Annual report and financial statements

Gosforth Funding 2018-1 PLC

For the year ended 30 September 2022

Company Number: 11444253

Gosforth Funding 2018-1 PLC

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For the year ended 30 September 2022

Contents

Officers and professional advisers

Directors	Mark Filer Justin Fox LDC Securitisation Director No.1 Limited LDC Securitisation Director No.2 Limited
Secretary	Law Debenture Corporate Services Limited
Registered office	8^{th} Floor 100 Bishopsgate London EC2N 4AG
Independent auditors	Ernst & Young LLP 144 Morrison Street Edinburgh EH3 8EX

Strategic report

The Directors of Gosforth Funding 2018-1 PLC (the “Company”) present their strategic report for the year ended 30 September 2022.

Principal activities and business structure

The Company is a Special Purpose Vehicle (“SPV”) which forms part of Clydesdale Bank PLC’s (“CB PLC”) Gosforth 2018-1 Residential Mortgage Backed Securities Programme (the “Programme”). The Programme was established primarily for the purpose of raising wholesale funding for the Programme Sponsor (“Sponsor”) CB PLC.

The Company is incorporated under the Companies Act 2006 as a public limited company and registered in England and Wales. It is a wholly owned subsidiary of Gosforth Holdings 2018-1 Limited (“GH Ltd”), the immediate parent entity, which is incorporated under the Companies Act 2006 and registered in England and Wales. The ultimate controlling entity is Virgin Money UK PLC (“VMUK PLC”). VMUK PLC and its subsidiary undertakings, which include CB PLC, comprise the Virgin Money UK PLC Group (“Group”). Further detail of the group structure is disclosed in note 1.1.

The principal activity of the Company is the issuance of limited recourse class A, class M and class Z Residential Mortgage Backed Securities (the “Notes”), under the Programme. The Notes in issue have a legal maturity date of 25 August 2060, with a step-up date of 25 August 2023. The Notes are listed on the London Stock Exchange.

The proceeds were used to purchase an interest in a pool of residential mortgage loans held on trust (the “Trust Property”) by Gosforth Mortgages Trustee 2018-1 Limited (“GMT Ltd”), a private limited company incorporated under the Companies Act 2006 and registered in England and Wales. The Trust Property was sold to GMT Ltd by the Sponsor who retains substantially all of the risks and rewards associated with the mortgage loans. As such, the Company’s interest in the Trust Property is recognised as part of a deemed loan to CB PLC. The deemed loan is described in note 1.4 to the financial statements.

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

Financial analysis

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

Following a successful consent solicitation process with the Noteholders, the existing sterling LIBOR interest basis of all Notes in issue have all been replaced by a Compounded Daily SONIA interest basis during the year.

The Company receives a share of income from the Trust Property in proportion to its share of the total mortgage assets of the Trust. Under the terms of the Programme, the Company is entitled to retain a predetermined profit balance (before the net effect of fair value gains and losses). For the year ended 30 September 2022 this equated to £2,080 (2021: £2,520). Income in excess of the required amount accrues to CB PLC as deferred consideration of £4,899,000 (2021: £4,549,000). Deferred consideration is described in note 1.4 to the financial statements.

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

The profit before tax for the year of £65,000 (2021: £123,000) was due to the net effect of the fair value of gain of £63,000 (2021: £121,000 gain). The gain results from fair value movements on the cross currency swap, which formed part of an economic hedge and was excluded from the calculation of predetermined profit as the effect has unwound over the life of the swap.

Key performance indicators (“KPIs”)

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

Strategic report (continued)

Section 172(1) statement

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

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

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

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

Future developments

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

Despite the United Kingdom (“UK”) economy gradually recovering from the impact of COVID-19, the outlook continues to be uncertain. Household incomes have been, and will continue to be, affected by the recent (and further anticipated) Bank of England base rate rises, increasing energy prices (despite recent UK Government announcements on the assistance it will provide customers), and the headwinds from higher inflation. The impact on the UK economy of the Russian invasion of Ukraine remains uncertain but as the Company has no direct lending in that region, it is anticipated that any potential impact will be modest.

Principal risks and uncertainties

The Company is exposed to changes in market variables such as floating rate interest on loans within the mortgage pool and floating rate interest obligations arising from pounds sterling (“GBP”) denominated Notes. During the year, the Company was also exposed to exchange rate movements on United States Dollar (“USD”) denominated Notes through its class A1 issuance before it fully redeemed on 25 August 2022. These risks are mitigated by the Company through a funding basis swap arrangement, by the limited recourse nature of the Notes issued and by using a cross currency swap.

Climate risk has been assessed as a potential future risk of the Company. The main features of the Company's internal control and risk management systems are set out in note 4.3.

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

Financial risk management

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

This report was approved by the Board of Directors on 19 December 2022 and was signed on its behalf by:

Mark Filer
Director
19 December 2022

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 30 September 2022.

Corporate governance

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

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

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

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

Profits and appropriations

The statement of comprehensive income for the year is set out on page 13.

The Directors approved the payment of an interim dividend of £16,000 for the year under review (2021: £Nil). The Directors do not recommend the payment of a final dividend for the year under review (2021: £Nil). As per the Programme prospectus, dividends are payable to allow repayment of the capitalisation loan.

Future developments, principal risks and financial risk management objectives and policies

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

Directors and Directors' interests

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

Directors' interests

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

Appointments and resignations

There have been no appointments or resignations during the year.

Directors' remuneration

None of the Directors were directly remunerated by the Company in respect of their duties as Directors of the Company. However, during the year, a fee in the amount of £10,000 (2021: £10,000) was expensed to Law Debenture Corporate Services Limited, for the provision of corporate administration services including services of three Directors to the Company. In relation to the remaining Director, their service to the Company was performed as part of their employment with CB PLC and no remuneration was earned in respect of qualifying services provided to the Company. CB PLC has not recharged the Company for the cost of this service.

Company secretary

The company secretary during the year, and subsequently, was Law Debenture Corporate Services Limited.

Third party indemnities

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

Employees

The Company does not have any employees.

Directors' report (continued)

Stakeholder engagement

The Directors have provided a statement in the strategic report, describing how they have performed their duty to promote the success of the Company and how they have engaged with and had regard to the interest of key stakeholders.

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

Political donations

No political donations were made during the year (2021: £Nil).

Research and development costs

The Company does not undertake formal research and development activities.

Related parties

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

Share capital

Information about share capital is shown in note 3.11.

Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for 12 months from the approval of the financial statements.

The Notes issued by the Company reach their step-up date in August 2023, at which point there is the option to call the Notes. In the event that the call option is exercised, the Notes will be redeemed and the Company will cease to trade. While no determination has been made whether this option will be exercised, the possibility to redeem the Notes within the next 12 months creates a material uncertainty on whether the Company will continue as a going concern. No adjustments have been made to the balances within the financial statements.

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

Events after the balance sheet date

There have been no significant events between 30 September 2022 and the date of approval of the annual report and financial statements which would require a change to or additional disclosure in the financial statements.

Auditors and disclosure of information to the auditors

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

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

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

This report was approved by the Board of Directors on 19 December 2022 and was signed on its behalf by:

Mark Filer
Director
19 December 2022

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards ("IAS"). 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 in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards ("IFRS") is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- state whether UK adopted IAS have been followed, subject to any material departures 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.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and Directors' report that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information relating to the Company included on the Group's website.

This statement was approved by the Board of Directors on 19 December 2022 and was signed on its behalf by:

Mark Filer
Director
19 December 2022

Independent auditor's report to the members of Gosforth Funding 2018-1 PLC (continued)

Opinion

We have audited the financial statements of Gosforth Funding 2018-1 PLC for the year ended 30 September 2022 which comprise statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and the related notes 1.1 to 4.4, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 30 September 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material uncertainty relating to going concern

We draw attention to note 1.3 in the financial statements, which indicates that the Notes issued by the Company reach their step-up date in August 2023 at which point there is the option to call the Notes. In the event that the call option is exercised, the Notes will be redeemed and the Company will cease to trade. As stated in note 1.3, this event or condition, along with the other matters set forth in note 1, indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the company's ability to continue as a going concern included the following procedures:

- Obtaining an understanding of the Directors' going concern assessment process, reviewing the going concern assessment including testing the accuracy and reasonableness of management's analysis and key assumptions, and making inquiries of Directors. This included challenging and validating the Directors' consideration of current economic volatility and the foreseeable risks of climate change.
- Obtaining and reviewing legal documentation in order to understand and assess the legal structure of the Company, contractual events of default, and limited recourse nature of the Notes.
- Performing independent stress testing to establish whether the Company has sufficient liquidity to meet its obligations as they fall due. This includes a review of the contractual liabilities of the Company across the going concern assessment period, comparing this to the levels of liquidity retained in the Company in order to assess the ability of the Company to meet its obligations as they fall due, and considering the timing of contractual maturities of the liabilities, including the existence of an option to call the Company's loan notes within a period of 12 months from approval of the financial statements.
- Assessing whether there were any events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- Reviewing the going concern disclosures included in the annual report and financial statements in order to assess whether the facts and circumstances for the use of the going concern basis of preparation and the associated material uncertainty were clearly disclosed and in conformity with the accounting standards.

We have identified within the prospectus of the Company that the loan notes may be redeemed from August 2023. In the event that the notes are called, the Company will cease to trade. Based on the work we have performed, we concur with the directors that there is a material uncertainty relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Going concern has also been determined to be a key audit matter.

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

Independent auditor's report to the members of Gosforth Funding 2018-1 PLC (continued)

Overview of our audit approach

Key audit matter	• Performance and recoverability of the deemed loan.
Materiality	• Overall materiality of £8.3m which represents 1% of total assets.

An overview of the scope of our audit

Tailoring the scope

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

Climate change

There has been increasing interest from stakeholders as to how climate change will impact Virgin Money UK PLC Group, which consolidates the Company. The Company has determined that the most significant future impacts from climate change on its operations will be from physical and transitional risks and has concluded that these are medium to longer term in nature. These are explained on page 3 of the strategic report, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in note 1.2 to the financial statements, the Directors have considered climate risk in the preparation of the accounts. We note that governmental and societal responses to climate change risks are still developing, and are interdependent of each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of uncertainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted International Accounting Standards. Note 4.3 to the financial statements sets out the Directors' conclusion that there is no material impact from climate change on the Company's current year results or financial position.

Our audit effort in considering climate change was focused on ensuring that reasonably probable effects of material climate risks have been appropriately considered in the preparation of the financial instruments, and particularly that any material impact appropriately reflected in the carrying value of, and disclosures associated with, the intercompany loan held by the Company and associated disclosures. Details of our procedures and observations are included in our key audit matter below. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

Whilst the Virgin Money UK PLC Group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, the Group is currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this. Under applicable accounting standards, the potential impacts have not resulted in changes in valuation or measurement in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty related to going concern section, we have determined the matter described below to be the key audit matters to be communicated in our report.

Independent auditor’s report to the members of Gosforth Funding 2018-1 PLC (continued)

Risk	Our response to the risk	Key observations communicated to those charged with governance
Performance and recoverability of the deemed loan **30 September 2022: £700m;** **30 September 2021: £835m** Refer to critical accounting estimates and judgements (Note 1.5) within the Accounting Policies of the Financial Statements. The Company is a special purpose vehicle within a securitisation structure. It exists to advance wholesale funding to the Virgin Money UK PLC group. This is achieved through the Company issuing listed debt, used to acquire a beneficial interest in a mortgage portfolio recognised by Clydesdale Bank PLC. Clydesdale Bank PLC has retained substantially all of the risks and rewards of ownership in respect of the mortgage portfolio. As a result, the mortgage loans do not meet the criteria for recognition on the Company’s balance sheet and instead a deemed loan is recognised with Clydesdale Bank PLC. The interest and capital repayments on the deemed loan are required to be received by the Company in order to service its external debt. Due to the significance of the deemed loan (representing 84% of total assets) and the reliance of the Company on the associated interest and capital repayments, we determined the performance and recoverability of the loan (including an assessment of expected credit losses) to be a key audit matter. This includes the impact of both climate risk and recent economic volatility on the recoverability of the underlying mortgage assets.	We walked through the process and relevant controls by which the Directors assessed expected credit losses for the deemed loan in order to understand the assessment performed. We independently evaluated this assessment, which involved the following procedures: • examining the terms of the mortgages trust deed between the Company, Gosforth Mortgages Trustees 2018-1 Limited and Clydesdale Bank plc. • confirming that interest and principal repayments made during the period were recognised appropriately, completely and in accordance with the mortgages trust deed. This included agreeing a sample of repayments to cash transactions in the period. • examining the deemed loan for any indicators of potential future losses, which involved looking through to the securitised mortgage loan pool from which deemed loan repayments flow and assessing whether shortfalls in mortgage recoveries are expected. • assessing the adequacy of provisions for expected credit losses recognised by the Company and assessing the sufficiency and completeness of disclosures of the risk to the deemed loan.	We reported to those charged with governance that, based on the procedures performed, we were satisfied that the deemed loan remains performing, and that expected credit losses relating to the deemed loan were appropriately measured as at 30 September 2022. We concluded that the financial statement disclosures in respect of the recoverability of the deemed loan including the impact of climate risk and current economic volatility are appropriate and in accordance with the requirements of UK adopted international accounting standards.

Other than the material uncertainty related to going concern, we have not identified any changes to key audit matters since the previous year.

Our application of materiality

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

Our application of materiality (continued)

Materiality

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

We determined materiality for the company to be £8.3m (2021: £9.0m), which is 1% (2021: 1%) of total assets. We believe that the use of total assets is appropriate since the entity is a special purpose vehicle that is structured to make a nominal profit, and so the most relevant aspect of the entity is its assets.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £6.3m (2021: £6.8m). We have set performance materiality at this percentage due to our previous experience as auditors of the Company, from which we concluded that there is a lower expectation of material financial statement inaccuracies and no audit differences resulting from our prior period and current period work.

Reporting threshold

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

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £0.4m (2021: £0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent auditor’s report to the members of Gosforth Funding 2018-1 PLC (continued)

Responsibilities of directors

As explained more fully in the statement of Directors’ responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.
However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and the Directors.

Our approach was as follows:

- we obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are UK adopted International Accounting Standards, the Companies Act 2006, the UK Listing Rules of the London Stock Exchange, Market Abuse Regulations, Transparency Regulations, and UK Tax legislation.
- we understood how the Company is complying with those frameworks by inquiring of the Directors and identifying the controls in place in order to comply.
- we assessed the susceptibility of the company’s financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity or that otherwise seek to prevent, deter or detect fraud.
- based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit for their awareness of any known instances of non-compliance or suspected non-compliance with laws and regulations. We also performed focused testing, as referred to in the Key Audit Matters section above.
- the Company operates in the capital markets industry which is a regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had appropriate competence and capabilities.

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

Other matters we are required to address

- we were appointed by the Company on 30 October 2018 to audit the financial statements for the period ending 31 December 2019 and subsequent financial periods.
- the period of total uninterrupted engagement including previous renewals and reappointments is 4 years and 3 months, covering the periods ending 31 December 2019 to 30 September 2022.
- the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

Independent auditor’s report to the members of Gosforth Funding 2018-1 PLC (continued)

Use of our report

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Blake Adlem (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Edinburgh
20 December 2022

Statement of comprehensive income
for the year ended 30 September

	Note	2022 £'000	2021 £'000
Interest income	2.2	**10,535**	7,400
Interest expense	2.3	**(10,393)**	(7,264)
Other similar interest	2.4	**(27)**	(6)
Operating income		**115**	130
Operating expenses	2.5	**(113)**	(128)
Net gains and losses	2.6	**63**	121
Profit before tax		**65**	123
Tax expense	2.7	**-**	-
Total comprehensive income attributable to equity holders		**65**	123

The notes on pages 17 to 35 form part of these financial statements.

Balance sheet
as at 30 September

	Note	2022 £'000	2021 £'000
Assets			
Deemed loan	3.1	**700,015**	835,928
Reserve funds	3.2	**12,917**	15,812
Other assets	3.3	**80**	56
Cash and cash equivalents	3.4	**120,806**	53,055
Total assets		**833,818**	904,851
Liabilities			
Notes in issue	3.5	**747,168**	887,824
Derivative financial liabilities	3.6	**-**	2,736
Due to other banks	3.7	**86,565**	13,641
Subordinated loan	3.8	**-**	515
Other liabilities	3.9	**29**	128
Total liabilities		**833,762**	904,844
Equity			
Share capital	3.11	**50**	50
Retained earnings		**6**	(43)
Total equity		**56**	7
Total liabilities and equity		**833,818**	904,851

The notes on pages 17 to 35 form part of these financial statements.

The financial statements were approved by the Board of Directors on 19 December 2022 and were signed on its behalf by:

Mark Filer
Director
19 December 2022
Company No: 11444253

Statement of changes in equity

	Note	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 30 September 2020		50	(166)	**(116)**
Total comprehensive income for the year		-	123	**123**
Balance at 30 September 2021		50	(43)	**7**
Total comprehensive income for the year		-	65	**65**
Dividends paid	3.12	**-**	(16)	**(16)**
Balance at 30 September 2022		**50**	**6**	**56**

The notes on pages 17 to 35 form part of these financial statements.

Statement of cash flows
for the year ended 30 September

	Note	2022	2021
		£'000	£'000
Operating activities			
Profit before tax		**65**	123
Adjustments for non-cash movements included in profit before tax:			
Interest income	2.2	**(10,535)**	(7,400)
Interest expense	2.3	**10,393**	7,264
Other similar interest	2.4	**27**	6
Net gains and losses	2.6	**(63)**	(121)
Adjustments to working capital:			
Changes in operating assets	4.1	**(24)**	20
Changes in operating liabilities	4.1	**(30)**	34
Changes in amounts due to other banks		**72,924**	5,596
Net cash flows provided by operating activities		**72,757**	5,522
Investing activities			
Principal repayment of the deemed loan		**139,843**	163,844
Interest received on the deemed loan		**6,394**	11,628
Reduction of investment in reserve funds		**2,895**	3,316
Interest received on cash and cash equivalents		**211**	-
Net cash flows provided by investing activities		**149,343**	178,788
Financing activities			
Redemption of Notes	4.1	**(144,758)**	(165,811)
IBOR transition costs	4.1	**(43)**	(142)
Interest paid on Notes		**(8,981)**	(6,566)
Interest (paid)/received on cross currency swaps		**(32)**	18
Principal repayment of subordinated loan	4.1	**(513)**	(8,335)
Interest paid on subordinated loan		**(6)**	(261)
Payment of dividend	3.12	**(16)**	-
Net cash flows used in financing activities		**(154,349)**	(181,097)
Net increase in cash and cash equivalents		**67,751**	3,213
Cash and cash equivalents at beginning of year		**53,055**	49,842
Cash and cash equivalents at end of year	3.4	**120,806**	53,055

The notes on pages 17 to 35 form part of these financial statements.

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

1.1 General information

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

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

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

1.2 Basis of accounting

The Company's financial statements, which should be read in conjunction with the strategic report and the Directors' report, have been prepared in accordance with UK adopted IAS[1]. The financial information has been prepared under the historical cost convention, as modified by the application of fair value measurements. Climate risk has been considered in the preparation of these accounts and no adjustments have been deemed necessary.

The comparative year financial statements were prepared and presented including the early adoption of 'Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform – Phase 2', which had been endorsed by the EU and UK in January 2021 and included in UK adopted IAS.

1.3 Going concern

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

The Company has access to financial resources through its interest in the deemed loan. It is the intention of the Directors of the Company to continue operations while the Programme supports the funding and liquidity needs of the Group. Due to the limited recourse nature of the Notes the ultimate risk is borne by the Noteholders, therefore any shortfall in the proceeds from the deemed loan will be a risk to the Noteholders rather than the Company.

The Notes issued by the Company reach their step-up date in August 2023, at which point there is the option to call the Notes. In the event that the call option is exercised, the Notes will be redeemed and the Company will cease to trade. While no determination has been made whether this option will be exercised, the possibility to redeem the Notes within the next 12 months creates a material uncertainty on whether the Company will continue as a going concern. No adjustments have been made to the balances within the financial statements.

The Directors believe the Company is well placed to manage its business risks successfully in line with the Programme documentation. Accordingly, the financial statements have been prepared on a going concern basis.

1.4 Accounting policies

(a) Functional and presentation currency

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

(b) Foreign currency - transactions and balances

Initially, at the date of a foreign currency transaction, the Company records an asset, liability, income or expense arising from a transaction using the end of day spot exchange rate between the functional and foreign currency on the transaction date.

Subsequently, at each reporting date, the Company translates foreign currency monetary items at the closing rate. Foreign exchange ("FX") differences arising on translation or settlement of monetary items are recognised in the statement of comprehensive income during the period in which the gains or losses arise. Foreign currency non-monetary items measured at historical cost are translated at the date of the transaction. Foreign currency non-monetary items measured at fair value will be translated at the date when the fair value is determined. Foreign exchange differences are recognised directly in equity for non-monetary items where any component of associated gains or losses is recognised directly in equity.

[1] As the Company's prior accounting year straddled 31 December 2020, the date the UK ceased to be subject to EU law, the 2021 published financial reports were required to follow IAS in conformity with the Companies Act 2006 and EU adopted IFRS. From 1 October 2021, the Company follows and refers only to UK adopted IASs, with the UK Endorsement Board being the body responsible for providing authorisation for the use of new International Accounting Standards Board ("IASB") standards, amendments or interpretations in the UK from 1 January 2022.

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

1.4 Accounting policies (continued)

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

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

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

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

(d) Net gains and losses

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

(e) Income tax

Income tax on the profit or loss for the year comprises current tax. Income tax is recognised in the statement of comprehensive income except to the extent that it is related to items recognised in equity, in which case the tax is also recognised in equity.

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

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(f) Financial instruments

Recognition and derecognition

A financial asset or a financial liability is recognised on the balance sheet when the Company becomes party to the contractual provisions of the instrument.

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

Classification and measurement

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

Financial assets

Subsequent accounting for a financial asset is determined by the classification of the asset depending on the underlying business model and contractual cash flow characteristics. This results in classification within one of the following categories: i) amortised cost, ii) fair value through other comprehensive income ("FVOCI"), or iii) FVTPL. The Company has no financial assets classified as FVOCI.

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

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

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

1.4 Accounting policies (continued)

(f) Financial instruments (continued)

Financial assets (continued)

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

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

Financial liabilities

All of the Company's financial liabilities are classified as financial liabilities at amortised cost, with the exception of the derivative financial instruments which were classified as trading derivatives and measured as FVTPL.

Fair value measurement

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

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

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

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

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

(g) Deemed loan

Where a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Company has concluded that CB PLC has retained substantially all the risks and rewards of the pool of mortgage loans held by the Trustee. Consequently, the Company should not recognise the beneficial interest in the mortgage loans on its balance sheet but rather a deemed loan at amortised cost due from CB PLC.

Initial recognition of the deemed loan corresponds to the initial consideration paid by the Company for the interest in the Trust Property. The Company recognises principal and interest cash flows from the underlying pool of mortgage loans only to the extent that it is entitled to such cash flows in accordance with the Company revenue and principal priority of payments as detailed in the Programme documentation.

Deferred consideration

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

Basis swaps

The Company uses derivative financial instruments to manage exposure to interest rate risk, which arises when there is a mismatch between fixed interest rate and floating interest rates, and different repricing characteristics between assets and liabilities.

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

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

1.4 Accounting policies (continued)

(h) Reserve funds

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

(i) Other assets

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

(j) Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and are derecognised when the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

(k) Notes in issue

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

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

(l) Derivative financial instruments

The Company uses derivative financial instruments to manage exposure to interest rate and foreign currency risk. Interest rate risk arises when there is a mismatch between fixed interest rate and floating interest rates, and different repricing characteristics between assets and liabilities. Currency risk arises when assets and liabilities are not denominated in the functional currency of the entity. Derivatives are recognised on the balance sheet at fair value on trade date and are remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The notional amount of a derivative contract is not recorded on the balance sheet but is disclosed in note 3.6.

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

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

(m) Due to other banks

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

(n) Subordinated loan

The subordinated loan was a formal intercompany loan agreement between the Company and CB PLC. The loan was subject to the terms of the Subordinated Loan Agreement. The subordinated loan was recognised initially at fair value and subsequently measured at amortised cost.

(o) Other liabilities

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

(p) Share capital

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

(q) Dividends on ordinary shares

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

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

1.4 Accounting policies (continued)

(r) Capital management overview

The Company is not subject to externally imposed capital requirements outside the scope of Programme documentation. The Company considers its capital to reflect share capital which can be found in the balance sheet on page 14.

1.5 Critical accounting estimates and judgements

The preparation of financial statements in accordance with UK adopted IAS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses reported in these financial statements. Assumptions made at each balance sheet date are based on best estimates at that date and are reviewed by the Directors at each reporting date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. The most significant use of estimates and judgements relate to the following:

Impairment of financial assets

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

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

Unlike other financial instruments, the deemed loan is, by its construction, an instrument that incorporates credit enhancement. The interest due on the deemed loan is only due to the extent it matches the obligations of the entity. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the cash flow for a particular payment period is insufficient. ECL for the deemed loan would only therefore be recognised where the ECL on the underlying assets were large enough that no credit enhancement remained, which is not currently the case. As at 30 September 2022, management judges ECLs based on the available supportable information to be immaterial and as a result no ECL disclosures are presented.

1.6 New accounting standards and interpretations

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

There were no material IASB pronouncements adopted by the Company in the current financial year.

(b) New accounting standards and interpretations not yet adopted

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

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

2.1 Employee costs and Directors' emoluments

The Company does not have any employees thus there are no associated costs included within these financial statements (2021: £Nil). The administrative duties of the Company have been outsourced to an external services provider, Law Debenture Corporate Services Limited. Refer to page 4 for details of Directors' emoluments.

2.2 Interest income

	2022	2021
	£'000	£'000
Interest income on the deemed loan	10,324	7,400
Interest income on cash and cash equivalents	211	-
	10,535	7,400

Interest income on the deemed loan represents the income on the underlying mortgage loans, reduced by the net expense on the basis swap and deferred consideration expense of £4,899,000 (2021: £4,549,000).

2.3 Interest expense

	2022	2021
	£'000	£'000
Interest expense on Notes	10,051	6,438
Amortisation charge	338	604
Interest expense on subordinated loan	4	222
	10,393	7,264

2.4 Other similar interest

	2022	2021
	£'000	£'000
Interest expense on cross currency swap	27	6

2.5 Operating expenses

	2022	2021
	£'000	£'000
Cash management fee	4	4
Other operating expenses	109	124
	113	128

During the year, the company expensed £24,000 (2021: £24,000) of audit fees which are included in other operating expenses and includes costs incurred on behalf of GH Ltd.

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

2.6 Net gains and losses

	2022	2021
	£'000	£'000
Fair value movements of future cash flows on cross currency swap	**5,127**	(10,525)
Translation (losses)/gains on the Notes	**(5,064)**	10,646
Net gain on economic hedges	**63**	121

The Company entered into certain derivative financial instruments, which although highly effective as economic hedges, were not designated in hedge accounting relationships. These derivatives economically hedged foreign currency risk on the principal and interest of the Notes before the full redemption of the A1 Notes on 25 August 2022.

2.7 Income tax

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

The Company is entitled to retain an amount of £2,080 (2021: £2,520) before any net gains or losses, as profit for the year ended 30 September 2022. This profit meets the definition of retained profits under the Securitisation Regulations and is taxable at the current taxation rate.

	2022	2021
	£'000	£'000
Tax expense comprises:		
Current tax expense	**-**	-
The total charge can be reconciled to the accounting profit as follows:		
Profit before tax	**65**	123
Income tax expense calculated at standard UK tax rate of 19% (2021:19%)	**(12)**	(23)
Effects of:		
Non-deductible income	**12**	23
Income tax expense recognised in the statement of comprehensive income	**-**	-

The charge above has been calculated in accordance with the Securitisation Regulations.

Since 1 April 2017, the statutory rate of UK corporation tax has been 19%. On 17 October 2022, the Chancellor of the Exchequer confirmed that, in line with the previously enacted legislation, the UK corporation tax rate will increase to 25% from 1 April 2023.

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

3.1 Deemed loan

	2022	2021
	£'000	£'000
Principal balance	**699,014**	836,614
Accrued interest payable/(receivable)	**1,001**	(686)
	700,015	835,928

The deemed loan represents the beneficial interest in the underlying mortgages and deferred consideration payable of £13,772,000 (2021: £16,015,000). The mortgage loans are all denominated in GBP and are at various variable or fixed rates of interest.

3.2 Reserve funds

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

	2022	2021
	£'000	£'000
Liquidity reserve fund	**12,917**	15,812

3.3 Other assets

	2022	2021
	£'000	£'000
Unpaid share capital	**38**	38
Other receivables	**42**	18
	80	56

3.4 Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and cash equivalents	**120,806**	53,055

The Company holds accounts with HSBC Bank, Clydesdale Bank, Citibank and Elavon. The accounts have been established in the Company's name for the following purposes:

- to hold the Company's available principal and revenue receipts until each quarterly Note payment date;
- to apply proceeds to pay various creditors in accordance with the relevant priority of payments;
- to hold collateral placed with the Company by derivative counterparties
- to hold applicable reserve funds (note 3.2); and
- to retain the remaining balance as the Company's profits and paid up share capital.

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

3.5 Notes in issue

	2022	2021
	£'000	£'000
Principal balance	**745,500**	887,226
Accrued interest payable	**1,668**	598
	747,168	887,824

Class of Notes	Credit rating	Currency	Initial consideration '000	Interest	Margin	Step-up date	Adj margin
A2	AAA rated	GBP	409,935	SONIA	0.70%	25 August 2023	1.28%
A3	AAA rated	GBP	441,684	SONIA	0.82%	25 August 2023	1.52%
M	AA+ rated	GBP	49,956	SONIA	1.32%	25 August 2023	2.52%
Z	Unrated	GBP	99,911	0%	n/a	n/a	n/a

Full details of all Notes in issue can be found in the investor reports at https://www.virginmoneyukplc.com/investor-relations/debt-investors/gosforth-funding-transactions.

Key movements in the year are shown in the table below[1].

Denomination	Redemptions £'000
GBP	(54,453)
USD	(92,702)
	(147,155)

[1] Other movements relate to foreign exchange and amortisation of issuance costs.

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

The Notes are interest-bearing and have a step-up provision for the interest margin. The adjusted margin is the margin that is payable if the principal is not paid by the step-up date. The Notes issued by the Company reach their step-up date in August 2023, at which point there is the option to call the Notes. The ultimate maturity date for all classes of Notes is 25 August 2060.

Following a successful consent solicitation process with the Noteholders, the existing sterling LIBOR interest basis of all Notes in issue have all been replaced by a Compounded Daily SONIA interest basis during the year.

Interest

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

Redemption

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

Limited recourse and segregation of assets and liabilities

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

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

3.6 Derivative financial instruments

Use of derivatives

The Company entered into certain derivative financial instruments, which although highly effective as economic hedges, were not designated in hedge accounting relationships. These derivatives economically hedged foreign currency and interest rate risk on the principal and interest of the Notes before the full redemption of the class A1 Notes on 25 August 2022. As at 30 September 2022, all cross currency swaps have been fully redeemed.

	2022	2021
	£'000	£'000
Fair value of derivative financial instruments		
Held for trading	**-**	(2,736)

Cash collateral received on the off balance sheet derivatives totalled £86,565,000 (2021: £13,641,000) and is included within due to other banks (note 3.7). The Company has the ability to hold securities collateral in respect of derivative transactions. The securities would be held in a custody account and would not meet recognition requirements under IFRS 9. As at 30 September 2022, the balance of security collateral was £Nil (2021: £Nil).

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

The balance as at 30 September 2022 is £Nil. The prior year was as follows:

2021	Notional contract amount	Fair value of assets	Fair value of liabilities
	£'000	£'000	£'000
Held for trading			
Cross currency swap	90,305	-	2,736

3.7 Due to other banks

	2022	2021
	£'000	£'000
Collateral pledged by derivative counterparties	**86,565**	13,641

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

3.8 Subordinated loan

The Company entered into a subordinated loan agreement with the Sponsor of the Programme, pursuant to which the Company received a loan to be applied towards:

- the establishment of the liquidity reserve fund (in whole or in part); and
- payment (in whole or in part) of the fees and expenses incurred by the Company in respect of the issuance of the Notes.

The loan was fully repaid during the year.

	2022	2021
	£'000	£'000
Principal balance	**-**	513
Accrued interest payable	**-**	2
	-	515

3.9 Other liabilities

	2022	2021
	£'000	£'000
Accrued capital expenses	**-**	69
Other payables due to CB PLC	**26**	1
Other payables	**3**	58
	29	128

3.10 Fair value of financial instruments

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

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

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

Fair value of financial instruments held at amortised cost

The methodologies and assumptions used in the fair value estimates are described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as the deemed loan.

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

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

3.10 Fair value of financial instruments (continued)

Fair value of financial instruments held at amortised cost (continued)

	2022					2021				
			Fair value measure using:					Fair value measure using:		
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Financial assets held at amortised cost										
Deemed loan	**700,015**	**661,986**	-	661,986	-	835,928	840,165	-	840,165	-
Financial liabilities held at amortised cost										
Notes in issue	**747,168**	**743,650**	-	743,650	-	887,824	894,621	-	894,621	-

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

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

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

There were no transfers between levels during the year.

Fair value measurements recognised on the balance sheet

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

	2022					2021				
			Fair value measure using:					Fair value measure using:		
	Carrying value	**Fair value**	**Level 1**	**Level 2**	**Level 3**	Carrying value	Fair value	Level 1	Level 2	Level 3
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Financial liabilities held at fair value										
Derivative financial liabilities	**-**	**-**	-	-	-	2,736	2,736	-	2,736	-

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

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

There were no transfers between levels during the year.

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

3.11 Share capital

	2022	2021
	£	£
Issued, allotted and paid-up share capital		
1 ordinary share - fully paid	**1**	1
49,999 ordinary shares - £0.25 partly paid-up	**49,999**	49,999
	50,000	50,000

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

3.12 Dividends paid

	2022	2021
	£'000	£'000
Dividend paid to GH Ltd	**16**	-

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

4.1 Notes to the statement of cash flows

	2022	2021
	£'000	£'000
Changes in operating assets		
Net (increase)/decrease in:		
Other receivables	**(24)**	20
Changes in operating liabilities		
Net increase/(decrease) in:		
Amounts due to CB PLC	**26**	-
Other payables	**(56)**	34
	(30)	34

Liabilities arising from financing activities

	Notes in issue	**Accrued capital expenses [1]**	**Subordinated loan**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 30 September 2020	1,058,587	-	8,889	1,067,476
Cash flows:				
IBOR Transition cost	-	(142)	-	(142)
Redemptions	(165,811)	-	(8,335)	(174,146)
Non-cash flows:				
Movement in accrued interest	(128)	-	(39)	(167)
FX movement [2]	(5,217)	-	-	(5,217)
Other movement [3]	393	211	-	604
At 30 September 2021	887,824	69	515	888,408
Cash flows:				
IBOR Transition cost	-	(43)	-	**(43)**
Redemptions	(144,758)	-	(513)	**(145,271)**
Non-cash flows:				
Movement in accrued interest	1,070	-	(2)	**1,068**
FX movement [2]	2,668	-	-	**2,668**
Other movement [3]	364	(26)	-	**338**
At 30 September 2022	**747,168**	**-**	**-**	**747,168**

[1] Accrued capital expenses are transaction costs associated with the issuance of Notes and the transition to IBOR which have not yet been invoiced and form a component of the total other payables balance.

[2] FX movement on the principal balance of Notes in issue, comprises of a net gain of £2,397,000 (2021: £5,429,000 loss) on the cross currency swap at points of redemption less £5,065,000 adverse movement (2021: favourable £10,646,000) on the remaining Notes based on the closing FX rate.

[3] Other movement relates to the capitalisation and amortisation of transaction costs in relation to the issuance of Notes and the transition to IBOR.

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

4.2 Related party transactions

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

Transactions during the year	**2022**	2021
	£'000	£'000
CB PLC		
Notes redeemed	**11,427**	1,529
Interest expensed on Notes	**7,651**	4,241
Principal repayments made on subordinated loan	**513**	8,335
Interest expensed on subordinated loan	**4**	222
Cash management fee expensed	**4**	4
Bank interest earned	**55**	-
Movement in collateral balances held	**72,924**	5,596
Principal receipts on the deemed loan	**137,600**	168,393
Interest earned on the deemed loan	**10,324**	7,400
Other expenses recharged from CB PLC	**25**	24
GH Ltd		
Audit fee incurred on behalf of GH Ltd	**5**	5
Other expenses incurred on behalf of GH Ltd	**6**	6
Dividends paid to GH Ltd	**16**	-

Balances at the end of the year	**2022**	2021
	£'000	£'000
CB PLC		
Notes in issue	**(612,838)**	(623,355)
Collateral balances held	**(86,565)**	(13,641)
Subordinated loan payable	-	(515)
Balances in current accounts	**19,040**	15,134
Deemed loan receivable	**700,015**	835,928
Other payables due to CB PLC	**26**	1
	19,678	213,552
GH Ltd		
Receivable for unpaid share capital	**38**	38

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

4.3 Management of risk

Introduction and overview

The principal activity of the Company is to issue limited recourse Notes, under the Gosforth 2018-1 Programme, for onward investment in the Trust Property of mortgage loans, represented by the deemed loan. Therefore, the role of financial assets and financial liabilities is central to the activities of the Company; the financial liabilities provide the funding used to invest in the deemed loan, which represents the Company's principal financial asset. Financial assets and liabilities provide the majority of the assets and liabilities of the Company.

In addition to the investment in the deemed loan, and the issuance of Notes, the Company also held a cross currency swap. This swap economically hedged the currency and interest rate risk associated with the mismatch between the floating GBP interest generated by the underlying mortgage loans and the USD interest paid on the class A1 Note before its full redemption during the year.

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

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

Risk management framework

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

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

Credit risk

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

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

Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Company (i.e. assets where their fair value is positive) which, in relation to derivatives, may only be a small fraction of the contract, or notional values used to express the volume of instruments outstanding.

The Company further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with whom it undertakes derivative transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities. However, credit risk associated with the favourable contracts is reduced by a master netting arrangement to the extent that, if any counterparty failed to meet its obligations in accordance with the agreed terms, all amounts with the counterparty are terminated and settled on a net basis. Derivative financial instrument contracts are typically subject to the International Swaps and Derivatives Association ("ISDA") master netting agreements, as well as Credit Support Annexes, where relevant, around collateral arrangements attached to those ISDA agreements.

Maximum exposure to credit risk

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

	2022	2021
	£'000	£'000
Deemed loan	**700,015**	835,928
Reserve funds	**12,917**	15,812
Other assets	**80**	56
Cash and cash equivalents	**120,806**	53,055
	833,818	904,851

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

4.3 Management of risk (continued)

Maturity analysis of assets and liabilities

The following tables represent a breakdown of the Company's balance sheet, according to the contractual maturity of the assets and liabilities. Maturity analysis of the deemed loan and the Notes has been based upon these being redeemed at the step-up date. This is an optional call date. Refer to note 1.3 for further information.

2022

	Call	**3 months or less**	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets							
Deemed loan	**-**	**32,425**	**667,590**	**-**	**-**	**-**	**700,015**
Reserve funds	**-**	**-**	**-**	**-**	**-**	**12,917**	**12,917**
Other assets	**-**	**42**	**-**	**-**	**-**	**38**	**80**
Cash and cash equivalents	**120,806**	**-**	**-**	**-**	**-**	**-**	**120,806**
	120,806	**32,467**	**667,590**	**-**	**-**	**12,955**	**833,818**
Liabilities							
Notes in issue	**-**	**34,609**	**712,559**	**-**	**-**	**-**	**747,168**
Due to other banks	**-**	**-**	**-**	**-**	**-**	**86,565**	**86,565**
Other liabilities	**-**	**29**	**-**	**-**	**-**	**-**	**29**
	-	**34,638**	**712,559**	**-**	**-**	**86,565**	**833,762**

2021

	Call	3 months or less	3 months to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Deemed loan	-	35,534	98,724	701,670	-	-	835,928
Reserve funds	-	-	-	-	-	15,812	15,812
Other assets	-	18	-	-	-	38	56
Cash and cash equivalents	53,055	-	-	-	-	-	53,055
	53,055	35,552	98,724	701,670	-	15,850	904,851
Liabilities							
Notes in issue	-	37,740	104,853	745,231	-	-	887,824
Derivative financial liabilities	-	5	2,731	-	-	-	2,736
Due to other banks	-	-	-	-	-	13,641	13,641
Subordinated loan	-	515	-	-	-	-	515
Other liabilities	-	128	-	-	-	-	128
	-	38,388	107,584	745,231	-	13,641	904,844

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

4.3 Management of risk (continued)

Liquidity and funding risk

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

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

Cash flows payable under financial liabilities by contractual maturity

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

	2022						
	Call	**3 months or less**	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No specified maturity**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Notes in issue	**-**	**37,945**	**738,626**	**-**	**-**	**-**	**776,571**
Due to other banks	**-**	**-**	**-**	**-**	**-**	**86,565**	**86,565**
Other liabilities	**-**	**29**	**-**	**-**	**-**	**-**	**29**
	-	**37,974**	**738,626**	**-**	**-**	**86,565**	**863,165**

	2021						
	Call	3 months or less	3 months to 12 months	1 to 5 years	Over 5 years	No specified maturity	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Notes in issue	-	38,835	110,844	754,789	-	-	904,468
Derivative financial liabilities	-	712	2,084	-	-	-	2,796
Due to other banks	-	-	-	-	-	13,641	13,641
Subordinated loan	-	519	-	-	-	-	519
Other liabilities	-	128	-	-	-	-	128
	-	40,194	112,928	754,789	-	13,641	921,552

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

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

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

4.3 Management of risk (continued)

Interest rate risk

Interest rate risk comprises the sensitivity of the Company's current and future net interest income to movements in market interest rates. The Company is exposed to interest rate risk as its interest expense is linked to Daily Compounded SONIA, whilst its interest income originates from its beneficial interest in a pool of mortgages at various fixed and floating rates. To mitigate this, the Company has entered into basis swaps.

The basis swaps transform the basis of the interest received on the deemed loan to match the basis of the interest on the Notes. As the notional of the swaps are set to match the notional of the Notes the risk has been fully mitigated.

Any remaining difference in rate was due to currency rates and was subject to currency risk mitigated by the use of cross currency swaps. Therefore, any change in interest rates would not affect the statement of comprehensive income of the Company.

Currency risk

The Company’s functional currency is GBP and the Programme allows issuances in GBP and USD. Notes are currently issued in GBP and were in issuance during the year in GBP and USD. The Company was therefore exposed to movements in exchange rates between its functional currency GBP and its USD denominated financial instruments during the year.

The Company fully mitigated any exchange rate exposures by using cross currency swaps.

The impact of any movements in the exchange rates on any foreign currency denominated Notes were offset by FX movements on the related cross currency swaps. Therefore, any change in interest rates would not have affected the statement of comprehensive income of the Company.

Prepayment risk

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

Operational risk

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

Climate risk

The potential impact of climate-related risks on the Company’s financial position and performance has been considered in preparing the financial statements.

This involved undertaking an assessment at a Group level over the assets (both financial and non financial) and evaluating whether the observable effects of physical and transitional risk of climate change would have a material impact on the financial position and performance in the current year. The inherent risks and uncertainties in quantifying the effect of climate change in the financial statements are significant and more likely to impact in the medium to long term. Consequently, the Company does not consider there to be a material impact of climate change in these financial statements.

4.4 Events after the balance sheet date

There have been no significant events between 30 September 2022 and the date of approval of the annual report and financial statements which would require a change to or additional disclosure in the financial statements.