Registered number: 05713910

# NEWGATE FUNDING PLC

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2022

## GENERAL INFORMATION

### DIRECTORS

Apex Corporate Services (UK) Limited
Apex Trust Corporate Limited
Colin Arthur Benford
Sean Peter Martin

### COMPANY SECRETARY

Apex Trust Corporate Limited

### REGISTERED OFFICE

6th Floor
125 London Wall
London
United Kingdom
EC2Y 5AS

### BANKERS

Barclays Bank PLC
1 Churchill Place
London
United Kingdom
E14 5HP

### SOLICITORS

Allen & Overy LLP
1 Bishops Square
London
United Kingdom
E1 6AD

### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester Hardman Sq
1 Hardman Square
Manchester
M3 3EB

## CONTENTS

# STRATEGIC REPORT
## For the year ended 31 December 2022

The Directors present their Strategic Report on Newgate Funding Plc (the "Company") for the year ended 31 December 2022.

The Company was established as a special purpose company in 2006 as part of a securitisation transaction to issue secured notes with a value of £3,622,760,000 which are due in 2050. The principal activity of the Company is to invest in and hold mortgage loans. The mortgage loans were purchased from a wholly owned subsidiary of Bank of America Corporation ("BAC").

### BUSINESS REVIEW AND FUTURE DEVELOPMENTS

There have been no changes in the principal activity of the Company during the year and the directors expect the principal activity to continue in the foreseeable future.

There was an increase in net interest income in the year of £11,424,000 (2021: a decrease of £147,000).This was primarily driven by the higher interest rate environment, which led to an increase in interest income on the mortgage loans and interest expense on the loan notes. See notes 3 - Interest income and 4 - Interest expense for further details.

The terms and outstanding principal balance of the loan notes issued by the Company to finance its activities are detailed in note 13 - Creditors: amounts falling due after one year. The loan notes are issued in separate series and are listed securities on the Euronext Dublin. Each series is secured by its own separate pool of mortgage loans.

### MARKET OVERVIEW

*Geopolitical and macroeconomic factors*

Global market conditions in 2022 were markedly different from the prior year. Volatility dominated (both in markets and in politics) amidst growing concern over geopolitics, record inflation, and rising rates. Volatility was particularly pronounced in the UK where three different prime ministers held office, and a mini budget announcement in September led to turmoil in the UK pension sector as gilt yields rose to the highest level since 2002. The political events caused significant market volatility and forced intervention by the Bank of England to prevent broader financial instability.

Geopolitical risks were heightened in 2022, driven by conflict between Russia and Ukraine, tensions between China and Hong Kong/Taiwan, and tensions between the United States ("US") and China. Due to the ongoing conflict between Russia and Ukraine there has been significant volatility in financial and commodities markets, and multiple jurisdictions have implemented various economic sanctions. The Company's direct exposure to Russia as well as the other countries listed above remains immaterial.

Meanwhile, consumer prices continued to accelerate driven by elevated food and energy prices, with the UK Consumer Price Index at a 40-year high. The Bank of England responded by tightening monetary policies, increasing interest rates to fight inflation which has led to an increased cost of borrowing.

As a result, the Company's business, results of performance, financial position and/or operational model could be adversely affected.

*Interbank Offered Rate ("IBOR")*

After 31 December 2021, ICE Benchmark Administration ("IBA") ceased publishing British Pound Sterling ("GBP"), Euro, Swiss Franc, and Japanese Yen ("JPY") IBOR settings and one-week and two-month U.S. dollar ("USD") IBOR settings. However, certain IBOR settings that became no longer representative are being published using a modified calculation (i.e., on a "synthetic" basis). The Financial Conduct Authority ("FCA") has allowed the publication and use of the synthetic rates for certain GBP IBOR settings until 31 March 2024.

The Company continues to monitor a variety of market scenarios as part of its transition efforts, including risks associated with insufficient preparation by individual market participants or the overall market ecosystem, ability of market participants to transition away from impacted benchmarks, and access and demand by clients and market participants to liquidity in certain products, including IBOR products.

## MARKET OVERVIEW (continued)

The Company is currently working to identify the loan note holders in order to propose resolutions to agree to the transition of reference from GBP IBOR to Sterling Overnight Index Average ("SONIA"). This will continue throughout 2023 until each note class passes the resolutions. The Company's derivative financial instruments used for hedging purposes will be transitioned following the resolution of the loan notes. Synthetic IBOR will be used as the reference rate until the completion of this transition.

The Company has no material exposure to interest rate risk as this is borne by the residual loan note holders who are entitled to any residual cash flows after all the other amounts have been paid.

For further information on the status of the Company's IBOR transition, see Note 20 - Interest rate benchmark reform.

## MANAGEMENT OF CLIMATE CHANGE RISK

Climate-related risks are divided into two major categories:

(1) risks related to the transition to a low-carbon economy, which may entail extensive policy, legal, technology and market changes, and

(2) risks related to the physical impacts of climate change, driven by extreme weather events, such as hurricanes and floods, as well as chronic longer-term shifts, such as rising average global temperatures and sea level rise.

These changes and events can have broad impacts on operations, supply chains, distribution networks, customers, and markets and are otherwise referred to, respectively, as transition risk and physical risk. These risks can impact both financial and non-financial risk types.

No material climate-related risk variables impacting the financial position of the Company as at 31 December 2022 have been identified.

## SECTION 172 (1) STATEMENT

The directors of the Company act and take decisions in accordance with their statutory duty under Section 172 of the Companies Act 2006 (the "Act"). The following details the way in which the directors have regard to the matters set out in Section 172 (1) (a) to (f) of the Act in overseeing and promoting the success of the Company.

As required by relevant financial regulation and internal governing documents, the Board of Directors of Newgate Funding Plc (the "Board") is responsible for defining, overseeing, making decisions where relevant and being accountable for the implementation of the Company's governance arrangements that ensure effective, prudent and ethical management and oversight of the Company. This includes setting the business strategy for the Company; monitoring financial performance; ensuring that capital, liquidity, risk and compliance are properly monitored and managed; and ensuring the proper organisational structure and internal control framework are in place, while considering the interests of key stakeholders, including the Company's shareholder.

Through their oversight of the business conducted in the Company, the directors have had regard to the matters set out in Section 172 (1) (a) to (f) of the Act in their oversight and promotion of the success of the Company.

In addition to the above, the Board has overseen additional strategic matters relevant to the Company as part of their consideration of any long term consequences of any decisions. In doing so, the impact that any decisions may have upon stakeholder agendas has been considered.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Company's risk management objectives and policies, as well as its exposures in relation to the principal risks namely market risk, credit risk, liquidity risk and capital management risk are described in note 17 - Risk management.

## STRATEGIC REPORT (continued)
## For the year ended 31 December 2022

### KEY PERFORMANCE INDICATORS

Net interest income for the Company in 2022 was £35,098,000 (2021: £23,674,000). The amount charged to the statement of comprehensive income for loan loss provisions was £3,187,000 (2021: credit of £2,603,000). The profit for the financial year was £2,000 (2021: £1,000).

At the end of the year, the Company held mortgage loans with a net book value, after loan loss provisions, of £694,109,000 (2021: £800,716,000). At the end of the year, the loan loss provision was £11,209,000 (2021: £7,896,000).

Given that the Company was established as part of a securitisation transaction and has a single activity, to issue secured notes and invest in and hold mortgages, the directors do not consider that non-financial key performance indicators are necessary to the reporting of the Company's performance.

### DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: £nil).

This report was approved by the Board on 29 June 2023 and signed on its behalf.

Colin Benford
For and on behalf of Apex Corporate Services (UK) Limited
Director

# DIRECTORS' REPORT
## For the year ended 31 December 2022

The directors present their report and the audited financial statements for the year ended 31 December 2022.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

**DIRECTORS' CONFIRMATION**

Each of the directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

**DIRECTORS**

The directors of the Company who were in office during the year and up to the date of approval of this report except where noted, were:

Apex Corporate Services (UK) Limited
Apex Trust Corporate Limited
Colin Arthur Benford
Sean Peter Martin

**DIRECTORS THIRD PARTY INDEMNITY PROVISIONS**

The directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

**DIRECTORS' REPORT (continued)**
**For the year ended 31 December 2022**

## CONTROL ACTIVITIES

Mortgage assets are monitored by the appointed servicers' control structures as per the servicing agreements in place. The servicer monitors control via Risk & Oversight committees to ensure their risk management processes are effectively implemented.

The Cash Manager has created a dual approved custom-built model to calculate waterfall payments for each securitisation. Editing rights to these models are retained by a segregated group who are not involved in the calculation of periodic payments. The Issuer's bank accounts are reconciled to the waterfall payments to ensure that only Issuer Available Funds are distributed on the Interest Payment Date. Payments are subject to a dual approval blind-key re-entry process by the Principal Paying Agent in order to ensure the correct amounts are paid. The payment processing system also limits the sum of all payments within each Note Class to not exceed the total due to that Class as per the Investor Reports. The Principal Paying Agent also performs call-backs on any new payment beneficiaries ensuring that funds are sent to the correct account.

## FINANCIAL INSTRUMENTS

The Company's operations are financed primarily by means of the loan notes. The Company issued such financial instruments to finance the acquisition of its portfolio of mortgage loans. The Company has also entered into cross currency swaps as an economic hedge of its exposure to Euro loan note issuances. It is not the Company's policy to trade in financial instruments.

## MATTERS COVERED IN THE STRATEGIC REPORT

Details regarding a review of the business, including future developments, principal risks and uncertainties, and dividends paid are provided in the Strategic Report on pages 1 to 3, in accordance with the provisions of section 414 of the Companies Act 2006.

## DONATIONS

The Company made no political donations for the year ended 31 December 2022 (2021: £nil).

## EVENTS AFTER THE END OF THE REPORTING PERIOD

There have been no significant events affecting the Company since the year end which would have impacted the financial position of the Company if retrospectively applied.

## DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed in accordance with section 489 of the Companies Act 2006.

This report was approved by the Board on 29 June 2023 and signed on its behalf.

Colin Benford
For and on behalf of Apex Corporate Services (UK) Limited
Director

# Independent auditors' report to the members of Newgate Funding Plc

## Report on the audit of the financial statements

### Opinion

In our opinion, Newgate Funding Plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit and cash flows 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2022; the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Our audit approach

### Context

The Company is a special purpose entity ("SPE") that forms part of a securitisation structure to issue residential mortgage backed debt securities. The Company's operations are governed by underlying legal and transaction documents (the "Transaction Documents").

### Overview

Audit scope

- The scope of our audit and the nature, timing and extent of our audit procedures were determined by our risk assessment, the financial significance of account balances and other qualitative factors.
- Audit procedures were performed over all account balances and disclosures which are considered material and/or represent a risk of material misstatement to the financial statements.

Key audit matters

- The appropriateness of forward economic scenario assumptions used in the calculation of Expected Credit Losses
- The appropriateness of key assumptions used in the effective interest rate calculation

# Independent auditors' report to the members of Newgate Funding Plc (continued)

Materiality

- Overall materiality: £8,609k (2021: £9,581k) based on 1% of total assets.
- Performance materiality: £6,457k (2021: £7,185k).

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The appropriateness of key assumptions used in the effective interest rate calculation is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *The appropriateness of forward economic scenario assumptions used in the calculation of Expected Credit Losses*<br><br>The Company recorded mortgage loans of £694,109k (2021: £800,716k) as at 31 December 2022. The amount is net of the loss provision for expected credit losses ("ECL") of £11,209k (2021: £7,896k).<br><br>Accounting standards require that losses are recognised on an expected, forward-looking basis, reflecting the Company's view of potential future events. Determining the ECL involves the use of various assumptions including those relating to future economic conditions. These assumptions are subject to a high degree of estimation uncertainty.<br><br>We focused our audit effort on the judgements applied by management over certain key assumptions, specifically the determination and appropriateness of the forward-looking economic scenarios. These assumptions are those that give rise to the greatest potential for material estimation uncertainty in the ECL calculation.<br><br>Refer to Note 1.7 'Mortgage Loans'; Note 2 'Critical accounting estimates and judgements in applying accounting policies'; Note 9 'Provision for loan loss' and Note 10 'Mortgage loans'. | With the assistance of our credit modelling specialists, we understood and assessed the ECL methodology and assumptions applied by the Company by reference to accounting standards and industry practice.<br><br>We used our economic experts and internal credit modelling specialists to critically assess the reasonableness of the forward-looking economic scenarios and scenario weightings applied by the Company.<br><br>We assessed the reasonableness of the base case scenario against a range of independent forecasts. The outer scenarios, representing forecast economic contractions and expansions, were compared to independent forecasts and the downside scenarios compared to historical economic recessions.<br><br>We performed testing including considering the distribution of industry wide losses in previous economic environments and compared these to those implied by the Company's chosen forward economic scenarios. We identified that the ECL is not materially sensitive to reasonable changes in these scenarios and weightings.<br><br>We evaluated and tested the disclosures over ECL loss provisions made in the financial statements.<br><br>Based on the procedures performed and evidence obtained, we found the judgments used in the determination of the expected credit loss provision held against mortgage loans to be reasonable and the financial statement disclosures to be materially compliant with the requirements of IFRS. |

# Independent auditors' report to the members of Newgate Funding Plc (continued)

| | |
|---|---|
| *The appropriateness of key assumptions used in the effective interest rate calculation* | |
| Mortgage loans are recognised at amortised cost, with the associated interest income recognised using the effective interest rate ('EIR') method. The majority of interest income relates to contractual interest and requires no management intervention or judgement.<br><br>An effective interest rate ('EIR') adjustment is made to the mortgage loan interest in order to reflect interest income at the effective rate, in line with the requirements of IFRS. The EIR adjustment made in 2022 was £11,346k (2021: £1,474k).<br><br>Management use judgement and historic performance to estimate future cash payments on the mortgage loans. The significant assumption is the interest rate used to estimate the projected mortgage repayments. Changes in this assumption could have a material impact on the EIR adjustment and on interest income recognised.<br><br>Refer to Note 1.6 'Interest income and expense'; Note 2 'Critical accounting estimates and judgements in applying accounting policies'; Note 3 'Interest income'; and Note 10 'Mortgage loans'. | We understood and assessed the key assumptions used to calculate the EIR adjustment.<br><br>We critically assessed and challenged the appropriateness of the key assumptions, including assessing whether the interest rate applied to estimate future mortgage repayments was appropriate.<br><br>On a sample basis, we tested the accuracy of the data upon which the projected interest rate is based, including interest rates applied to the mortgage loans as at 31 December 2022.<br><br>We tested the accuracy of the sensitivity disclosures by reperforming the impact on the EIR of a reasonable movement in the projected interest rate applied to the mortgage portfolio.<br><br>We evaluated and tested the disclosures relating to the estimation of EIR made in the financial statements.<br><br>Based on the procedures performed and evidence obtained, we found the judgments used in the determination of the EIR adjustment to be reasonable and the financial statement disclosures to be materially compliant with the requirements of IFRS. |

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Company's financial statements.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| *Overall Company materiality* | £8,609k (2021: £9,581k). |
| *How we determined it* | 1% of total assets. |
| *Rationale for benchmark applied* | As a SPE is established as a not for profit entity, funded by debt, it would follow that users focus their attention on the SPE's total assets as suggested by ISA (UK) 320 paragraph A3. It is therefore considered appropriate that overall materiality could in the context of an SPE be calculated as 1% of total assets, rounded to the nearest thousand. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our

# Independent auditors' report to the members of Newgate Funding Plc (continued)

audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £6,457k (2021: £7,185k) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £861k (2021: £958k) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- performing a risk assessment to identify factors that could impact the going concern basis of accounting;
- obtaining and evaluating the directors' going concern assessment;
- understanding and evaluating the Company's current financial position and financial forecasts, including reviewing the results of liquidity stress testing performed by management and considering the severity of the stress scenarios that were used;
- evaluating the fair value of the Company's collateral against book values to determine the extent to which there is sufficient collateral to mitigate the risk arising from default;
- reviewing the post year-end trigger performance, specifically in regards to the optional redemption; and
- evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

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

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

## Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

# Independent auditors' report to the members of Newgate Funding Plc (continued)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Director's responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

### Auditors' 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 auditors' 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.

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Irish listing requirements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- discussions with management and, where appropriate, those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing board meeting minutes to identify any significant or unusual transactions or other matters that could require further investigation;
- challenging assumptions and judgements made by management in their significant accounting estimates, in particular those related to the valuation of the expected credit loss on loans and advances to customers and effective interest rate calculations;
- identifying and testing journal entries meeting specific fraud criteria, including those posted to certain account combinations; and
- incorporating unpredictability in the selection of the nature, timing and extent of audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

# Independent auditors' report to the members of Newgate Funding Plc (continued)

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

C Sandford

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
29 June 2023

## STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Interest income | 3 | **45,580** | 27,653 |
| Interest expense | 4 | **(10,482)** | (3,979) |
| **NET INTEREST INCOME** | | **35,098** | 23,674 |
| Other operating income | 5 | **469** | 406 |
| **TOTAL NET OPERATING INCOME** | | **35,567** | 24,080 |
| Administrative expenses | 7 | **(35,565)** | (24,078) |
| **PROFIT BEFORE TAXATION** | | **2** | 2 |
| Tax on profit | 8 | **–** | (1) |
| **PROFIT FOR THE FINANCIAL YEAR** | | **2** | 1 |
| **TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR** | | **2** | 1 |

The notes on pages 16 to 33 form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Mortgage loans | 10 | **682,061** | 777,645 |
| **Current assets** | | | |
| Mortgage loans | 10 | **12,048** | 23,071 |
| Derivative financial instruments | 11 | **83,376** | 73,589 |
| Cash and cash equivalents | | **83,415** | 85,392 |
| **TOTAL ASSETS** | | **860,900** | 959,697 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 12 | **13** | 13 |
| Retained earnings | | **18** | 16 |
| **TOTAL EQUITY** | | **31** | 29 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Creditors: amounts falling due after one year | 13 | **833,400** | 933,505 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 14 | **27,469** | 26,163 |
| **TOTAL LIABILITIES** | | **860,869** | 959,668 |
| **TOTAL EQUITY AND LIABILITIES** | | **860,900** | 959,697 |

The notes on pages 16 to 32 form part of these financial statements.

The financial statements on pages 12 to 32 were approved and authorised for issue by the Board on 29 June 2023 and signed on its behalf by:

Colin Benford
For and on behalf of Apex Corporate Services (UK) Limited
Director

## STATEMENT OF CASH FLOWS
**For the year ended 31 December 2022**

| | Note | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES** | 15 | 10,838 | (4,574) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Cash inflows from mortgage redemptions and repayments | | 114,766 | 111,439 |
| **NET CASH GENERATED FROM INVESTING ACTIVITIES** | | 114,766 | 111,439 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash outflows from repayment of loan notes | 16 | (127,581) | (109,908) |
| **NET CASH USED IN FINANCING ACTIVITIES** | | (127,581) | (109,908) |
| **NET CASH MOVEMENT IN CASH AND CASH EQUIVALENTS** | | (1,977) | (3,043) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | 85,392 | 88,435 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | 83,415 | 85,392 |

The notes on pages 16 to 32 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
**For the year ended 31 December 2022**

| | Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|
| **At 1 January 2022** | **13** | **16** | **29** |
| **Total comprehensive income for the financial year** | **–** | **2** | **2** |
| **At 31 December 2022** | **13** | **18** | **31** |

| | Share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|
| At 1 January 2021 | 13 | 15 | 28 |
| Total comprehensive income for the financial year | – | 1 | 1 |
| At 31 December 2021 | 13 | 16 | 29 |

The notes on pages 16 to 32 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS
**For the year ended 31 December 2022**

## 1. ACCOUNTING POLICIES

The principal accounting policies, which have been applied consistently throughout the current and prior year, are set out below:

### 1.1 Incorporation and domicile information

The Company is an unlisted public limited company with loan notes issued on the Euronext Dublin. It is incorporated and domiciled in England and Wales.

### 1.2 Basis of preparation

The financial statements of Newgate Funding plc have been prepared in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention unless otherwise stated.

Due to the nature of the Company's business, which is to hold mortgage loans, the directors are of the opinion that it is more appropriate to use interest income and expense rather than turnover and cost of sales in preparing the statement of comprehensive income.

### 1.3 New and amended standards adopted by the Company

The IASB has issued a number of amendments to IFRS that are first effective for the current accounting period. None of these developments have significant impact on the Company's financial statements. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 1.4 Presentation of the financial statements

The functional currency is pounds sterling and all values are rounded to the nearest thousand (£'000), except when otherwise indicated. Transactions in foreign currencies are translated into pounds sterling at the rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at rates of exchange ruling at the reporting date. Exchange gains and losses are recognised in the statement of comprehensive income.

### 1.5 Going concern

The directors have a reasonable expectation, based on current and anticipated future performance, that the Company will continue in operational existence and has sufficient resources to meet its liabilities as they fall due for a period of 12 months from the date of approval of the annual report and financial statements. The financial statements of the Company have, therefore, been prepared on a going concern basis. Disclosures in respect of liquidity risk and capital management are set out in note 17 - Risk Management.

### 1.6 Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised on an accruals basis using the effective interest method. The effective interest rate is applied to the gross carrying amount of the financial asset (for non-credit impaired assets) or to the amortised costs of the liability.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

## 1. ACCOUNTING POLICIES (continued)

### 1.6 Interest income and expense (continued)

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts.

For financial assets that were credit-impaired on initial recognition, the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For financial assets that have become credit-impaired subsequent to initial recognition, the effective interest rate is applied to the amortised cost of the financial asset. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

### 1.7 Impairment of mortgage loans

In accordance with the requirements of IFRS 9, a transfer of financial assets is treated as a purchase by the transferee if substantially all the risks and rewards associated with the assets have been assumed by the transferee and as a financing transaction if substantially all the risks and rewards are retained by the transferor.

The initial transfer of the mortgage loans from the transferor is treated as a purchase by the Company. The Company initially measures a mortgage loan at its fair value plus or minus transaction costs that are incremental and directly attributable to the acquisition of the mortgage loan. Immediately after initial recognition, the Company assesses for impairment on an expected credit loss basis. The Company classifies all of its mortgage loans within a held to collect business model and considers contractual cash flow characteristics on these instruments as solely payments of principal and interest ("SPPI"). As such, the mortgage loans are measured at amortised cost.

*Impairment*

The Company recognises loss allowances for expected credit loss ("ECL") on its mortgage loans at an amount equal to 12-month ECL for mortgage loans on which credit risk has not increased significantly since their initial recognition. Loss allowances for financial instruments where there has been a significant increase in credit risk are measured at lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

*Measurement of ECL*

ECL are a probability-weighted estimate of credit losses, measured as follows:

For financial assets that are not credit-impaired at the reporting date, the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

For financial assets that are credit-impaired at the reporting date, the difference between the gross carrying amount and the present value of estimated future cash flows.

## 1. ACCOUNTING POLICIES (continued)

### 1.7 Impairment of mortgage loans (continued)

*Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income ("FVOCI") are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

*Presentation of allowance for ECL in the statement of financial position*

For financial assets measured at amortised cost, the loss allowance for ECL is presented as a deduction from the gross carrying amount of the assets.

*Write offs*

Loans are written off, either partially or in full, when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

### 1.8 Derivative financial instruments

Derivative financial instruments consist of cross currency swaps which are used to manage the Company's exposure to interest rate risk and currency risk. The Company does not enter into any speculative derivative financial instruments.

Derivative financial instruments are used by the Company for economic hedging purposes to alter the risk profile of an existing underlying exposure in line with the Company's risk management policy.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value, with movements in fair value recognised in the statement of comprehensive income. The fair value of the instruments is obtained from independent sources. All derivative financial statements are carried as assets when fair value is positive and as liabilities when fair value is negative and the corresponding gain or loss is recognised within operating expenses in the statement of comprehensive income. Derivative assets and liabilities are shown gross on the statement of financial position.

## 1. ACCOUNTING POLICIES (continued)

### 1.9 Cash and cash equivalents

Cash includes deposits held on call with banks. Cash can only be used for the purposes of the series of notes to which it relates and is therefore considered restricted.

### 1.10 Creditors

The Company recognises liabilities in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

### 1.11 Loan notes

The loan notes issued by the Company are in separate series, and are non-recourse with terms such that amounts due are only payable to the extent that there are sufficient receipts from the Company's assets for that series. Loan notes are measured at initial recognition at fair value being the principal amount issued, less transaction costs, and are subsequently measured at amortised cost using the effective interest method.

### 1.12 Taxation

Current tax, comprising UK corporation tax, is provided at amounts expected to be paid or recovered using the tax rates and laws in accordance with Statutory Instrument No.3296, The Taxation of Securitisation Companies Regulations 2006, which requires that tax is charged on the profits "retained" by the Issuer, as detailed in note 1.13 - Deferred consideration and residual payments.

### 1.13 Deferred consideration and residual payments

Under the terms of the offering circular, the Company retains the right to 0.01% of available revenue funds, as defined in the offering circular, determined on a periodic basis. The release of residual payments is strictly governed by the Priority of Payments, as defined in the offering circular, which sets out how cash within the Company can be utilised. Profits in excess of 0.01% of available revenue funds accrue as residual payments and, if relevant, a creditor for these amounts is recognised at the year end as deferred consideration, and expensed under administrative expenses in the statement of comprehensive income. The release of deferred consideration is also governed by the Priority of Payments in the offering circular. Deferred consideration is initially measured at fair value and subsequent measurements are at amortised cost.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Application of the accounting policies in the preparation of the financial statements requires the directors to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

*Impairment of mortgage loans*

The Company's accounting policy for losses in relation to the impairment of mortgage loans is described in note 1.7. The measurement of the expected credit loss allowance is an area that requires the use of complex models and significant assumptions about future economic conditions and customer behaviour. An explanation of the inputs, assumptions and estimation techniques used in measuring ECL is provided in note 9 - Provision for loan loss, which also sets out the key sensitivities of the ECL to changes in these elements.

In applying the accounting requirements for calculating impairment, the Company has made significant judgements such as in relation to establishing groups of similar financial assets for the purposes of measuring ECL, and establishing the number and relative weightings for forward-looking scenarios used in the calculation.

As part of the staging assessment required under IFRS 9, the Company applies judgement in establishing criteria for determining whether the risk of default on a financial instrument has increased significantly since initial recognition, considering reasonable and supportable information that is relevant and available without undue cost or effort.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. Note 9 - Provision for loan loss provides additional detail on the Company's approach to determining significant increase in credit risk.

*Effective interest rate on mortgage loans*

When calculating the effective interest rate on the mortgage loans, the Company estimates future cash flows. The key underlying assumption in the future cash flows estimate is the constant prepayment rate ("CPR") and interest rate forecasts.

The Company applied judgement based on historical prepayment rates to estimate the CPR applied to future cash flows and contractual rates to estimate interest rates forecasts. The Company's accounting policy for the recognition of interest income using the effective interest rate method is described in note 1.6.

*Deferred consideration*

The Company's accounting policy for deferred consideration and residual payments is described in note 1.13. The Company estimates the deferred consideration liability based on the accounting profit or loss as the appropriate proxy for future residual payments. The release of residual payments is strictly governed by the Priority of Payments, as defined in the offering circular, which sets out how cash within the Company can be utilised.

## NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

### 3. INTEREST INCOME

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Mortgage loans interest income | **44,916** | 27,006 |
| Bank interest receivable | **664** | 647 |
| | **45,580** | 27,653 |

The Company's income is all derived from sources within the UK.

### 4. INTEREST EXPENSE

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Loan notes interest expense including amortisation of issue costs | **10,482** | 3,979 |

### 5. OTHER OPERATING INCOME

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Ancillary fees | **469** | 406 |

Ancillary fees are fees relating to loan servicing activities driven by borrower actions, for example, requesting a statement, redeeming a loan, or failing to make a payment. These fees are charged to the borrowers by the Company and are stated gross of expense.

### 6. DIRECTORS AND EMPLOYEES

The Company has no employees other than the directors (2021: no employees). Apex Corporate Services (UK) Limited received remuneration of £32,000 (2021: £27,000) for their services to the Company.

### 7. ADMINISTRATIVE EXPENSES

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Auditors' remuneration – audit of the Company's financial statements | **55** | 53 |
| Deferred consideration | **17,707** | 14,325 |
| Fair value (gains)/losses on derivative financial instruments | **(14,129)** | 37,224 |
| Foreign exchange losses/(gains) | **22,528** | (31,034) |
| Loan loss provisions (see note 10) | **3,187** | (2,603) |
| Other expenses | **6,217** | 6,113 |
| | **35,565** | 24,078 |

The auditors did not receive any other fees in respect of audit-related or other services provided (2021: £nil).

## 8. TAX ON PROFIT

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax charge on profit for the financial year | – | 1 |
| **Total tax charge** | – | 1 |

The Company is resident in England and Wales for corporation tax purposes.

The Company is taxed in accordance with Statutory Instrument No.3296, The Taxation of Securitisation Companies Regulations 2006, which requires that tax is charged on the profits "retained" by the Issuer, as detailed in Note 1.12 - Taxation. The actual retained profit for the year amounted to £2,000 (2021: £2,910).

The tax assessed on the profit before taxation for the year is reconciled to the effective standard rate of corporation tax for the year of 19% (2021: 19%) as follows:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Profit before taxation | 2 | 2 |
| Profit before taxation multiplied by effective standard rate of corporation tax in the UK of 19% (2021 - 19%) | – | – |
| Application of Statutory Instrument No. 3296 The Taxation of Securitisation Companies Regulations 2006 | – | – |
| Tax for the year at the main companies rate of corporation tax in the UK of 19% (2021 - 19%) | – | 1 |
| **Total tax charge** | – | 1 |

The Company's profit for this year was taxed at an effective standard rate of 19% (2021: 19%).

## 9. PROVISION FOR LOAN LOSS

*Measurement of ECL*

The key inputs in the measurement of ECL are the term structure of the following variables:

- Probability of default ("PD"): the likelihood of a borrower defaulting on its financial obligation
- Loss given default ("LGD"): the magnitude of the likely loss if there is a default
- Exposure at default ("EAD"): the expected exposure in the event of a default

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. The Company generally derives these parameters from internally developed statistical models based on internally compiled data comprising quantitative and qualitative factors, as well as other historical data such as recovery rates of claims against defaulted counterparties.

## 9. PROVISION FOR LOAN LOSS (continued)

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

*Incorporation of forward-looking data*

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company uses a variety of actual and forecast information such as house pricing indexing, sale discounts and sales costs to estimate any shortfall at sale, and then applies a probability of the recovery of the mortgage balance based on the current arrears status of the loan. This data is then used to formulate a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The scenarios that are chosen each quarter and the weighting given to each scenario depend on a variety of factors including recent economic events, leading economic indicators, internal and third-party economist views, and industry trends. As at 31 December 2022, there were five scenarios used (2021: five). These include:

- a baseline scenario in line with consensus estimates;
- two separate downside scenarios reflecting a moderate and severe recession;
- two separate upside scenarios reflecting a moderate and severe potential for continued improvement in the consensus outlooks.

Scenario weightings at 31 December 2022 continue to predominantly reflect the baseline scenario, with additional weighting towards a downside scenario which assumes a slower pace of macroeconomic recovery. The other three scenarios have less significant weighting.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent the best estimate of the possible outcomes and the chosen scenarios are appropriately representative of the range of possible scenarios.

*Definition of default*

The Company considers a mortgage loan to be in default when:

- Accounts are 90+ days past due and/or;
- Accounts are in forbearance with arrangements to pay, term extensions, or permanent conversions from capital and interest to interest only mortgages and/or;
- An account is in repossession status and/or;
- A borrower is declared bankrupt

In assessing whether a borrower is in default, the Company considers qualitative indicators such as breaches of covenants, as well as quantitative indicators such as overdue status. Data from external sources is also used in the consideration of whether a borrower is in default.

*Determining a significant increase in credit risk*

When determining whether the risk of default on a mortgage loan has increased significantly since initial recognition, the Company compares the remaining PD as at the reporting date with the remaining lifetime PD for this point in time as estimated at the time of initial recognition. The Company calculates the remaining lifetime PD using the same methodology and forecasted macroeconomic scenarios and scenario weightings used to calculate ECL.

## 9. PROVISION FOR LOAN LOSS (continued)

*Determining a significant increase in credit risk (continued)*

In addition to quantitative review of PD, qualitative factors leveraging data from external sources i.e. derogatory credit reference data in the last 48 months, and internal credit risk assessments i.e. contractual months in arrears in the last 36 months are considered as well as a 30 days past due backstop based on delinquency.

*Sensitivity analysis*

The calculation of the ECL allowance is dependent on a number of judgements and estimates as to the inputs and assumptions inherent in the model. Variables around stage determination, scenario weighting, and other macroeconomic forecast assumptions are considered to have the most significant impact on the ECL calculations for the Company's mortgage loan population. The ECL provision is sensitive to changes in the model assumptions, for example:

- In relation to stage determination, moving all loans to stage 1 and calculating ECL on a 12-month basis would reduce the allowance by approximately £10,502,000 (2021: £7,083,000), whereas moving all loans to the lifetime loss horizon (stage 3) would increase the ECL allowance by approximately £31,967,000 (2021: £18,314,000).

- Running staging and ECL calculations using only the upside severe inflationary scenario would decrease the ECL allowance by approximately £5,125,000 (2021: £3,536,000), and using only the severe recession scenario would also increase the ECL allowance by approximately £1,354,000 (2021: £2,017,000).

Note that this disclosure is intended to illustrate the relative sensitivity of the ECL allowance calculation and is not predictive or indicative of future loss experience.

## 10. MORTGAGE LOANS

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Balance at start of year | **808,612** | 921,289 |
| Net redemptions and repayments | **(114,766)** | (111,439) |
| Amounts written back | **126** | 236 |
| Effective interest rate adjustment | **11,346** | (1,474) |
| Balance at end of year | **705,318** | 808,612 |
| Loss provision at start of year | **(7,896)** | (10,263) |
| Amounts (charged)/credited to statement of comprehensive income | **(3,187)** | 2,603 |
| Amounts (written off) | **(126)** | (236) |
| Movement in loss provision | **(3,313)** | 2,367 |
| Loss provision at end of year | **(11,209)** | (7,896) |
| Net book value of loans at 31 December | **694,109** | 800,716 |
| Amounts falling due after more than one year | **682,061** | 777,645 |

## 10. MORTGAGE LOANS (continued)

Mortgage loans are secured by first charges over residential properties in the UK and are held as security against the loan notes.

The effective interest rate applied to the mortgage loans for the year was 5.78% (2021: 3.07%).

**Net mortgage loans analysed by maturity:**

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Maturing within one year | 12,048 | 23,071 |
| Maturing within two to five years | 97,531 | 57,287 |
| Maturing in greater than five years | 584,530 | 720,358 |
| | 694,109 | 800,716 |

*Sensitivity Analysis*

The calculation of the effective interest rate adjustment is dependent on a number of judgements and estimates. Variables around the expected CPR and interest rate forecast assumptions have the most significant impact on the future cash flows estimated for the Company's mortgage loan population. The effective interest rate adjustment is sensitive to changes in the assumptions, for example:

- Applying a 5% CPR would increase the effective interest rate adjustment by £1,069,000 and the updated effective interest rate would be 5.91%.
- In relation to the interest rate forecasts, applying a 1% increase would increase the effective rate adjustment by £5,205,000 and applying a 1% decrease would decrease the effective rate adjustment by £5,223,000. The change in the effective interest rate would be 6.44% and 5.11% respectively.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Fair value of derivatives | 83,376 | 73,589 |

## 12. SHARE CAPITAL

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Allotted, called up and partly paid:** | | |
| 50,000 ordinary shares (2021: 50,000) of £1 each – 25 pence paid | 13 | 13 |

## 13. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Loan notes | 799,923 | 904,622 |
| Deferred consideration | 33,477 | 28,883 |
| | 833,400 | 933,505 |

The loan notes are secured by portfolios of mortgage loans, which are in turn secured by first charges over residential properties in the UK. The loan notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the underlying mortgage loans. If not otherwise redeemed or purchased and cancelled, the loan notes will be redeemed at their principal amount outstanding on the interest payment date falling in December 2050.

The below table shows the principal amount outstanding on each series of loan notes broken down by class with the associated interest rate as at 31 December 2022. Interest on the loan notes is payable quarterly in arrears at the following rates (all amounts are stated in the transactional currency of the loan note):

| Class | Currency | Newgate Funding 2006-01 Outstanding principal amount | Rate | Newgate Funding 2006-02 Outstanding principal amount | Rate | Newgate Funding 2006-03 Outstanding principal amount | Rate |
|---|---|---|---|---|---|---|---|
| A3a | £ | — | — | £32,067,964 | LIBOR + 0.17% | £48,608,794 | LIBOR + 0.17% |
| A3b | € | — | — | €5,721,915 | EURIBOR + 0.17% | €35,741,760 | EURIBOR + 0.17% |
| A4 | £ | £16,061,868 | LIBOR + 0.19% | — | — | — | — |
| M | £ | — | — | £5,847,858 | LIBOR + 0.22% | — | — |
| Ma | £ | £3,363,048 | LIBOR + 0.23% | — | — | — | — |
| Mb | € | €4,484,064 | EURIBOR + 0.23% | — | — | €11,919,758 | EURIBOR + 0.22% |
| Ba | £ | £8,968,128 | LIBOR + 0.28% | £10,251,226 | LIBOR + 0.26% | £4,905,250 | LIBOR + 0.27% |
| Bb | € | €8,968,127 | EURIBOR + 0.28% | €5,591,578 | EURIBOR + 0.24% | €21,583,100 | EURIBOR + 0.24% |
| Ca | £ | £4,484,064 | LIBOR + 0.47% | £4,193,683 | LIBOR + 0.47% | — | 0 |
| Cb | € | €4,506,484 | EURIBOR + 0.47% | €6,756,490 | EURIBOR + 0.43% | £18,051,320 | EURIBOR + 0.45% |
| D | € | €10,515,129 | EURIBOR + 0.88% | — | — | — | — |
| Da | £ | — | — | £2,329,824 | LIBOR + 0.95% | £2,452,625 | LIBOR + 0.87% |
| Db | € | — | — | €6,243,928 | EURIBOR + 0.90% | €7,750,295 | EURIBOR + 0.85% |
| E | £ | £1,165,857 | LIBOR + 3.25% | £1,071,719 | LIBOR + 3.25% | £2,894,098 | LIBOR + 3.00% |

## 13. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR (continued)

| Class | Currency | Newgate Funding 2007-01 Outstanding principal amount | Rate | Newgate Funding 2007-02 Outstanding principal amount | Rate | Newgate Funding 2007-03 Outstanding principal amount | Rate |
|---|---|---|---|---|---|---|---|
| A2b | € | — | — | — | — | €164,542,972 | EURIBOR + 0.60% |
| A3 | £ | £84,847,317.00 | LIBOR + 0.16% | £79,616,423 | LIBOR + 0.16% | £60,619,315 | LIBOR + 1.00% |
| M | £ | — | — | £5,111,174 | LIBOR + 0.20% | — | — |
| Ma | £ | £5,338,285 | LIBOR + 0.20% | — | — | — | — |
| Mb | € | €2,426,508 | EURIBOR + 0.20% | — | — | — | — |
| Ba | £ | £9,705,972 | LIBOR + 0.23% | — | — | £12,770,578 | LIBOR + 1.25% |
| Bb | € | €11,889,889 | EURIBOR + 0.22% | €17,204,576 | EURIBOR + 0.25% | €17,191,163 | EURIBOR + 1.25% |
| Cb | € | €15,578,181 | EURIBOR + 0.38% | €11,522,959 | EURIBOR + 0.44% | €18,009,790 | EURIBOR + 1.50% |
| D | € | — | — | — | — | £5,218,746 | LIBOR + 3.00% |
| Db | € | €10,288,394 | EURIBOR + 0.75% | €6,662,780 | EURIBOR + 1.20% | — | — |
| E | £ | £1,431,631 | LIBOR + 3.25% | £1,049,616 | LIBOR + 3.75% | £4,707,104 | LIBOR + 4.50% |
| F | £ | £1,407,366 | LIBOR + 4.75% | £1,026,798 | LIBOR + 5.75% | — | — |

Loan notes include £1,164,000 (2021: £1,519,000) of unamortised loan note issuance costs (see note 20 - Interest rate benchmark reform).

## 14. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Other creditors | **18,052** | 17,197 |
| Accruals and deferred income | **9,417** | 8,966 |
| | **27,469** | 26,163 |

Included in other creditors is cash collateral of £16,576,000 (2021: £16,317,000) pledged as security by derivative counterparties.

## 15. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Profit after taxation | **2** | 1 |
| Change in fair value of derivatives | **(9,787)** | 41,342 |
| Foreign currency translation adjustments | **22,528** | (31,034) |
| Effective interest rate adjustment | **(11,346)** | 1,474 |
| Amortisation of loan note issue costs | **355** | 353 |
| Amounts charged/(credited) to profit and loss in respect of loan loss provision | **3,187** | (2,603) |
| Decrease/(increase) in creditors falling due within one year | **1,305** | (9,868) |
| Change in deferred consideration | **4,594** | (4,239) |
| **Net cash inflow/(outflow) from operating activities** | **10,838** | (4,574) |

Interest received was £34,331,000 (2021: £27,088,000). Interest paid was £9,604,000 (2021: £3,343,000).

## 16. ANALYSIS AND RECONCILIATION OF NET DEBT AND RECONCILIATION OF CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

| | 1 January 2022 | Cash flows | Foreign currency translation adjustments | Non cash flows | **31 December 2022** |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| Cash | 85,392 | (1,977) | – | – | **83,415** |
| Loan notes | (904,622) | 127,581 | (22,528) | (355) | **(799,923)** |
| Net debt | (819,230) | 125,604 | (22,528) | (355) | **(716,508)** |

| | 1 January 2021 | Cash flows | Foreign currency translation adjustments | Non cash flows | **31 December 2021** |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | **£'000** |
| Cash | 88,435 | (3,043) | – | – | **85,392** |
| Loan notes | (1,045,211) | 109,908 | 31,034 | (353) | **(904,622)** |
| Net debt | (956,776) | 106,865 | 31,034 | (353) | **(819,230)** |

An analysis of changes in liabilities arising from financing activities is shown as the movements in loan notes above.

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Decrease in cash for the year | **(1,977)** | (3,043) |
| Repayment of loan notes | **127,581** | 109,908 |
| *Foreign currency translation adjustments* | **(22,528)** | 31,034 |
| Amortisation of loan note issuance costs | **(355)** | (353) |
| Change in net debt | **102,721** | 137,546 |
| Opening balance of net debt | **(819,230)** | (956,776) |
| Closing balance of net debt | **(716,509)** | (819,230) |

## 17. RISK MANAGEMENT

The financial instruments held by the Company comprise mortgage loans, loan notes, cash and cash equivalents, and derivative financial instruments.

The purpose of the derivative financial instruments is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance.

It is the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are market risk, credit risk and liquidity risk and capital risk management. These are summarised below.

## 17. RISK MANAGEMENT (Continued)

### Market risk

Market risk is the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions.

The following discussion describes the types of market risk faced by the Company:

*Interest rate risk*

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar – where this is not possible the Company considers the use of derivative financial instruments to mitigate any residual interest rate risk.

The rates of interest receivable and payable on variable rate financial instruments are set with reference to the Bank of England's base rate for the mortgage loans and sterling LIBOR or EURIBOR for the loan notes. As a result, the Company has no significant net exposure to interest rate risk and, as such, no sensitivity analysis is presented. The Company has no material exposure to interest rate risk as this is borne by the residual loan note holders who are entitled to any residual cash flows after all other amounts have been paid.

*Currency risk*

Currency risk arises from the possibility that fluctuations in foreign exchange rates will affect the value of financial instruments. The Company has issued debt securities that are denominated in pounds sterling and Euro. The Company's policy is to minimise exposures arising from movements in exchange rates by the use of cross currency swaps to hedge payments of interest and principal on the securities denominated in Euro. The Company has no material exposure to currency risk arising from Euro denominated cash flows as this is borne by the residual note holders who are entitled to any residual cash flows after all other amounts have been paid.

### Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgages purchased by the Company are required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (particularly in respect of accounts in arrears) is monitored on the directors' behalf by the servicer.

The Company is exposed to a risk of loss if the counterparty fails to perform its obligations under contractual terms ("default risk"). Both cash instruments and derivatives expose the Company to default risk. Cash of £83,097,000 (2021: £83,756,000) held by Newgate Funding Plc is with Barclays Bank Plc (Moody's A1 / Stable, P-1 and S&P A / Positive, A-1) (2021: Moody's P-1, A1, and S&P A-1, A).

The Company's maximum exposure to credit risk without taking into account collateral held or other credit risk mitigants is the amount reflected on the statement of financial position.

The Company holds collateral to cover its credit risk associated with its financial assets which is summarised as follows: Mortgage loans with a carrying value of £694,109,000 at 31 December 2022 (2021: £800,716,000), the fair value of the collateral of which is £667,862,000 (2021: £814,243,000); fair value of derivatives with a carrying value of £83,376,000 at 31 December 2022 (2021: £73,589,000) the fair value of the collateral of which is £16,576,000 (2021: £16,317,000).

The fair value of the collateral held for mortgage loans, which comprises both owner occupied and buy-to-let residential properties in the UK, has been estimated using the lower of the original property valuation at inception of the mortgage loan and an index-adjusted valuation.

## 17. RISK MANAGEMENT (continued)

### Credit risk (continued)

Where the fair value of the collateral exceeds the maximum exposure to credit risk, the fair value of the collateral balance is limited to 100% of the maximum exposure to credit risk. The actual total fair value of the collateral on mortgage loans is £1,101,474,000 (2021: £1,255,155,000).

For mortgage loans within the scope of the impairment provisions of IFRS 9, the below tables analyse the credit quality of the loan by its staging within the impairment process, between Stage 1 (12 month ECL), Stage 2 (lifetime ECL not credit-impaired) and Stage 3 (lifetime ECL credit-impaired).

| | **Total gross amount** | **Impairment allowance** | **Total** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Mortgage loans as at 31 December 2022** | | | |
| Stage 1 | 282,198 | (35) | 282,163 |
| Stage 2 | 242,476 | (316) | 242,160 |
| Stage 3 | 180,644 | (10,858) | 169,786 |
| **Total** | **705,318** | **(11,209)** | **694,109** |

The table below shows comparative stage analysis for the Company's mortgages loans as at 31 December 2021.

| | Total gross amount | Impairment allowance | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Mortgage loans as at 31 December 2021 | | | |
| Stage 1 | 320,507 | (54) | 320,453 |
| Stage 2 | 281,491 | (375) | 281,116 |
| Stage 3 | 206,614 | (7,467) | 199,147 |
| Total | 808,612 | (7,896) | 800,716 |

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage loans with those of the cash payments due on the loan notes. The loan notes issued by the Company are non-recourse and their terms are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's mortgage loan assets.

The Company has in place a series of liquidity facilities equal to £109,208,000 (2021: £109,208,000) with Bank of America, National Association – London Branch, which were all unutilised at the reporting date. These facilities will reduce down on a separate series basis when they are greater or equal to 5% of the principal amount of an issuance outstanding, if certain criteria are met. The facilities incur an unutilised commitment fee ranging between 0.30% and 0.8%, paid quarterly.

## NOTES TO THE FINANCIAL STATEMENTS
**For the year ended 31 December 2022**

### 17. RISK MANAGEMENT (continued)

#### Liquidity risk (continued)

The maturity profile of the Company's financial liabilities based on undiscounted future contractual cash flows is shown in the table below.

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Loan notes: principal and interest** | | |
| Less than one year | **41,774** | 3,487 |
| Between one and five years | **114,936** | 13,947 |
| Over five years | **867,464** | 988,449 |
| | **1,024,174** | 1,005,883 |
| Carrying value | **799,923** | 904,622 |

#### Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company has in issue loan notes that are listed on the Euronext Dublin. The loan notes are non-recourse and their terms are such that amounts due are only payable to the extent that there are sufficient receipts from the Company's mortgage loan assets. This therefore helps to mitigate the capital risk of the Company.

### 18. FAIR VALUE INFORMATION

#### Fair value disclosures

Other than for short-term operating assets and liabilities, the fair value of which approximates their carrying value, and derivative financial instruments, the fair value of the Company's assets and liabilities are shown in the table below. For the listed loan notes, the observable quoted market price has been obtained at the year end to determine the fair value. For the mortgage loan assets and remaining loan note liabilities, model valuation techniques have been used to determine the fair value of these assets and liabilities at the year end due to the absence of reliable prices being available in the current market. These techniques make use of market data observed at the time the assets were purchased and the liabilities were incurred, updated for changes in market levels subsequently observed for similar assets and liabilities, and taking into account the time that has elapsed since the assets were purchased and the liabilities incurred.

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Book value £'000** | **Fair value £'000** | Book value £'000 | Fair value £'000 |
| **Mortgage loans** | **694,109** | **667,862** | 800,716 | 814,243 |
| **Loan notes** | **(799,923)** | **(753,440)** | (904,622) | (931,502) |

The fair value of the assets and liabilities represents the estimated amount that the Company would realise or pay under market conditions prevailing at the year-end assuming that the Company had the ability to dispose of or transfer those assets and liabilities. In determining fair value, no allowance has been made for the expenses that would be incurred in such a sale or transfer.

## 18. FAIR VALUE INFORMATION (Continued)

### Fair value hierarchy

In accordance with IFRS 7 "Financial Instruments: Disclosure", financial instruments carried at fair value have been categorised into a three-level fair value hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

The following table presents the Company's fair value hierarchy for those assets measured at fair value as at 31 December 2022 and 31 December 2021.

| | **2022** | 2021 |
|---|---|---|
| | **Level 2** | Level 2 |
| | **£'000** | £'000 |
| **Current assets** | | |
| Fair value of derivatives | **83,376** | 73,589 |

Loan notes excluding the loan note with the residual loan note holder are based on quoted market prices (Level 1). All other assets and liabilities are based on observable market data (Level 2).

## 19. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over that party in making financial or operating decisions, or one party controls both.

Transactions between the Company and its directors are considered to be related party transactions. During the current and prior year, Apex Corporate Services (UK) Limited provided corporate services to the Company. These transactions are summarised below:

| | **2022** | 2021 |
|---|---|---|
| | **£'000** | £'000 |
| Amounts owed to related party : | | |
| Administrative expenses (Provision of corporate services) | 32 | 27 |

## NOTES TO THE FINANCIAL STATEMENTS
**For the year ended 31 December 2022**

### 20. INTEREST RATE BENCHMARK REFORM

The following table summarises the significant exposures impacted by interest rate benchmark reform as at 31 December 2022 and 31 December 2021:

| | GBP LIBOR 2022 £'000 | GBP LIBOR 2021 £'000 |
|---|---|---|
| Non-derivative financial liabilities | 420,244 | 490,558 |
| Derivatives | 294,210 | 343,905 |
| | 714,454 | 834,463 |

The table above represents indicative exposures to interest rate benchmark reform, which have yet to transition to an alternative benchmark rate. The exposure disclosed is for positions with contractual maturities after 31 December 2022 and 31 December 2021. Balances are reported using the notional contract amount and where derivatives have both pay and receive legs with exposure to benchmark reform such as cross currency swaps, the notional contract amount is disclosed for both legs.

### 21. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's entire ordinary share capital except for one share is held by Newgate Funding Holdings Limited, a Company incorporated in the England and Wales and registered at 6th Floor, 125 London Wall, London, United Kingdom, EC2Y 5AS. The remaining share and the entire ordinary share capital of Newgate Funding Holdings Limited is held on trust for charitable purposes by the controlling party, Apex Trust Nominees No.1 Limited, a Company incorporated in England and Wales, the United Kingdom.