11. OTHER PAYABLES

	2016 £	2015 £
Accrued expenses	193,310	135,861

12. FINANCE COSTS PAYABLE

	2016 £	*Restated* 2015 £
Loan Note interest payable	347,903	326,403

13. LIQUIDITY FACILITY

	2016 £	2015 £
Liquidity facility drawn down	-	-

Lloyds TSB Bank Plc provide a liquidity facility equal to the greater of (a) 5.5 per cent of the aggregate Principal Amount Outstanding of the Notes; and (b) £5 million, and in any case subject to a maximum of £9,860,970 (2015: £20,718,907). Interest will be payable at commercial rates and in priority to the interest payable on the Notes. The facility is only available to address the risk of borrowers failing to make payments under the mortgage loans when due.

In the August 2016 interest payment date, the Company had drawn down a total amount of £355,525 from the liquidity facility which was subsequently paid in full including its interest of £947 in the November 2016 interest payment date

14. VARIABLE REFERENCE RATE NOTES PAYABLE

	Rate WARR +	Opening Principal £	Redeemed/ Movement £	Closing Principal £
Year ended 30 November 2016				
Class A Variable Notes (**Class A Notes**)	+ 0.4%	120,733,411	(120,733,411)	-
Class B Variable Notes (**Class B Notes**)	+ 0.75%	58,962,013	(40,881,947)	18,080,066
Class C Variable Notes (**Class C Notes**)	+ 1.25%	53,533,764	-	53,533,764
Class D Variable Notes (**Class D Notes**)	+ 1.75%	53,533,764	-	53,533,764
Class E Variable Notes (**Class E Notes**)	+ 3.00%	32,101,540	-	32,101,540
Class F Variable Notes (**Class F Notes**)	+ 3.50%	10,669,317	-	10,669,317
Class G Variable Notes (**Class G Notes**)	+ 3.60%	11,371,916	-	11,371,916
		340,905,725	(161,615,358)	179,290,367
Write back of liability in Notes (note 2.7)		(55,018,071)	3,879,779	(51,138,292)
		285,887,654	(157,735,579)	128,152,075
Year ended 30 November 2015				
Class A Notes	+ 0.4%	233,642,115	(112,908,704)	120,733,411
Class B Notes	+ 0.75%	58,962,013	-	58,962,013
Class C Notes	+ 1.25%	53,533,764	-	53,533,764
Class D Notes	+ 1.75%	53,533,764	-	53,533,764
Class E Notes	+ 3.00%	32,101,540	-	32,101,540
Class F Notes	+ 3.50%	10,669,317	-	10,669,317
Class G Notes	+ 3.60%	11,371,916	-	11,371,916
		453,814,429	(112,908,704)	340,905,725
Write back of liability in Notes (note 2.7), restated		(50,530,776)	(4,487,295)	(55,018,071)
		403,283,653	(117,395,999)	285,887,654

14. VARIABLE REFERENCE RATE NOTES PAYABLE (continued)

Maturity
The Notes mature in February 2046.

Listing
The Notes are listed on the London Stock Exchange.

Status
The Notes are issued in bearer form in the denomination of £100,000 and integral multiples of £1,000 in excess thereof.

Limited recourse
The only remedy for recovering amounts due on the Notes is through the enforcement of the Issuer Security (as defined in the Company's Prospectus). If the Mortgages Trustee does not make distributions under the Mortgages Trustee Deed because the Mortgages Trustee does not have sufficient funds available, the Company will not have recourse to the assets of the Mortgages Trustee.

Impact of loan impairment
As a consequence of the impairment mentioned in Note 8 "interest in mortgages" above, the value of assets from which the Noteholders will receive repayment has been reduced. Repayment of the Class Notes is effected in such a way that the Class A Noteholders receive repayment in priority to the Class B Noteholders and so on in sequence with the lowest priority of payment being Class G Noteholders. The impairment provision therefore has the most impact on the recovery of the Class G Noteholders first, the Class F Noteholders second and then the Class E Noteholders.

15. SHARE CAPITAL

	2016	2015
	£	£
Authorised		
10,000 Ordinary shares of £1 each	10,000	10,000
Issued and fully paid		
2 Ordinary shares of £1 each	2	2

16. RETAINED EARNINGS

	2016	2015
	£	£
Balance brought forward	3,074	2,674
Total comprehensive income	-	400
Balance carried forward	3,074	3,074

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The table below sets out the book values of the Company's financial instruments.

	2016	*Restated* 2015
	£	£
FINANCIAL ASSETS		
Interest in mortgages	114,487,072	258,345,900
Other receivables	14,160,601	27,981,996
Cash and cash equivalents	2,976	1,623
	128,650,649	286,329,519

17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

IFRS 13.97 requires the Company to disclose the fair values of each class of financial assets and liabilities not measured at fair value in the SOFP. In considering the fair valuation of the interest in mortgages that are carried at amortised cost, the Company has considered the value of the underlying pool of mortgages in which it holds an interest. To determine whether a reliable fair value can be determined on the underlying mortgages, the Directors have considered the following:

- The mortgages have been issued to unlisted and unrated borrowers, the credit rating of whom have not been updated since the issue of the mortgage;
- Although the mortgages are secured over real property, the underlying value of this collateral is not updated on an annual basis;
- There is a very limited and occasional market for second hand loans but not at a level which permits the Company to establish a price for the interests held by the Company;
- There is no intention or expectation on the part of the Company that any of the underlying mortgages will be sold, cancelled or transferred by the Company in the normal course of business, all such mortgages are expected to be held to their maturity; and
- There is no evidence of any material impairment within the Mortgage pool, other than, has already been provided.

Based on the above limitations, it has not been possible for the Directors of the Company to determine a reasonable fair value for interest in mortgages. Furthermore, in the opinion of the Directors, the cost of determining a fair value for the underlying mortgages outweighs the benefit of such a calculation. Therefore, the fair value of the interest in mortgages at the SOFP date is not disclosed.

	2016 £	*Restated* 2015 £
FINANCIAL LIABILITIES		
Other payables	193,310	135,861
Taxation	-	100
Finance costs	347,903	326,403
Variable reference rate notes payable	128,152,075	285,887,654
	128,693,288	286,350,018

The Notes issued by the Company are listed on the London Stock Exchange. However, the Notes have not been actively traded and accordingly there is no readily available market price for these Notes.

As set out in Note 14, the Notes issued by the Company are limited recourse in nature, such that upon maturity of the Notes the only proceeds available to the Noteholders will be the amounts received by the Company from the underlying mortgage pool. Accordingly, in the opinion of the Directors the clearest evidence of the fair value of the Notes is the fair value of interest in mortgages. However, as set out above it has not been possible to determine a reasonable and reliable fair value for interest in mortgages and therefore it is not practical to determine a fair value for the Notes issued by the Company.

In the opinion of the Directors, the book value of all other financial liabilities approximates their fair value.

18. RELATED PARTY TRANSACTIONS

Neil Townson and James Fairrie are Directors of the Company through their contracts with Intertrust Fiduciary Services (UK) Limited (formerly known as Elian Fiduciary Services (UK) Limited), which is owned by Intertrust, and which is also the owner of the trustee and the Company Secretary.

Intertrust Corporate Trustee (Jersey) Limited is entitled to receive fees for acting as trustee for the Diversity Funding No. 1 Charitable Trust but none were paid during the year (2015: £nil) and Intertrust Corporate Services (UK) Limited received fees of £12,119 (2015: £8,500) for acting as Company Secretary and for the provision of directors to the Company. Administration and accounting expenses of £107,081 (2015: £136,733) were charged by Intertrust SPV Services Limited (formerly known as Elian SPV Services Limited) during the year. Fees charged for the Company Secretary, provision of directors, administration and accounting expenses as described, form the administration fees in the SOCI of £121,387 (2015: £103,114) on an accruals basis.

19. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The issued share capital of the Company comprises 2 ordinary shares of £1 each and are held by Intertrust Corporate Trustee (Jersey) Limited as trustee for the Diversity Funding No.1 Charitable Trust. The Directors of the Company consider Intertrust Corporate Trustee (Jersey) Limited, as trustee of Diversity Funding No.1 Charitable Trust, to be the ultimate controlling party of the Company.

20. CONTINGENT LIABILITIES AND COMMITMENTS

There were neither contingent liabilities nor outstanding capital commitments as at 30 November 2016 (2015: nil).

21. FINANCIAL RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

The Company's principal activity is to issue debt securities and use the proceeds to acquire an interest in mortgage assets from the Mortgages Trustee. The Company's recourse for repayment is limited to the cash flows arising from the mortgage pool.

Cash flows arising from the mortgage pool in each monthly payment period are used to make payments on a quarterly basis in accordance with the Company's priority of payments or "waterfall". The debt securities issued by the Company are in various tranches which differ in their seniority under the waterfall. Having met other obligations the Company retains a fixed amount of approximately £125 per quarter and any surplus cash flows are returned to the Seller via the Mortgages Trustee.

Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies.

The management of risk

These risks were assessed on inception of the transaction and certain features are included in the securitisation structure which are designed to mitigate, but not eliminate, those risks throughout the life of the deal. These were described in detail in the Prospectus relating to the issuance of the Notes and are summarised below. In assessing those risks, the Directors rely on representations received from the Seller and instruct the Company's professional advisors to perform certain due diligence procedures on the Company's behalf.

The mortgage pool is administered on the Company's behalf by Capita Mortgage Management Limited in its role as the Servicer. The Directors reassess the risk that the cash flows arising from the mortgage pool will be insufficient to meet the Company's obligations based on quarterly quantitative data that they receive from the Servicer and the paying agent for the Notes concerning the mortgage pool and the outstanding obligations in relation to the debt securities. Where necessary, the Directors also make appropriate enquiries of the Servicer and the Company's professional advisors concerning specific matters which may affect the nature and extent of particular risks to the Company.

Legal and regulatory risks

The transfer of the mortgage loans to the Company is by way of equitable assignment or declaration of trust and legal title to the loans remains with the Mortgages Trustee. Only in certain circumstances will the Company have the right to demand that the Mortgages Trustee give it legal title to the mortgage loans.

Under the terms of the transfer of the mortgage loans the Seller has given certain representations and warranties to the Mortgages Trustee and the Company concerning the enforceability of the mortgage loans, their compliance with the normal lending criteria of the Originator and with certain eligibility criteria for inclusion in the mortgage pool.

21. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Given the limited recourse nature of the transaction, any differences between the fair value and book value of the financial instruments would have no effect on the financial position of the Company. Furthermore, the holders of the Notes, as sophisticated investors, are aware of the relationship between their investment and the underlying assets. Accordingly, the Directors of the Company are of the opinion that there is no net credit risk in the Company's portfolio of assets.

The primary credit risk of the noteholders depends on the credit risk associated with the securitised pool of mortgages. The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics such as loan to value ratios and product type. Significant changes in the economy or in the health of a particular geographical zone that represents a concentration in the securitised assets, could also affect the cash flows from the mortgage pool. Key characteristics of the mortgage pool at 30 November 2016 are shown below.

The tables below present the characteristics of the mortgage loans pool and have been extracted from the report provided to noteholders produced for the period to 30 November 2016:

	Ownership	£
Interest in mortgage loans held by the Company	100.00%	167,609,572
Amounts held by the Seller	0.00%	100
Total mortgage loans in the mortgage pool	100.00%	167,609,672

	2016	2015
Aggregate loan balance	£167.6m	£326.9m
Number of loans	195	285
Number of properties	332	545
Largest loan	£8m	£17.9m
Average balance of mortgage loan	£0.9m	£1.1m

Distribution of the Collateralised Property Portfolio by Loan Margin

Rate	Number of Loan Elements	Percentage of Total Number of Loans	Current Balance (£m)	Percentage of Current Balance
At 30 November 2016				
<=1.00	68	22.6%	48.6	29.0%
>1.00%<=1.25%	59	19.6%	44.4	26.5%
>1.25%<=1.50%	66	21.9%	29.2	17.4%
>1.50%<=1.75%	23	7.7%	12.9	7.7%
>1.75%<=2.00%	63	20.9%	13.8	8.2%
>2.00%<=2.25%	8	2.7%	1.5	0.9%
>2.25%<=2.50%	4	1.3%	3.7	2.2%
>2.50	10	3.3%	13.5	8.1%
Total	**301**	**100.0%**	**167.6**	**100.0%**
At 30 November 2015				
<=1.00	95	20.5%	50.4	15.4%
>1.00%<=1.25%	105	22.7%	113.8	34.7%
>1.25%<=1.50%	105	22.7%	49.2	15.1%
>1.50%<=1.75%	38	8.2%	24.4	7.5%
>1.75%<=2.00%	90	19.4%	55.4	16.9%
>2.00%<=2.25%	12	2.6%	1.8	0.6%
>2.25%<=2.50%	7	1.5%	10.0	3.1%
>2.50	11	2.4%	21.9	6.7%
Total	**463**	**100.0%**	**326.9**	**100.0%**

21. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Distribution of the Collateralised Property Portfolio by Principal Balance

Current Balance (£)	Number of Loans	Percentage of Total Number of Loans	Current Balance (£m)	Percentage of Current Balance
At 30 November 2016				
0 - 500k	125	64.1%	17.8	10.6%
500k - 750k	21	10.8%	13.0	7.7%
750k - 1.0m	9	4.6%	7.8	4.7%
1.0m - 1.5m	6	3.1%	7.1	4.3%
1.5m - 2.0m	9	4.6%	15.3	9.1%
2.0m - 5.0m	18	9.2%	61.8	36.9%
5.0m - 7.5m	6	3.1%	36.8	21.9%
7.5m - 10.0m	1	0.5%	8.0	4.8%
Total	**195**	**100.0%**	**167.6**	**100.0%**
At 30 November 2015				
0 - 500k	172	60.3%	24.0	7.3%
500k - 750k	24	8.4%	15.2	4.7%
750k - 1.0m	14	4.9%	12.4	3.8%
1.0m - 1.5m	15	5.3%	18.7	5.7%
1.5m - 2.0m	10	3.5%	17.0	5.2%
2.0m - 5.0m	37	12.9%	119.6	36.6%
5.0m - 7.5m	6	2.1%	35.6	10.9%
7.5m - 10.0m	3	1.1%	27.8	8.5%
10.0m - 15.0m	3	1.1%	38.7	11.8%
15.0m - 25.0m	1	0.4%	17.9	5.5%
Total	**285**	**100.0%**	**326.9**	**100.0%**

Breakdown of Collateralised Property Portfolio by Region

Region (1) (all in the UK)	Number of Properties	Property valuation (£m)	% Valuation
At 30 November 2016			
East Anglia	4	1.0	0.4%
East Midlands	14	21.4	8.3%
London	69	87.0	34.0%
North	86	30.2	11.8%
North West	46	24.5	9.6%
Other South East	33	36.4	14.2%
Outer Metro	19	13.6	5.3%
Scotland	12	4.6	1.8%
South West	13	19.9	7.8%
Wales	11	3.8	1.5%
West Midlands	7	3.4	1.3%
Yorkshire & Humberside	18	10.3	4.0%
Total	**332**	**256.1**	**100.0%**

21. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Breakdown of Collateralised Property Portfolio by Region (continued)

Region (1) (all in the UK)	Number of Properties	Property valuation (£m)	% Valuation
At 30 November 2015			
East Anglia	8	3.5	0.8%
East Midlands	20	24.8	5.4%
London	108	132.3	28.7%
North	107	45.0	9.7%
North West	56	39.2	8.5%
Northern Ireland	1	2.4	0.5%
Other South East	74	64.2	13.9%
Outer Metro	31	25.6	5.5%
Scotland	15	9.3	2.0%
South West	40	55.3	12.0%
Wales	19	14.8	3.2%
West Midlands	17	12.6	2.7%
Yorkshire & Humberside	49	32.6	7.1%
Total	**545**	**461.6**	**100.0%**

Distribution of the Collateralised Property Portfolio by LTV

LTV Ratio	Number of Loans	%Number of Loans	Current Balance (£m)	Percentage of Current Balance
At 30 November 2016				
<50%	111	56.9%	36.4	21.7%
50-60%	13	6.7%	18.0	10.8%
60-70%	12	6.2%	6.9	4.1%
70-75%	5	2.6%	8.6	5.1%
75-80%	3	1.4%	6.8	4.1%
80-85%	4	2.1%	8.7	5.2%
>90%	47	24.1%	82.2	49.0%
Total	**195**	**100.0%**	**167.6**	**100.0%**
At 30 November 2015				
<50%	144	50.5%	43.1	13.1%
50-60%	19	6.7%	16.9	5.2%
60-70%	26	9.1%	33.9	10.3%
70-75%	12	4.2%	13.0	4.0%
75-80%	6	2.1%	17.6	5.4%
80-85%	5	1.8%	20.6	6.2%
85-90%	3	1.1%	22.3	6.8%
90-100%	14	4.9%	31.9	9.8%
100-125%	14	4.9%	31.9	9.8%
125-150%	14	4.9%	31.9	9.8%
150-200%	14	4.9%	31.9	9.8%
>200%	14	4.9%	31.9	9.8%
Total	**285**	**100.0%**	**326.9**	**100.0%**

21. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Breakdown of the Collateralised Property Portfolio by Sector

Property Type	Number of Properties	Property valuation (£m)	% Current Valuation
At 30 November 2016			
Residential	78	16.0	6.3%
Retail	152	81.5	31.8%
Office	44	63.8	24.9%
Industrial	33	46.6	18.2%
Hotels/guest houses	6	16.5	6.4%
Nursing homes/professional practices	7	14.4	5.6%
Other/mixed	12	17.3	6.8%
Total	**332**	**256.1**	**100.0%**
At 30 November 2015			
Residential	104	26.7	5.8%
Retail	242	132.7	28.7%
Office	98	153.3	33.2%
Industrial	53	71.7	15.5%
Hotels/guest houses	12	20.7	4.5%
Nursing homes/professional practices	10	15.6	3.4%
Other/mixed	26	40.9	8.9%
Total	**545**	**461.6**	**100.0%**

The valuations referred to in the two tables above are the valuations of properties on which the loans were secured as at the dates on which the loans were actually advanced and may not reflect their values as at 30 November 2016 and 2015.

Distribution of the Collateralised Property Portfolio by Loan Seasoning

Years	Number of Loan Elements	Percentage of Total Number of Loans	Current Balance (£m)	Percentage of Current Balance
At 30 November 2016				
0-5 years	-	-	-	-
> 5 years	301	100.0%	167.6	100.0%
Total	**301**	**100.0%**	**167.6**	**100.0%**
At 30 November 2015				
0-5 years	-	-	-	-
> 5 years	463	100.0%	326.9	100.0%
Total	**463**	**100.0%**	**326.9**	**100.0%**

Arrears Summary	**2016**	**2015**
Total balances	£167,609,572	£326,867,274
Total number of accounts	195	285
Total arrears	£2,210,447	£6,348,532
Total number of accounts in arrears	10	22
Total balances in arrears	£26,973,954	£65,486,216
Total arrears as % of total balances	1.320%	1.942%
Total balances in arrears as % of total balances	16.090%	20.034%
Total number of arrears cases as % of total number	5.130%	7.719%

21. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)
The Company is not exposed to any other material credit risk.

The information detailed on this note reflects the balance of the pool of mortgage loans which includes the Seller's share of the pool of mortgage loans. The Seller's share of the pool of mortgages as at 30 November 2016 is £100 (2015: £100).

Maturity of financial assets and liabilities
The maturity profile of the Company's financial assets and liabilities is as follows:

	2016		2015	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
	£	£	£	£
In one year or less	14,209,292	541,213	28,007,194	462,364
In more than one year	114,487,072	128,152,075	258,345,900	285,887,654
	128,696,364	128,693,288	286,353,094	286,350,018

It is anticipated that capital repayments from the underlying mortgage pool will be received at various dates in the foreseeable future but the actual amounts and precise repayment dates cannot be ascertained with any certainty. In any event, any such proceeds received will result in a reduction of the interest in mortgages and be used to redeem the Notes.

Liquidity risk
Liquidity risk is the risk that the Company is unable to meet the payment obligations associated with its financial liabilities when they fall due.

The ability of the Company to make interest payments on the Notes and to pay its other expenses is dependent upon the Company receiving sufficient cash flow from the mortgage pool.

In addition to the credit and other risks noted above receipt of interest cash flows may be subject to certain timing differences between the dates on which a borrower's payment is collected or transferred to the Company and the date on which the Company makes payments on the Notes.

The Company has entered into a liquidity facility agreement with a third party bank under which the Company may draw up to approximately £10 million (2015: £25 million) (refer to Note 13) to meet temporary cash timing differences in certain circumstances, (but which does not provide credit enhancement and cannot be drawn upon to meet shortfalls due to delinquent or defaulted mortgage loans).

During the year principal repayments are made on the Notes in accordance with the Company's principal priority of payments and reflect the amount of principal collections on the underlying mortgage loans. The Company is only required to make payments on the Notes to the extent that it has received sufficient cash flows from the underlying mortgage pool, subject to a final legal maturity date of the Notes of February 2046.

Principal collections from the mortgage pool reflect the terms of the underlying mortgage loans which vary between products and in some cases allow borrowers to vary the amount of their mortgage repayments or extend the life of their mortgage loan.

21. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)
The table below shows the remaining maturity of the loans in the mortgage pool.

Distribution of the Collateralised Property Portfolio by Loan Term to Maturity Date

Years	Number of Loan Elements	Percentage of Total Number of Loans	Current Balance (£m)	Percentage of Current Balance
At 30 November 2016				
0-5 years	154	51.2%	130.3	77.7%
5-10 years	66	21.9%	14.8	8.9%
10-15 years	78	25.9%	21.9	13.1%
15-20 years	3	1.0%	0.6	0.3%
Total	301	100.0%	167.6	100.0%
At 30 November 2015				
0-5 years	262	56.6%	261.7	80.0%
5-10 years	87	18.8%	27.5	8.4%
10-15 years	106	22.9%	33.9	10.4%
15-20 years	8	1.7%	3.8	1.2%
Total	463	100.0%	326.9	100.0%

Prepayment risks
Cash flows on the interest in mortgages are dependent on the underlying mortgage loans which have a maximum maturity of 20 years (see above). However, in the normal course of business, a proportion of borrowers repay their loan in advance of their contractual maturity. As a result, the weighted average life of the interest in mortgages and of the Notes is likely to be significantly less than that implied by the contractual maturity dates of the mortgage pool.

The term of the Notes specifies that payments on the Notes will only be made to the extent that sufficient cash flows have been received from the Company's assets (see note 8).

In the event that prepayment rates on the mortgage pool reduce, principal repayments on the interest in mortgages and on the Notes will be spread over a longer period. As the more senior Notes of the Company are repaid before the junior Notes, the weighted average interest rate on the Notes rises over time.

Due to the inherent uncertainty of prepayments due to factors outside the Company's control, no expectancy data on prepayments is presented.

Market risk
Interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The mortgage pool comprises loans which are subject to variable rates of interest set by the Servicer based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest. Loans subject to a floating rate of interest are unhedged.

The Company finances its operations through limited recourse Notes upon which interest is payable. Since the interest payable on the Notes is ultimately determined by reference to the amount received on the mortgage pool and the holders of the Notes thereafter have no recourse against the Company for any interest shortfall, the Directors consequently believe there is no overall interest rate risk to the Company.

21. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk

The Company's assets and liabilities are denominated in sterling, its functional currency. It is therefore not exposed to currency risk.

Other price risk

Other price risk is the risk that the fair value of the assets may fluctuate such that there may not be sufficient funds to repay the Notes at redemption. The mortgages have no active market and are expected to be held for the remainder for each of their scheduled terms, and the Notes are limited in recourse such that they will only be repaid on receipt of the principal on the mortgage pool. Therefore, no other price risk exists in the Company.

Sensitivity analysis

IFRS7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date".

As stated, whilst the financial instruments held by the Company are separately exposed to interest rate risk and market price risk, the profit or loss and equity of the Company is not exposed to any significant net interest rate or market price risk. Therefore, in the opinion of the Directors, no sensitivity analysis will be disclosed, as it will not provide information useful to the users of the financial statements.

22. SEGMENT INFORMATION

For management purposes, the Company is organised into one business unit based on its main purpose which is holding of the securitisation of commercial mortgages originated by Northern Rock plc. The reporting segment is then, as follows:

- The investment portfolio consisting of commercial mortgages segment.

Geographic information

	2016	*Restated* 2015
	£	£
Revenue from external sources:		
▪ United Kingdom	6,418,026	11,963,524

The revenue information above is based on the locations of the Company's assets.

Current assets:		
▪ United Kingdom	14,209,292	28,007,194
Non-current assets:		
▪ United Kingdom	114,487,072	258,345,900
Total assets:		
▪ United Kingdom	128,696,364	286,353,094

Non-current assets for this purpose consist of assets with expected maturity date of over 12 months from the date of the SOFP.

23. CAPITAL MANAGEMENT

The Company is not legally required to maintain a certain level of capital, hence the capital is at a minimum level.

The Statement of Changes in Equity and Notes 15 and 16 provide information regarding the composition and movement of the capital.

24. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Company had drawn down a total amount of £370,132 from the liquidity facility in the February 2017 interest payment date which was subsequently paid in full including its interest of £1,699 in May 2017.

The Company had further drawn down a total amount of £652,614 from the liquidity facility in the May 2017 interest payment date which is expected to be paid in full in August 2017.

25. PRIOR PERIOD ADJUSTMENTS

As a result of the Company's review of the accounting books and servicer reports, it was determined that the Company inadvertently made errors in accounting for the mortgage interest income, mortgage receipts and interests owed from Mortgages Trustee, finance costs payable, servicing fees, write-offs of interest in mortgages and the Notes.

The capitalisation of the mortgage interest income due was incorrectly accounted for resulting in erroneous mortgage interest income and mortgage receipts and interests owed from Mortgages Trustee.

One of the collection accounts held by Mortgages Trustee was unintentionally not accounted for that led to the erroneous balance of mortgage receipts and interest owed from Mortgages Trustee.

The reversal of the 2012 finance costs payable in the 2013 financial statements was incorrectly recorded and resulted in an overstatement of finance costs payable carried forward.

The servicing fees deducted directly from the Mortgages Trustee's bank account and netted off against the principal and interest receipts transferred to the Company were incorrectly recorded resulting in an understatement of the reported servicing fees.

Written off interest in mortgages prior to the 2015 financial year end were incorrectly classified.

As the Notes are limited recourse in nature, the errors above directly impact the impairment of the Notes. Therefore, the retained earnings were not affected by the adjustments made.

These prior period errors are accounted for retrospectively in the financial statements in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". They have been corrected by restating each of the affected financial statement line items in the prior periods as shown below.

	30 November 2015	1 December 2014
Impact on statement of financial position	£	£
Decrease in other receivables	(9,269,699)	(6,341,376)
Decrease in finance costs payable	1,534,633	1,534,633
Decrease in variable rate notes payable	7,735,066	4,806,743
Net impact on retained earnings	-	-

	30 November 2015
Impact on statement of comprehensive income	£
Decrease in mortgage loan interest income	(1,932,481)
Increase in write back of liability in loan notes	2,928,324
Increase in administration expenses	(996,464)
Decrease in write-off of interest in mortgages	621
Net impact on retained earnings	-

25. PRIOR PERIOD ADJUSTMENTS (continued)

	30 November 2015
Impact on statement of cash flows	£
Increase in mortgage loan interest income received	933,271
Increase in interest from bank accounts received	63,192
Increase in administration expenses paid	(996,463)
Net impact on cash generated from operating activities	-