

Registered number: 09386653

Residential Mortgage Securities 28 plc

**Reports and audited financial statements
for the year ended 31 March 2017**

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Company information

Directors	Intertrust Directors 2 Limited (formerly known as SFM Directors (No.2) Limited) Intertrust Directors 1 Limited (formerly known as SFM Directors Limited) C Wallace
Company secretary	Intertrust Corporate Services Limited (formerly known as SFM Corporate Services Limited)
Registered office	35 Great St. Helen's London EC3A 6AP
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf, London E14 5EY
Registered number	09386653

Residential Mortgage Securities 28 plc

Strategic report for the year ended 31 March 2017

The directors present their strategic report for Residential Mortgage Securities 28 plc (the "Company") for the year ended 31 March 2017. The comparatives represent the period from 13 January 2015 (date of incorporation) to 31 March 2016.

Introduction

The Company, a public company limited by shares, was incorporated on 13 January 2015 in England, United Kingdom and is registered in England and Wales under the Companies Act 2006. The Company is a special purpose vehicle which acts as issuer in a residential mortgage backed securitisation transaction. The principal activity of the Company is the investment in mortgage assets secured by first charges over properties within the United Kingdom.

On 20 March 2015, the Company purchased a £502,146,000 beneficial interest in portfolios of mortgage assets acquired by Kayl PL S.à r.l, a fellow group company. Further consideration in the form of deferred consideration may be payable to Kayl PL S.à r.l. dependent on future performance of the mortgages. The acquisition of these mortgage assets has been accounted for as loans to originator as detailed in note 2 of the financial statements. To facilitate the purchase, on 20 March 2015, the Company issued a series of loan notes to the value of £549,521,000. These loan notes are listed on the Irish Stock Exchange and are due in 2046.

As a consequence of the transfer of the mortgages not qualifying for derecognition, the mortgages have continued to be recognised by the originator.

The mortgage servicing, cash bond administration and accounting services are provided by Kensington Mortgage Company Limited, a fellow group company.

Business review

The results for the year ended 31 March 2017 are set out on page 12. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory.

At the year end, the loans to originator balance after specific provisions was £353,801,000 (2016: £424,611,000) on 3,161 mortgages. The estimated weighted average life of the mortgage assets is 7 years (2016: 5 years).

After considering property values, anticipated bad debts and future income associated with the mortgage assets underlying the loans to originator, over and above the principal figure shown above, the directors consider the mortgage assets together with the other related assets of the Company such as cash, to be adequate collateral against the mortgage backed loan notes in issue. The weighted average funding costs are 1.52% (2016: 1.74%) above LIBOR and the weighted average interest on mortgage assets is 4.50% (2016: 4.93%).

At year end the Company held the following amounts of mortgage assets underlying the loans to originator, excluding the Effective Interest Rate adjustment:

	2017 Principal balance £'000	2017 Number of loans	2016 Principal balance £'000	2016 Number of loans
First charge mortgages	350,606	3,161	421,424	3,688
	<u>350,606</u>	<u>3,161</u>	<u>421,424</u>	<u>3,688</u>

These mortgages provide security against loan notes in issue totalling £381,554,000 (2016: £464,596,000) as at the year end date excluding accrued interest.

The directors have concluded that the Company will continue as a going concern and set out the basis for this conclusion in the going concern section of the directors' report.

Residential Mortgage Securities 28 plc

Strategic report for the year ended 31 March 2017

Key performance indicators

The key performance indicator of the Company is the quarterly arrears profile:

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Delinquencies days	%	%	%	%	%
Current	93.14	93.14	91.33	91.26	90.94
>30<=60	3.42	3.45	3.97	3.68	3.85
>60<=90	1.62	1.64	2.00	2.08	1.81
>90<=120	0.67	0.69	1.02	1.06	1.33
>120	1.15	1.08	1.68	1.92	2.07
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the year end £506,000 (2016: £1,027,000).

A monthly accrual is made in the statement of comprehensive income for deferred consideration that will ultimately become payable. Under the terms of the waterfall payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Cash flow projections have been prepared to determine the extent to which deferred consideration will be payable. Based on these projections, the directors have determined that nil (2016: nil) consideration was payable at the year end.

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Company comprise mortgage assets underlying the loans to originator, borrowings, cash and various other items (such as other debtors and other creditors) that arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and operational risk. The directors review and agree policies for managing each of these risks and they are summarised below.

(a) Credit risk

The underlying mortgages are classified as loans to originator, this means that in the first instance the recovery of the debt is against the originating company Kayl PL S.à r.l.. The mortgages are fully secured against the loan and therefore ring fenced from other creditors in the originating company and the originating company is bound under the contractual terms to pay across the cash flows from the underlying loans, therefore risk is assessed as being against the underlying mortgages.

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgage assets underlying the loans to originator were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored through an extensive assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary. The mortgage portfolio is recognised as collateralised mortgage loans as explained in note 2.

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Strategic report for the year ended 31 March 2017

The directors continue to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

(b) Liquidity risk

The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets underlying the loans to originator with those of the cash payments due on the loan notes. In addition the Company holds a minimum cash balance to manage short term liquidity requirements.

(c) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

(d) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences. The Company operates under a robust controls and governance framework provided by the servicer of the mortgage assets underlying the loans to originator. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

Future business developments and strategy

The directors expect the business will continue in its principal activities described above for the foreseeable future and will ensure that customers continue to be serviced on a business as usual basis.

The business is subject to a number of risks under the principal risks and uncertainties section, which could adversely affect the business in future years, and the directors will continue to monitor and manage those risks.

In a referendum held on 23 June 2016, a majority voted for the United Kingdom (UK) to leave the European Union (EU). After receiving parliamentary approval, the UK Government triggered the commencement of the process to leave the EU on 29 March 2017. Article 50 of the Lisbon Treaty stipulates that a maximum two year period of negotiation will begin to determine the terms of the UK's exit from the EU and set the framework for the UK's new relationship with the EU. Unless some form of transitional arrangement encompassing those associated treaties is agreed or there is unanimous agreement amongst EU member states and the European Commission to extend the negotiation period, the UK's membership of the EU and all associated treaties will cease to apply from 29 March 2019.

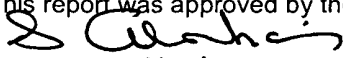
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Strategic report for the year ended 31 March 2017

The impact of these events is currently unknown as the UK Government is yet to agree the terms and conditions upon which the UK will leave the EU. Until such time as formal terms are agreed, there is a high degree of uncertainty and, consequently, market volatility is possible. The impact of the uncertainty on the Company is not quantifiable at this point in time, as the longer term macro-economic variables are difficult to predict in this unprecedented environment.

To date, there have been no matters that warrant adjustment to the Company's financial results as at 31 March 2017 and for the year then ended.

This report was approved by the Board on 29 September 2017 and signed on its behalf by:


Susan Abrahams

Per pro Intertrust Directors 1 Limited
As Director
29 September 2017

Residential Mortgage Securities 28 plc

The directors present their report together with the audited financial statements of the Company for the year ended 31 March 2017.

Results and dividends

The profit for the year, after taxation, amounted to £918,000 (2016: loss of £2,190,000).

The directors do not recommend the payment of a dividend (2016: nil).

Future developments

An assessment of the Company's future developments is described in the strategic report under the future business developments and strategy section.

Financial instruments

An assessment of the Company's financial instruments is described in the strategic report under the principal risks and uncertainties section.

Directors

The directors who held office during the year and up to the date of the approval of the financial statements are given below:

Intertrust Directors 2 Limited (formerly known as SFM Directors (No.2) Limited)

Intertrust Directors 1 Limited (formerly known as SFM Directors Limited)

C Wallace

None of the above directors have any interest in the shares of the Company. There are no directors' interests requiring disclosure under the Companies Act 2006.

Company secretary

Intertrust Corporate Services Limited (previously known as SFM Corporate Services Limited, name changed on 9 December 2016) continued to act as Company Secretary for the year ended 31 March 2017.

Going concern

The Company has reported an operating profit for the year and is in a net liability position as at 31 March 2017.

It is the intention of the directors of the Company to continue operations until such a time as the amount due from mortgage assets underlying the loans to originator have been fully realised. Forecasts indicate that the Company will have adequate cash to enable it to meet its obligations within the next 12 months from the date of the approval of these financial statements. Additionally, the Company has performed as expected during the year and is expected to do the same over the next 12 months from the date of the approval of these financial statements.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) on any Interest Payment Date on or after the Call Option Date of June 2020.

Due to the non-recourse nature of the loan notes, any shortfall in the proceeds from the mortgage assets underlying the loans to originator will be a risk to the holders of these notes and accordingly the financial statements have been prepared on a going concern basis.

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Directors' report for the year ended 31 March 2017

Post balance sheet date events

To date, there have been no matters that warrant adjustment to the Company's financial results as at 31 March 2017 and for the year then ended.

Principal risks and uncertainties

The business is subject to a number of risks, described in the strategic report under the principal risks and uncertainties section, which could adversely affect the business in future years and the directors will continue to monitor and manage those risks.

Fair value

Note 16 discloses the fair values of the mortgage assets underlying the loans to originator and loan notes. The directors noted that as at 31 March 2017 the respective fair values of the mortgage assets underlying the loans to originator were higher than and loan notes were lower than the carrying values recorded in the statement of financial position.

As no liquid market exists for either the mortgage assets or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables. This model takes into account expected prepayment rates, arrears levels, house price movements, level of repossessions, losses and discount rates based on the most recent available information.

Corporate governance

The directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the Company. The governance structure of the Company is such that the key policies have been predetermined at the time of the transaction documents issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for 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 on the Irish Stock Exchange, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the requirements of the UK Corporate Governance Code and the Irish Corporate Governance Annex.

Employees

The Company does not have any employees (2016: none). Primary and Special servicing of the mortgage assets is carried out by Kensington Mortgage Company Limited, a direct subsidiary of The Northview Group Limited and a fellow subsidiary of Koala (Cayman) Limited. Kensington Mortgage Company Limited acts as the cash bond administrator.

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Directors' report for the year ended 31 March 2017

Issued capital and capital contribution

Details of the share capital are set out in note 17 to the financial statements. The issued share capital consists of £12,501 comprising 50,000 ordinary shares of £1.00 each with one ordinary share being fully paid and 49,999 ordinary shares being partly paid.

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions for the benefit of the director, in accordance with section 234 of the Companies Act 2006, were in force during the period under review and remain force as at the date of approval of the annual report and financial statements.

Disclosure of information to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

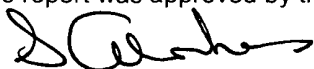
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be considered at the forthcoming Annual General Meeting.

This report was approved by the Board on 29 September 2017 and signed on its behalf by:



Susan Abrahams

Per pro Intertrust Directors 1 Limited
As Director
29 September 2017

Residential Mortgage Securities 28 plc

Directors' report for the year ended 31 March 2017

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the member of Residential Mortgage Securities 28 plc

We have audited the financial statements of Residential Mortgage Securities 28 plc for the year ended 31 March 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports and Audited Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the member of Residential Mortgage Securities 28 plc

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where 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.



Michael-John Albert (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 September 2017

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Statement of comprehensive income for the year ended 31 March 2017

		2017	Period from 13 January 2015 to 31 March 2016
	Note	£'000	£'000
Interest receivable and similar income	4	20,239	23,019
Interest payable and similar expenses	5	(17,725)	(22,792)
Net interest receivable		2,514	227
Operating expenses		(1,770)	(2,566)
Other operating income	6	175	150
Profit / (loss) before taxation	7	919	(2,189)
Tax expense on profit / (loss) for the year / period	8	(1)	(1)
Profit / (loss) and total comprehensive income / (expense) for the financial year / period		918	(2,190)

All amounts relate to continuing operations.

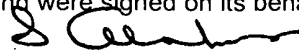
There were no items of other comprehensive income for 2017 or 2016 and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 15 to 36 are an integral part of these financial statements.

Residential Mortgage Securities 28 plc**Statement of financial position
as at 31 March 2017**

	Note	2017 £'000	2016 £'000
Current assets			
Debtors: amounts falling due after more than one year	11	340,513	416,872
Debtors: amounts falling due within one year	12	13,333	7,771
Cash and cash equivalents	13	22,490	25,030
Total assets		376,336	449,673
Current liabilities			
Creditors: amounts falling due within one year	14	(3,661)	(3,085)
Net current assets		372,675	446,588
Non-current liabilities			
Creditors: amounts falling due after more than one year	15	(373,934)	(448,765)
Net liabilities		(1,259)	(2,177)
Capital and reserves			
Called up share capital	17	13	13
Accumulated losses		(1,272)	(2,190)
Total deficit		(1,259)	(2,177)

These financial statements were approved and authorised for issue by the Board on 29 September 2017 and were signed on its behalf by:


Susan Abrahams

Per pro Intertrust Directors 1 Limited
As Director
29 September 2017

The notes on pages 15 to 36 are an integral part of these financial statements.

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Statement of changes in equity for the year ended 31 March 2017

	Note	Called up share capital £'000	Accumulated losses £'000	Total deficit £'000
Balance at 13 January 2015		-	-	-
Issued capital	17	13	-	13
Loss for the financial period		-	(2,190)	(2,190)
Balance at 31 March 2016		13	(2,190)	(2,177)
Balance at 1 April 2016		13	(2,190)	(2,177)
Profit for the financial year		-	918	918
Balance at 31 March 2017		13	(1,272)	(1,259)

The notes on pages 15 to 36 are an integral part of these financial statements.

Residential Mortgage Securities 28 plc

Notes to the financial statements for the year ended 31 March 2017

1 General information

The principal activity of the Company is the investment in mortgage assets secured by first charges over properties within the United Kingdom.

The Company is a public limited company and was incorporated and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at 35 Great St. Helen's, London, EC3A 6AP.

2 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

2.1. Basis of preparation and statement of compliance with FRS 101

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirement of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 10(d), 10(f), 16, 38(c)-(d), 40(a)-(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- The Company has taken advantage of the exemptions conferred by FRS 101: 8 (j) & (k) "Related party disclosures", the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures, and transactions with other wholly owned group companies are not disclosed separately.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

2.1.1 Going concern

It is the intention of the directors to continue operations until such a time as the amount due from the mortgage loans underlying the loans to originator have been fully realised. Forecasts indicate that the Company will have adequate cash to enable it to meet its obligations within the next 12 months from the date of the approval of these financial statements. Additionally, the Company has performed as expected during the year and is expected to do the same over the next 12 months from the date of the approval of these financial statements.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) on any Interest Payment Date on or after the Call Option Date of June 2020.

Due to the non-recourse nature of the loan notes, any shortfall in the proceeds from the mortgage loans underlying the loans to originator will be a risk to the holders of these notes and accordingly the financial statements have been prepared on a going concern basis.

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Notes to the financial statements for the year ended 31 March 2017

2.2. Interest recognition

Interest income on mortgage assets underlying the loans to originator together with the interest expense on the mortgage backed loan notes, is recognised in the statement of comprehensive income on an Effective Interest Rate ("EIR") basis. The EIR basis recognises revenue and expenses equivalent to the rate that effectively discounts estimated future cash flows throughout the expected life to the net carrying value of the mortgage assets underlying the loans to originator or mortgage backed loan notes.

2.3. Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in total equity. In this case the tax is also recognised in other comprehensive income or directly in total equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns in respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on deductible temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.4. Foreign currencies

The financial statements are presented in pounds Sterling (£), which is the functional and presentation currency of the Company. All amounts in these financial statements have been rounded to the nearest thousand, unless otherwise indicated.

Transactions in foreign currency are initially converted to Sterling at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange prevailing at the reporting date. All differences on exchange are taken to the statement of comprehensive income.

2.5. Loan notes

Loan notes are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, the loan notes are measured at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an EIR basis. The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans.

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Notes to the financial statements for the year ended 31 March 2017

2.6. Financial instruments

Initial recognition

The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Company commits to purchase or sell the asset.

Classification and measurement

Financial assets and liabilities are initially classified as financial assets or liabilities at fair value through profit or loss, loans and receivables and available for sale financial assets.

All financial assets are recognised initially at fair value plus directly attributable costs for those not at fair value through profit and loss.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings payables, net of directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in finance revenue or finance expense in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. Losses arising from impairment are recognised in the statement of comprehensive income in other operating expenses.

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Notes to the financial statements for the year ended 31 March 2017

2.6. Financial instruments (continued)

Derecognition

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, and retained control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Financial assets

Debtors

Debtors including amounts owed by group undertakings and other debtors, with no stated interest rate and receivable within one year are recorded at transaction price less provisions made for doubtful debts.

Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Loans to originator

Where a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset for financial reporting purposes, as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the mortgage portfolio transferred to the Company, derecognition is considered to be inappropriate for the portfolio seller's or originator's (Kayl PL S.à r.l.) own financial statements as the originator has retained significant risks, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. The Company's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised non-recourse loan to the originator.

The loans to originator are classified within debtors. The initial measurement is at fair value plus transaction costs that are directly attributable to the acquisition of the mortgage assets, with subsequent measurement being amortised cost using the EIR method. The effective interest on the loans to originator is calculated with reference to the interest earned on the mortgage assets underlying the loans to originator.

Loans to originator are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable and similar income in the statement of comprehensive income.

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Notes to the financial statements for the year ended 31 March 2017

2.6. Financial instruments (continued)

Impairment of loans to originator

The Company assesses at each statement of financial position date whether there is evidence that a mortgage asset underlying the loans to originator or a portfolio of financial assets is impaired. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset ("a loss event"), and that loss event or events has had an impact on the estimated future cash flows of the portfolio of financial assets or mortgage assets underlying the loans to originator that can be reliably estimated.

The Company assesses whether objective evidence of impairment exists for mortgage assets underlying the loans to originator on an individual loan basis. Those evaluations are based on the individual loan risk characteristics, taking into account: asset type; borrower; loan scores; geographical location; collateral type; past-due status; and other relevant factors. These characteristics are relevant to the estimation of future cash flows by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the loan.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income.

Any impairment in the mortgage assets underlying the loans to originator will be reflected in the Company's accounts by adjusting the carrying amount of the loans to originator in the statement of financial position.

Financial liabilities

Trade and other creditors

Creditors including amounts owed to group undertakings, other creditors and accruals, with no stated interest rate and due within one year, are recorded at transaction price.

Mortgage backed loan notes

The mortgage backed loan notes were initially recognised at fair value, which was their par value at the date of issue less directly attributable transaction costs. The mortgage backed loan notes are subsequently remeasured at amortised cost taking into account repayments at interest payment dates where applicable.

Interest payable is recognised using the EIR method with the directly attributable transaction costs being amortised over the expected average life of the facility in line with IAS 39. Any unamortised issue costs are disclosed in note 15.

Interest payable on the notes during the year and any associated EIR adjustments are included in interest payable and similar expenses.

Discount on revenue backed loan notes

The Company issued loan notes that retain the rights to the excess spread. The notes were issued for consideration less than the principal value, with a discount recorded for the difference.

The discount is recognised on the date the loan notes were issued by the Company and amortised over time, consistent with the relevant note amortisation profile determined at issuance. The discount is amortised on an EIR basis using the expected life of the loan notes. The amortised discount balance is added to the creditor balance with the costs amortised in the year included in interest payable and similar expenses.

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Notes to the financial statements for the year ended 31 March 2017

2.6. Financial instruments (continued)

Deferred consideration

Deferred consideration is initially recognised at the fair value of the consideration paid.

Under the terms of the securitisation the company earns a maximum annual profit in an amount equal to £6,621 for the year ended 31 March 2017.

At each subsequent Statement of Financial Position date, an accrual is made for deferred consideration within the financial statements as amounts are expected to become payable as a result of the performance of the mortgage assets underlying the loans to originator.

Offsetting of financial assets and liabilities

In accordance with IAS 32 Financial Instruments: Presentation, the presentation of financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value of financial assets and liabilities

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 reporting date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

When available, the Company measures the fair value of an instrument using the quoted price 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 on-going basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Where applicable, the following methods are used to estimate the fair values of the financial instruments:

- i. cash, trade receivables and payables - the carrying value is a good approximation of the fair value;
- ii. fixed and variable rate borrowings - valued as detailed in note 16; and
- iii. loans to originator valued as detailed in note 16.

The Company, where appropriate, classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy when the inputs have changed or there has been a change in the valuation method.

These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

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Notes to the financial statements for the year ended 31 March 2017

2.6. Financial instruments (continued)

The different levels are identified as follows:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities.

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

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

2.7. Segmental analysis

The Company's income and trade are wholly within the United Kingdom and within a single market sector and therefore no segmental analysis has been presented.

2.8. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.9. Share capital and capital contributions

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

3. Critical accounting estimates and judgements

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Critical accounting judgements

Derecognition of mortgage assets

The Company has made a significant accounting judgement in the assessment of loans to originator. The Company performed an assessment of the risks and rewards associated with the financial assets acquired, and concluded that the financial assets do not qualify for derecognition for the originator. In making this assessment the Company considered the retained risks of the seller, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. This follows the accounting treatment adopted in the sellers' financial statements.

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Notes to the financial statements for the year ended 31 March 2017

3.2. Critical accounting estimates and assumptions

The Company has identified the following significant accounting policies that involve critical accounting estimates and assumptions:

Impairment of loans to originator

Impairment losses on loans to originator are calculated based on statistical models. The key assumptions relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect current conditions.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided.

Effective Interest Rate ("EIR")

The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The book value of the mortgage assets underlying the loans to originator is measured at amortised cost using the EIR method, with a provision made for impairment. The current model used to estimate future cash flows in the EIR is sensitive to certain key assumptions, the most important of which is the constant prepayment rate ("CPR").

4. Interest receivable and similar income

	2017 £'000	Period from 13 January 2015 to 31 March 2016 £'000
On loans to originator	20,206	22,960
Other interest	33	59
	<u>20,239</u>	<u>23,019</u>

In the current year the estimated weighted average life of the mortgages underlying the loans to originator increased from 5 years to 7 years.

Interest has accrued for the year in relation to impaired financial assets at 4.90% (2016: 5.62%) of the principal balance.

Residential Mortgage Securities 28 plc

Notes to the financial statements for the year ended 31 March 2017

5. Interest payable and similar expenses

	2017 £'000	Period from 13 January 2015 to 31 March 2016 £'000
Interest expense on loan notes	17,445	22,618
Amortisation of capitalised issue costs on loan notes	280	174
	<u>17,725</u>	<u>22,792</u>

Within interest payable on mortgage backed loan notes £1,291,000 (2016: £7,405,000) relates to amounts due to group companies.

6. Other operating income

	2017 £'000	Period from 13 January 2015 to 31 March 2016 £'000
Sundry fee income	175	150
	<u>175</u>	<u>150</u>

7. Profit / (loss) before taxation

	2017 £'000	Period from 13 January 2015 to 31 March 2016 £'000
The operating profit / (loss) is stated after charging/(crediting):		
Auditors' remuneration for statutory audit	17	20
Impairment (credit) / charge for the year / period on mortgage assets underlying the loans to originator	(95)	533
Mortgage administration fees	1,300	1,134
Amounts written off in relation to mortgage assets underlying the loans to originator	222	153
	<u>222</u>	<u>153</u>

Statutory information on remuneration for other services provided by the Company's auditors to the Koala (Cayman) Limited Group is given in the consolidated financial statements of Koala (Cayman) Limited, which is the largest group into which the results of this Company are consolidated. There are no non audit services specifically related to the Company.

The Company's operations are managed by The Northview Group Limited, an affiliate company.

Residential Mortgage Securities 28 plc

Notes to the financial statements for the year ended 31 March 2017

8. Taxation

	2017 £'000	Period from 13 January 2015 to 31 March 2016 £'000
Analysis of tax expense in the year / period		
Current tax		
UK corporation tax expense on profit / (loss) for the year / period	1	1
Tax on profit / (loss) for the year / period	<u>1</u>	<u>1</u>

Factors affecting taxation

The tax assessed for the year is lower than (2016: higher than) the standard rate of corporation tax in the UK of 20% (2016: 20%).

	2017 £'000	Period from 13 January 2015 to 31 March 2016 £'000
Profit / (loss) before tax	919	(2,189)
Profit / (loss) multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	184	(438)
Effects of:		
Application of Statutory Instrument No. 3296 The Taxation of Securitisation Companies Regulations 2006	(184)	438
Tax for the year / period at the small companies rate of corporation tax for 20% (2016: 20%) on the actual retained profit for the year / period	1	1
Tax expense for the year / period	<u>1</u>	<u>1</u>

The Finance Act (No.2) 2015 and Finance Act 2016 contain provisions reducing the rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 17% from 1 April 2020, respectively. These Acts were enacted on 18 November 2015 and 15 September 2016 respectively.

This Company is taxed in accordance with Statutory Instrument No. 3296 The Taxation of Securitisation Companies Regulations 2006 which requires that tax is charged on the profits 'retained by the issuer'. The issuer required profit for the year / period amounted to £6,000 (2016: £6,000).

Residential Mortgage Securities 28 plc

Notes to the financial statements for the year ended 31 March 2017

9. Directors and employees

The Company does not have any employees other than the directors (2016: none). The Directors' did not receive any remuneration in the year (2016: nil).

During the year, fees of £27,000 (2016: £22,000) were paid and accrued to Intertrust Management Limited (formerly known as Structured Finance Management Limited) in respect of corporate services provided to the Company; this included the provision of the directors to the Company.

10. Loans to originator - net of impairment

	Loans to originator £'000	Impairment £'000	Loans to originator, net of impairment £'000
At 13 January 2015	-	-	-
Movement in the period	425,144	(533)	424,611
At 31 March 2016	425,144	(533)	424,611
Movement in the year	(70,905)	95	(70,810)
At 31 March 2017	354,239	(438)	353,801

See below for the movements in the provision for impairment of loans to originator:

	Individually impaired £'000	Collectively impaired £'000	Total £'000
At 13 January 2015	-	-	-
Charge for the period	(747)	-	(747)
Utilised	153	-	153
Unused amounts reversed	61	-	61
At 31 March 2016	(533)	-	(533)
Charge for the year	(127)	-	(127)
Utilised	222	-	222
At 31 March 2017	(438)	-	(438)

The loans to originator are denominated in Sterling and bear interest at a variable rate. They are secured on the beneficial interest in the portfolio of residential mortgage loans.

The current mortgage loans in the pool have loan periods of between 1 to 326 (2016: 1 to 353) months remaining with current interest rates ranging from 2.24% to 7.99% (2016: 2.26% to 8.19%) per annum.

The book value of the mortgage assets underlying the loans to originator is measured at amortised cost using the EIR method, with a provision made for impairment. The impairment provision includes a specific provision of £438,000 (2016: £533,000). The impairment model used to estimate future cash flows in the impairment calculation is sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred.

Residential Mortgage Securities 28 plc

Notes to the financial statements for the year ended 31 March 2017

11. Debtors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Loans to originator net of impairment (note 10)	340,513	416,872
	<u>340,513</u>	<u>416,872</u>

12. Debtors: amounts falling due within one year

	2017 £'000	2016 £'000
Loans to originator net of impairment (note 10)	13,288	7,739
Prepayments and accrued income	13	32
Amounts owed by group undertakings	32	-
	<u>13,333</u>	<u>7,771</u>

Amounts owed by group undertakings are interest free and repayable on demand.

Loans to originator net of impairment represent the portion of the mortgage book contractually receivable over the next 12 months.

13. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	22,490	25,030
	<u>22,490</u>	<u>25,030</u>

Cash at bank earns interest at the rates specified in note 16.

14. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Amounts owed to group undertakings	3,252	2,561
Accruals and deferred income	372	450
Other creditors	37	74
	<u>3,661</u>	<u>3,085</u>

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

A monthly accrual is made in the statement of comprehensive income for deferred consideration that will ultimately become payable. Under the terms of the waterfall of payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Deferred consideration is paid on a quarterly basis based on available revenue funds. At 31 March 2017, deferred consideration payable was nil (2016: nil).

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Notes to the financial statements for the year ended 31 March 2017

15. Creditors: amounts falling due after more than one year

	2017	2016
	£'000	£'000
GBP Denominated Mortgage backed loan notes due 2046 Class - A	221,534	296,645
GBP Denominated Mortgage backed loan notes due 2046 Class - B	54,600	54,600
GBP Denominated Mortgage backed loan notes due 2046 Class - C	38,000	38,000
GBP Denominated Mortgage backed loan notes due 2046 Class - D	14,000	14,000
GBP Denominated Mortgage backed loan notes due 2046 Class - E	15,200	15,200
GBP Denominated Mortgage backed loan notes due 2046 Class - F1	5,100	5,100
GBP Denominated Mortgage backed loan notes due 2046 Class - F2	5,100	5,100
GBP Denominated Mortgage backed loan notes due 2046 Class - F3	5,100	5,100
GBP Denominated Mortgage backed loan notes due 2046 Class - Z	15,760	15,760
GBP Denominated Excess spread backed loan notes due 2046 Class - X1	6,960	14,891
GBP Denominated Excess spread backed loan notes due 2046 Class - X2	100	100
GBP Denominated Excess spread backed loan notes due 2046 Class - R	100	100
Total loan notes	<u>381,554</u>	<u>464,596</u>
Less unamortised issue costs	(460)	(740)
Less discount on loan notes issued	<u>(7,160)</u>	<u>(15,091)</u>
	<u>373,934</u>	<u>448,765</u>

The mortgage backed loan notes due in 2046 are secured over the portfolio of mortgage assets underlying the loans to originator secured by first charges over residential properties in the United Kingdom.

The Class F2, F3, Z, X2 and R Notes amounting to £26,160,000 (2016: £26,160,000) are held by fellow group companies.

The Class X1 and X2 Notes accrue excess spread as and when available, in accordance with the Transaction offering circular. These notes are not backed by collateralised mortgage assets underlying the loans to originator. The X1 note accrues excess spread up to its principal value of £25,400,000. Any surplus excess spread once the X1 note is fully paid down accrues to the X2 note prior to the Transaction step-up date and to the R note post step-up date.

The discount on the X1, X2 and R Notes is amortised in line with the amortisation profile of the underlying note. The underlying note amortises when the Company accrues excess spread after satisfying its obligations as per the Transaction documents. There were principal payments of £7,931,000 (2016: £10,509,000) in relation to the X1 Notes and the discount was amortised by £7,931,000 (2016: £10,509,000) for the year.

Whilst the mortgage backed loan notes are subject to mandatory redemption in part at each Interest Payment Date in an amount equal to the principal received or recovered in respect of the mortgage assets underlying the loans to originator, the mortgage backed loan notes are classified and presented as amounts falling due after one year in accordance with the contractual maturity dates due to the uncertainty in the expected principal repayments or recoveries of the mortgages. If not otherwise redeemed or purchased and cancelled, the mortgage backed loan notes will be redeemed at their principal amount outstanding on the Interest Payment Date falling in 2046.

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Notes to the financial statements for the year ended 31 March 2017

15. Creditors: amounts falling due after more than one year (continued)

The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. The mortgage backed loan notes are repayable out of capital receipts from the mortgages underlying the loans to originators, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to the Class E Notes, which rank in priority to the Class F Notes, which rank in priority to the Class Z Notes.

The excess spread backed loan notes are repayable out of interest receipts from mortgages underlying the loans to originator with the Class X1 Notes ranking in priority to the Class X2 notes, which rank in priority to the R Notes.

Interest on the loan notes is payable quarterly in arrears at the following annual rates for three month Sterling LIBOR:

Class A	Sterling LIBOR + 1.15%
Class B	Sterling LIBOR + 1.65%
Class C	Sterling LIBOR + 2.00%
Class D	Sterling LIBOR + 2.50%
Class E	Sterling LIBOR + 3.35%
Class F1	Sterling LIBOR + 4.50%
Class F2	Sterling LIBOR + 4.50%
Class F3	Sterling LIBOR + 4.50%
Class Z	Sterling LIBOR + 4.50%
Class X1	5.00%
Class X2	Not applicable
Class R	Not applicable

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) on any Interest Payment Date on or after the Call Option Date of June 2020.

16. Financial instruments and risk management

Nature and extent of risks arising from financial statements

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and operational risk as explained in the strategic report.

a) Credit risk

The underlying mortgages are classified as loans to originator, this means that in the first instance the recovery of the debt is against the originating company Kayl PL S.à r.l. The mortgages are fully secured against the loan and therefore ring fenced from other creditors in the originating company and the originating company is bound under the contractual terms to pay across the cash flows from the underlying loans, therefore credit risk is assessed as being against the underlying mortgages.

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Notes to the financial statements for the year ended 31 March 2017

16. Financial instruments and risk management (continued)

Credit risk is the risk that borrowers of the mortgage assets underlying the loans to originator will not be able to meet their obligations as they fall due. All mortgage assets underlying the loans to originator are required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage assets underlying the loans to originator. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors.

The level of arrears in the mortgage portfolio has largely stabilised, which the directors consider is consistent with the improvement in the market conditions experienced in the past few years in the United Kingdom mortgage market. Re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes are performed with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the directors acknowledge that market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance.

With this in mind, the directors continue to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

Credit quality of the mortgage assets underlying the loans to originator is assessed by an extensive assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

Before taking account of any collateral, the maximum exposure to credit risk as at 31 March 2017 was:

	2017 £'000	2016 £'000
Loans to originator	354,239	425,144
Cash and cash equivalents	22,490	25,030
	<u>376,729</u>	<u>450,174</u>

Loans to originator and asset credit quality

All mortgage assets underlying the loans to originator are categorised, as either 'neither past due nor impaired', 'past due but not impaired', or 'past due and impaired'. A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.

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Notes to the financial statements for the year ended 31 March 2017

16. Financial instruments and risk management (continued)

As at 31 March, the ageing analysis of mortgage assets underlying the loans to originator, before accounting adjustments, is as follows:

	2017 £'000	2016 £'000
Neither past due nor impaired	234,116	375,301
Past due but not impaired – less than 30 days	2,414	7,591
Past due but not impaired – between 30 and 60 days	1,697	1,397
Past due but not impaired – between 61 and 90 days	511	-
Past due but not impaired – between 91 and 120 days	2	-
Past due but not impaired – more than 120 days	608	-
Impaired	114,891	40,855
Total	<u>354,239</u>	<u>425,144</u>

b) Liquidity risk

The undiscounted estimated cash flows associated with financial liabilities were as follows:

As at 31 March 2017 Financial liabilities	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	72,712	47,969	40,583	38,057	35,575	221,277	456,173
	<u>72,712</u>	<u>47,969</u>	<u>40,583</u>	<u>38,057</u>	<u>35,575</u>	<u>221,277</u>	<u>456,173</u>

As at 31 March 2016 Financial liabilities	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	81,788	67,162	43,846	37,919	37,137	313,230	581,082
	<u>81,788</u>	<u>67,162</u>	<u>43,846</u>	<u>37,919</u>	<u>37,137</u>	<u>313,230</u>	<u>581,082</u>

There is no contractual obligation to pay down the loan notes other than as set out in note 15.

The estimated future cash flows are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. Future cash flows have been estimated using a combination of macro environmental factors, including market observable data, and individual borrower data. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

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Notes to the financial statements for the year ended 31 March 2017

16. Financial instruments and risk management (continued)

In addition, the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances. The undiscounted cash flows have been estimated by previously applying a constant (per annum) prepayment rate to the principal balance of the mortgage assets underlying the loans to originator and using the weighted average interest rate prevailing at the statement of financial position date.

The loan notes in the above table will not agree to the liability in statement of financial position as the table incorporates both principal and interest payments on an undiscounted basis (see note 15 for maturity dates). For the current and the prior year, all mortgage backed loan notes are due in more than 5 years, and all other non-derivative creditors are repayable on demand.

The Company's policy is to manage liquidity risk by matching cash payments due on the mortgage backed loan notes to cash receipts from mortgage assets.

c) Interest rate risk

Interest rate risk profile of financial assets

	Total £'000	Total variable rate £'000	Total fixed rate £'000	Weighted average interest rate* %	Weighted average time for which rate is fixed Years
2017					
Loans to originator	354,239	354,239	-	4.50	-
Cash at bank and in hand	22,490	-	22,490	0.04	0.25
2016					
Loans to originator	425,144	407,683	17,461	4.93	0.44
Cash at bank and in hand	25,030	-	25,030	0.56	0.25

*this is the weighted average spread above LIBOR.

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Notes to the financial statements for the year ended 31 March 2017

16. Financial instruments and risk management (continued)

Interest rate sensitivity analysis on financial assets

	Decrease in basis points	Effect on equity £'000	Effect on result before tax £'000
2017			
Loans to originator	(25)	(886)	(886)
Cash at bank and in hand	<u>(25)</u>	<u>(56)</u>	<u>(56)</u>
2016			
Loans to originator	(25)	(1,059)	(1,059)
Cash at bank and in hand	<u>(25)</u>	<u>(31)</u>	<u>(31)</u>

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market conditions. In assessing the effect on financial assets of interest rate sensitivity, management have used a benchmark of 25 bps.

Interest rate risk profile of financial liabilities

	Total £'000	Total variable rate £'000	Weighted average interest rate %
2017			
Mortgage backed loan notes	<u>374,394</u>	<u>374,394</u>	<u>1.52</u>
2016			
Mortgage backed loan notes	<u>449,505</u>	<u>449,505</u>	<u>1.74</u>

Interest payable on the mortgage backed loan notes and receivable on mortgage assets underlying the loans to originator are both based on LIBOR. The Company thus has limited exposure to interest rate risk.

The interest rate risk profile of the mortgage backed loan notes in issue can be found in note 15. The Company's approach to managing interest rate risk is included in the principal risks and uncertainties section of the strategic report.

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Notes to the financial statements for the year ended 31 March 2017

16. Financial instruments and risk management (continued)

Interest rate sensitivity analysis on financial liabilities

	Decrease in basis points	Effect on equity £'000	Effect on result before tax £'000
2017			
GBP	(25)	954	954
2016			
GBP	(25)	1,243	1,243

In assessing the effect on financial liabilities of interest rate sensitivity, management have used a benchmark of 25 bps.

The Company also has certain financial instruments included within debtors (note 12) and creditors (note 14) which are not subject to interest rate risk as they bear no interest.

Interest income and expense on financial instruments that are not at fair value through profit and loss

	2017 £'000	2016 £'000
Interest receivable on loans to originator	20,206	22,960
Interest expense on loan notes	(17,445)	(22,618)
	<u>2,761</u>	<u>342</u>

d) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Company operates under a robust controls and governance framework provided by the servicer of the mortgage assets underlying the loans to originator. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

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Notes to the financial statements for the year ended 31 March 2017

16. Financial instruments and risk management (continued)

e) Fair values of financial assets and liabilities

	2017	2017	2016	2016
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Financial assets				
Loans to originator	353,801	388,867	424,611	487,388
Cash at bank and on hand	22,490	9,644	25,030	25,030
	<u>376,291</u>	<u>398,511</u>	<u>449,641</u>	<u>512,418</u>
Financial liabilities				
Mortgage backed loan notes	(381,554)	(379,616)	(464,596)	(492,602)
	<u>(381,554)</u>	<u>(379,616)</u>	<u>(464,596)</u>	<u>(492,602)</u>

All financial assets and liabilities are held at amortised cost. There were no transfers between categories in both periods. Management have assessed all other assets and liabilities and consider book value to be equal to fair value.

Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents. There are no material differences between their book values and fair values.

The directors have considered the fair values of the Company's main financial instruments which are loans to originator, mortgage backed loan notes and cash.

The fair value of the mortgage backed loan notes has been based upon their quoted prices; where available, or prices interpolated using latest available market data. The fair value of the loans to originator has been based upon the fair value of the mortgages underlying the loan notes, and expected residual cash flows. It is the opinion of the directors that this methodology is appropriate as the market is more liquid than in prior years.

As part of the process of assessing fair value, management have refined the assumptions used. This has been achieved using a combination of macro environmental factors including market observable data and individual borrower data resulting in a more accurate reflection of the estimated cash flows used for computing fair value.

Mortgage backed loan notes and loans to originator, are classified as level 2 and level 3 respectively.

17. Share capital

	2017	2016
	£	£
Authorised, allotted, called up and fully paid:		
1 Ordinary 100% called and fully paid share of £1 each	<u>1</u>	<u>1</u>
Authorised, allotted, called up and partly paid:		
49,999 Ordinary 25% called and paid shares of £1 each	<u>12,500</u>	<u>12,500</u>

Residential Mortgage Securities 28 plc

Notes to the financial statements for the year ended 31 March 2017

18. Related party transactions

The transactions and outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. None of the outstanding balances have been impaired.

	Amount (expensed) / credited 2017 £'000	Amount outstanding 2017 £'000	Amount (expensed) / credited 2016 £'000	Amount outstanding 2016 £'000
Kayl PL S.à r.l				
Interest received	20,206	-	22,960	-
Loans to originator	-	353,801	-	424,611
Amounts due to group undertakings	-	(2,408)	-	(2,408)
Loan note principal	-	(26,160)	-	(26,160)
Accrued loan note interest	-	(55)	-	(54)
Loan note interest expense	(1,291)	-	(7,405)	-
Deferred consideration	-	-	-	-
Intertrust Management Limited (formerly Structured Finance Management Limited)				
Company administration services	(27)	-	(22)	-
Kensington Mortgage Company Limited				
Amounts due from group undertakings	-	32	-	36
Amounts due to group undertakings	-	(627)	-	(114)
Other creditor	-	(8)	-	(10)
Cash bond administration fees	(277)	-	(355)	-
The Northview Group Limited				
Amounts due to group undertakings	-	(217)	-	(74)
	<u>18,611</u>	<u>324,358</u>	<u>15,178</u>	<u>395,827</u>

Details of loan notes and interest accrued on the loan notes is shown in Note 15 and Note 5.

19. Parent undertaking and control

The Company's immediate parent undertaking is Residential Mortgage Securities 28 Parent Limited which is registered and operates in England, United Kingdom and has its registered office located at 35 Great St. Helen's, London, EC3A 6AP. The entire issued share capital of Residential Mortgage Securities 28 Parent Limited is held on a discretionary trust basis under a share trust deed by the legal

Residential Mortgage Securities 28 plc

Notes to the financial statements for the year ended 31 March 2017

parent company, Intertrust Corporate Services Limited, a company incorporated in the United Kingdom and registered in England and Wales.

An affiliate company, Kayl PL S.à r.l., retains an interest in the cash flows and profits of the Company. The Company's operations are managed by The Northview Group Limited, an affiliate Company.

The largest group in which the results of the Company are consolidated is Koala (Cayman) Limited, a Company registered in England, United Kingdom. The consolidated financial statements of Koala (Cayman) Limited are available to the public and may be obtained from 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The smallest group in which the results of the Company are consolidated is Kayl Holdco S.à r.l., which is incorporated in Luxembourg. The consolidated financial statements of Kayl Holdco S.à r.l. are available to the public and may be obtained from 6, rue Eugene Ruppert, L-2453, Luxembourg.

The Company's ultimate controlling party is Koala (Cayman) Limited which is incorporated in the Cayman Islands, and is the ultimate parent undertaking of Kayl PL S.à r.l.

20. Capital management

The Company is not subject to any externally proposed capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

The Company's capital consists of share capital contributed by investors. Due to the structural features of the securitisation process, where cash paid out to noteholders cannot exceed cash received, and where the holder of the deferred consideration certificate is entitled to any excess deferred consideration, the amount of share capital is not expected to fluctuate over time. Accordingly, the objective of capital management is to hold constant the amount of share capital, and this objective is achieved by the structural features of the securitisation transaction documented in the offering circular and other legal documentation.

21. Contingent liabilities

There are no (2016: nil) contingent liabilities or commitments at the year end or up to the date of signing the directors' report.

22. Post balance sheet date events

There are no significant events occurring after the statement of financial position date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 March 2017.