# BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC

## Annual report and accounts

## 2023

**Member of Lloyds Banking Group**

# Strategic report

For the year ended 31 December 2023

The Directors present their Strategic report for BOS (Shared Appreciation Mortgages) No. 1 plc ("the Company") for the year ended 31 December 2023.

**Principal activities**

The principal activity of the Company was to originate and finance mortgage lending. In 1997 the Company issued £27,200,000 fixed rate notes on the London Stock Exchange (the "Notes"). The interest payable on the Notes is set at 4.20% per annum until August 2027. Thereafter, the interest rate applicable to the Notes will be 5.20% per annum until 2072 when the Notes become due. The Notes are secured on the mortgage portfolio. The capital appreciation arising on the sale of a mortgage holder's property is shared between the mortgage holder and the Company as set out in the original loan agreements.

The activities of the Company are conducted primarily by reference to a series of transaction documents under the offering circular for BOS (Shared Appreciation Mortgages) No. 1 plc (the "Programme Documentation"). The Company is required to pay its entire share of the capital appreciation received from the borrowers to the Note holders in line with the priority of payments set out in the Programme Documentation.

**Business structure**

The Company is a subsidiary undertaking of Bank of Scotland plc (incorporated in Scotland) within Lloyds Banking Group ("the Group").

**Business review**

No new mortgage loans have been originated and no new loan notes have been issued by the Company since 1997.

The loss for the financial year amounted to £3,316 (2022: loss of £21,325). Total equity at 31 December 2023 amounted to £847,830 (2022: £851,146). The Company has recognised a smaller loss during the current year than during the prior year. The principal reason for this can be attributed to the increase in Bank of England base rates in the current year, to a high of 5.25% in August 2023, which has resulted in the Company earning significantly more interest income on its cash at bank.

The Company has incurred increased net fair value losses of £70,678 (2022: net losses of £40,322). The Company has recognised net fair value losses during the year mainly due to a change in the fair valuation, which has been driven by updated model assumptions, such as the discount factor, which has increased with Bank of England base rate and a change in the forecast Halifax House Price Index ("HPI").

The mortgage portfolio is subject to the economic factors relating to the housing market (see "Credit risk" below). These factors did not have any significant bearing on the Company's arrears levels (see note 13.1). The net interest income is determined by a margin earned between the interest received on the mortgage portfolio and the interest paid to the Note holders. The Notes are listed on the London Stock Exchange.

Litigation

In January 2021, a litigation claim was brought by, or on behalf of, a number of customers against Bank of Scotland plc and some of its subsidiary undertakings which had issued shared appreciation mortgages, including the Company. The claim was issued in the County Court and was brought under the unfair relationship provisions of the Consumer Credit Act 1974. On 23 January 2024, the Claimants and Bank of Scotland plc (and the other Defendants, including the Company) agreed a commercial settlement of this litigation, without any admission of liability. The terms of the settlement agreement are confidential. There are no changes to the mortgages, or their terms and conditions. Following the settlement in January 2024, as detailed in note 16, the Directors have concluded that no provision is required against this claim in the Company's financial statements as Bank of Scotland plc has borne the costs of this settlement and likely will continue to do so for any further claims that may arise in the future.

**Key performance indicators**

There is a board meeting held quarterly that is responsible for assessing the risk of irregularities, whether caused by fraud or error in financial reporting, and ensuring that processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting. This meeting analyses and discusses the trends for the quarter and identifies any issues or required changes. Any such issues are then reported, further discussed, and collectively agreed. There were no significant issues impacting the Company in the current or previous year.

The key performance indicator used by management in assessing the performance of the Company are the monitoring of the fair value movement and the redemptions during the year. These have been identified by management as key drivers in the performance of the Company. More details for the fair value movement is in note 5 and details for the redemptions are in note 9 and 10.

The Company has made all necessary payments on the Notes in accordance with the scheduled repayment dates for the year ended 31 December 2023 and 31 December 2022.

| **KPI** | **2023** | **2022** | **Analysis** |
|---|---|---|---|
| Mortgage Fair value movement (£) | 608,123 | (284,887) | Increase in the fair value is in line with increases in forecast HPI at 31 December 2023 and was less severe than anticipated at 31 December 2022. |

**Key performance indicators (continued)**

| KPI | 2023 | 2022 | Analysis |
|---|---|---|---|
| Mortgage redemptions (£) | (843,802) | (767,250) | Increase in redemptions from 2022 is marginal and in line with expectations. Movements on redemptions are erratic, depending on many factors that may influence when a customer sells their home. |

**Future outlook**

The Company's balance sheet continue to reduce over the life of the mortgages issued as the Company has not issued any further advances since 1997 and there is no intention to issue new business in the future.

Cash will continue to be received from mortgage redemptions and interest income generated from the mortgage portfolio. The mortgage loans are lifetime mortgages and will remain on balance sheet until the last customer has redeemed its loan advance.

**Economic environment**

The current financial year has been a year of change and economic uncertainty, with the cost of living crisis, rising geopolitical tensions and an ongoing climate emergency.

The Directors' assessment suggests that performance of the mortgage portfolio should continue to be satisfactory. Inflationary pressures and higher prices caused by sterling weakness may put pressure on household incomes, which may feed through to further increases in mortgage arrears.

The UK rate of inflation has seen a decrease in 2023 which should ease the burden on households with prices. However interest rates have remained at their highest level since 2008 which may still put household incomes under pressure. Despite this, it is expected that there will be limited impact on mortgage holders' ability to service their loans as the mortgage loans bear a fixed-rate of interest. There has been no material impact on the Company as of the Strategic report date. The situation will continue to be monitored and the Servicer, Bank of Scotland plc, will continue to adopt appropriate forbearance measures on behalf of the Company.

**Principal risks and uncertainties**

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with International Financial Reporting Standards ("IFRS") 9 "Financial Instruments". The Company's financial instruments comprise a mortgage portfolio with an embedded derivative (Financial assets held at fair value through profit or loss ("Financial assets at FVTPL")), cash liquid resources, interest-bearing loan notes with an embedded derivative (Financial liabilities designated at fair value through profit or loss ("Financial liabilities at FVTPL")) and various other receivables and payables that arise directly from its operations.

The Company's policy is that no trading in financial instruments is undertaken.

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. These and other risks which may affect the Company's performance are detailed below. Further analysis of the risks facing the Company on its financial instruments is provided in note 13.

Credit risk

Credit risk arises on the individual loans within the mortgage loan portfolio which are in turn secured on the underlying UK residential properties. The performance of these loans is therefore influenced by the economic background and the UK housing market; however, with a maximum loan-to-value of the original advances being 75.00% and with the mortgage portfolio having a weighted average current loan-to-value of 13.68% at 31 December 2023 (2022: 13.13%), the credit exposure is considered to be low as the value is payable on the earlier of death of the customer or the sale of the property. The monthly interest is considered a low credit risk as it is a short term receivable.

The extent to which the Company can meet its obligations to pay interest and ultimately repay the Notes will be dependent upon the receipt of funds earned on the mortgage portfolio and the letter of credit issued by Bank of Scotland plc (see "Liquidity risk" below). To the extent that this income does not provide sufficient funds to cover the interest due on the Notes or the repayment of the Note principal, the Note holders have no claim on the assets of Bank of Scotland plc.

The terms of the mortgage portfolio agreement given by Bank of Scotland plc in respect of the mortgages require Bank of Scotland plc to repurchase any mortgage which is found to be in breach of warranty; however, there is a clause in the agreement that allows the trustees to retain ownership if they choose. Bank of Scotland plc will repurchase any mortgages that are found or held not to be valid, binding and enforceable. There have been no such repurchases in the current year or the previous year. In such an event the total value of the outstanding loan and any accrued interest will be covered by Bank of Scotland plc, the Note holders will not receive the benefit of any future payments of appreciation amounts or partial repayment of appreciation amounts in respect of the mortgages repurchased.

**Principal risks and uncertainties (continued)**

Market risk

Market risk is the risk of financial losses to the Company in the event of movements in the prices of the market in which it operates. The Company's market is the UK residential housing market.

Under the terms of the Notes the Company is obligated to pay the Note holders the return on the shared appreciation that has accrued during the life of the mortgage loan at the rate implicit in the specific mortgage loan agreement as and when repaid by the mortgage loan customer. Shared appreciation is subject to the movement in the market value of the property which is dependent upon house price inflation, as measured by the Halifax House Price Index ("HPI").

However, the Company itself is not impacted by market risk as the risk of returns on the Notes being below initial expectations lies with the Note holder and there are no guarantees within the terms of the Notes for expected increases in value.

Interest rate risk

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

Liquidity risk

All liabilities of the Company with the exception of the Notes are paid from receipts of funds earned on its bank deposits and the letter of credit issued by Bank of Scotland plc.

The Company has an unconditional and irrevocable 364-day revolving letter of credit provided by Bank of Scotland plc. The letter of credit is for a maximum aggregate principal amount of £890,000 to assist the Company should it not be able to meet its obligations under the Notes. This agreement expires the earlier of the Notes being redeemed in full or the last business day falling in August 2074. The reliance on this facility is therefore dependent upon the creditworthiness of Bank of Scotland plc, which currently has a short-term rating from Standard and Poor's (S&P) of A+1 (2022: S&P short-term rating: A+1).

The Company has not drawn on the letter of credit since inception.

In accordance with the Programme Documentation the Company is obligated to make payments to meet third party expenses. To mitigate this risk the Directors hold quarterly board meetings to review the performance of the Company and ensure that the Company is in a position to meet all necessary payments.

Operational risk

Bank of Scotland plc has been appointed to act as account bank and servicer of the mortgage book on behalf of the Company. The Company uses Bank of New York Mellon to provide all corporate services in respect of the Notes in issue.

The Company is exposed to the risk of failure to comply with changes to applicable statutory and regulatory requirements. To mitigate such risks the Company undertakes systematic horizon scanning to identify and ensure compliance with any future changes.

**Section 172(1) of the Companies Act 2006**

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2023, the Directors provide the following statement to confirm that they have had regard to the matters set out in Section 172(1) of the Act, when performing their duty to promote the success of the Company under Section 172(1).

The Company is a wholly owned subsidiary of Bank of Scotland plc, within the Group. Consequently the Directors further acknowledge that the activities taken with regard to the Company's strategy have been closely aligned to that of the Group, which is to achieve both long-term and sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. Further information on the Group's strategy around Section 172(1) can be found in the Lloyds Banking Group annual report and financial statements for 2023 on pages 3 to 5. Further details of how to obtain access to the Lloyds Banking Group annual report and financial statements for 2023 can be found in note 19.

Further, in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Directors also confirm that they have both engaged with and had regard to the interest of key stakeholders, in their duties as directors of the Company.

Key stakeholders

The Directors confirm that there has been regular engagement with all key stakeholders of the Company, as well as confirm that they have treated all key stakeholders fairly in their activities, to ensure that there has been appropriate use of knowledge and expertise when making business decisions around the long-term strategy of the Company and its activities during the year. For example key Group business and functional service providers are represented and provide expert advice at Board meetings of the Company; holders of the Company's notes receive regular information in relation to cash flows due; and customers of the Company receive contact, engagement and support consistent with that provided to other customers of the wider group.

**Section 172(1) of the Companies Act 2006 (continued)**

Customers and clients

The Directors have ensured that the Company, as part of the Group, continues to work towards the Group's strategy for treating all customers fairly. To ensure the Directors truly understand the needs of their customers, every opportunity has been taken to consider direct customer feedback and related management information as part of the Directors' strategic decision-making process. The Directors have worked to ensure the business of the Company is undertaken in line with the objectives of the Group, with the Directors regularly reviewing customer complaints to understand areas where improvements can be made. The Group regularly benchmarks amongst its customers the performance of itself and its subsidiaries, including the Company, and uses this insight along with a range of internal and external research to ensure ongoing improvement in customer experience.

Regulators and government

The Company and its directors are satisfied that there is a strong, open and transparent relationship with relevant regulators and other authorities and liaise regularly as part of the Group to ensure the business is aligned to the evolving regulatory framework. Key areas of focus have included ensuring robust prudential standards and supervision arrangements are in place, ensuring the fair treatment of customers, adapting to changes in regulatory requirements, recovery, and resolution for the UK's withdrawal from the European Union. When a notable issue arose during the year such as the non-compliance with listing rules noted above, the Directors ensured prompt and open disclosure to regulators and appropriate follow up action to mitigate impact.

The approach of the Group, including that of the Company, to managing regulatory change is discussed further on page 17 of the Lloyds Banking Group annual report and financial statements for 2023.

Society and the environment

The Directors acknowledge that they have performed all of their duties as directors in accordance with the strategy of the Group around the Company's impact on its society and the environment, through engagement with representatives of the wider Group's mortgages business. Further details can be found within the Lloyds Banking Group annual report and financial statements for 2023.

As approved by the board of directors and signed on behalf of the board:

Johan Robin Charles Von Schmidt Auf Altenstadt
Director

DATE: 24 April 2024

# Directors' report

For the year ended 31 December 2023

The Directors present their report for the year ended 31 December 2023.

**General information**

The Company is a public limited company, limited by shares, incorporated, registered and domiciled in England and Wales (registered number: 03110558).

**Registered office**

The Company's registered office is Trinity Road, Halifax, HX1 2RG.

**Company Secretary**

The Company secretary is Alyson Elizabeth Mulholland.

**Employees**

The Company had no employees during the year ended 31 December 2023 (2022: nil). None of the Directors received any emoluments from the Company in the current or previous year.

**Dividends**

The Directors did not recommend the payment of a dividend during the year ended 31 December 2023 (2022: £nil).

**Events after the reporting date**

The Company had previously been subject to a claim issued in the County Court by a group of customers or their representatives, brought under the unfair relationship provisions of the Consumer Credit Act 1974 against Bank of Scotland plc and some of its subsidiaries, including the Company, in relation to shared appreciation mortgages which the Company had issued between 1996 to 1997.

On 23 January 2024, the Claimants and Bank of Scotland plc (and the other Defendants, including the Company) agreed a commercial settlement of this litigation, without any admission of liability and no change to the mortgage terms.

**Going concern**

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the accounts. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in the note 1 to the financial statements.

**Corporate governance**

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

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

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

From the perspective of the Company, the daily operational internal controls and risk management systems are integrated with those of the Group, the Company's ultimate controlling party. Therefore additional information may be found in section "Internal Control" of the 2023 Annual Report of Lloyds Banking Group plc, which does not form part of this report. Details of where to get access to the 2023 Annual Report of Lloyds Banking Group plc can be found in note 19.

**Information included in the Strategic report**

The disclosures for Future outlook, Principal risks and uncertainties and Key performance indicators can be found in the Strategic report on pages 1 to 4.

**Streamlined energy and carbon reporting ("SECR")**

The Company is out of scope of the SECR, as it does not meet the numerical thresholds in relation to turnover and number of employees.

**Directors**

The current directors of the Company are shown below:

Johan Robin Charles Von Schmidt Auf Altenstadt
Lavanya Menon

None of the Directors has any beneficial interest in the ordinary share capital of the Company. None of the Directors has any interest in any material contract or arrangement with the Company either during or at the end of the year (2022: none).

**Directors' indemnities**

The Group has granted to the Directors of the Company, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc, details of which can be found in note 19. The indemnity remains in force for the duration of the Directors' period of office. The deed indemnifies the Directors to the maximum extent permitted by law. In addition the Group has in place appropriate directors and officers liability insurance cover which was in place throughout the financial year.

**Statement of Directors' responsibilities in respect of the financial statements**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether the financial statements comply with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the parent company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors' confirmations**

Each of the Directors, as listed in the Directors' report, confirm that, to the best of their knowledge:

- the Company's financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, 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.

**Statement of disclosure of information to auditor**

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Directors are 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.

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

**Independent auditor**

The auditor, Deloitte LLP, has expressed its willingness to continue in office and pursuant to section 489 of the Companies Act 2006, a resolution will be proposed at the forthcoming annual general meeting for the re-appointment of Deloitte LLP as the auditor of the Company.

As approved by the board of directors and signed on behalf of board by:

Johan Robin Charles Von Schmidt Auf Altenstadt
Director
DATE: 24 April 2024

# Statement of comprehensive income

For the year ended 31 December 2023

| | Note | **2023** | 2022 |
|---|---|---|---|
| | | **£** | £ |
| Interest receivable and similar income | | **21,732** | 3,665 |
| Net interest income on financial assets and liabilities at fair value through profit or loss | 4 | **60,299** | 62,903 |
| **Net interest income** | | **82,031** | 66,568 |
| Net fair value movements on financial assets at fair value through profit or loss | 5 | **(235,679)** | (1,052,137) |
| Net fair value movements on financial liabilities at fair value through profit or loss | 5 | **165,001** | 1,011,815 |
| Other operating income | | **50** | – |
| Operating expenses | 6 | **(15,738)** | (52,683) |
| **Loss before tax** | | **(4,335)** | (26,437) |
| Taxation | 7 | **1,019** | 5,112 |
| **Loss for the financial year, being total comprehensive expense** | | **(3,316)** | (21,325) |

The Company operates in a single business segment and all of the Company's activities are in the UK.

The accompanying notes are an integral part of the financial statements.

# Balance sheet

As at 31 December 2023

| | Note | 2023 | 2022 |
|---|---|---|---|
| | | **£** | £ |
| **Assets** | | | |
| Cash and cash equivalents | 8 | **471,022** | 474,384 |
| Trade and other receivables | | **44,779** | - |
| Financial assets held at fair value through profit or loss | 9 | **10,665,558** | 10,901,237 |
| **Total assets** | | **11,181,359** | 11,375,621 |
| | | | |
| **Liabilities** | | | |
| Bank overdraft | 8 | **434** | 100 |
| Trade and other payables | | **-** | 25,260 |
| Financial liabilities designated at fair value through profit or loss | 10 | **10,300,882** | 10,465,883 |
| Current tax liability | | **5,304** | - |
| Deferred tax liability | 11 | **26,909** | 33,232 |
| **Total liabilities** | | **10,333,529** | 10,524,475 |
| | | | |
| **Equity** | | | |
| Share capital | 12 | **50,001** | 50,001 |
| Retained earnings | | **797,829** | 801,145 |
| **Total equity** | | **847,830** | 851,146 |
| **Total liabilities and equity** | | **11,181,359** | 11,375,621 |

The accompanying notes are an integral part of the financial statements.

The financial statements were approved by the board of directors on 24 April 2024 and were signed on behalf of the board by

Johan Robin Charles Von Schmidt Auf Altenstadt
Director
24 April 2024

# Statement of changes in equity

For the year ended 31 December 2023

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| | **£** | **£** | **£** |
| **Balance at 1 January 2023** | **50,001** | **801,145** | **851,146** |
| Loss for the year, being total comprehensive expense | **–** | **(3,316)** | **(3,316)** |
| **Balance at 31 December 2023** | **50,001** | **797,829** | **847,830** |

| | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| | £ | £ | £ |
| Balance at 1 January 2022 | 50,001 | 822,470 | 872,471 |
| Loss for the year, being total comprehensive expense | – | (21,325) | (21,325) |
| Balance at 31 December 2022 | 50,001 | 801,145 | 851,146 |

The accompanying notes are an integral part of the financial statements.

# Cash flow statement

For the year ended 31 December 2023

| | Note | 2023 £ | Re-presented 2022 £ |
|---|---|---|---|
| **Cash flows used in operating activities** | | | |
| Loss before tax | | **(4,335)** | (26,437) |
| Adjustments for: | | | |
| Interest receivable and similar income | | **(21,732)** | (3,665) |
| Interest payable and similar expense | 4 | **(60,299)** | (62,903) |
| Net fair value movements on financial assets at fair value through profit or loss | 9 | **(608,123)** | 284,887 |
| Net fair value movements on financial liabilities at fair value through profit or loss | 10 | **679,598** | (243,996) |
| | | **(14,891)** | (52,114) |
| Changes in operating assets and liabilities: | | | |
| Net increase in Trade and other receivables | | **(44,779)** | – |
| Net (decrease)/increase in Trade and other payables | | **(25,260)** | 15,233 |
| Cash used in operations | | **(84,930)** | (36,881) |
| Tax received | | **-** | 7,928 |
| **Net cash flows used in operating activities** | | **(84,930)** | (28,953) |
| | | | |
| **Cash flows generated from investing activities** | | | |
| Repayment on mortgage portfolio | 9 | **239,750** | 159,750 |
| Shared appreciation rights received | 9 | **604,052** | 607,500 |
| Income earned on mortgage portfolio | 4 | **220,419** | 227,906 |
| Bank interest received | | **21,732** | 3,665 |
| **Net cash flows generated from investing activities** | | **1,085,953** | 998,821 |
| | | | |
| **Cash flows used in financing activities** | | | |
| Repayment of borrowings | 10 | **(239,632)** | (159,750) |
| Shared appreciation rights paid to Noteholders | 10 | **(604,112)** | (607,500) |
| Interest paid on borrowings | | **(160,975)** | (165,572) |
| **Net cash used in financing activities** | | **(1,004,719)** | (932,822) |
| | | | |
| Net (decrease)/increase in Cash and cash equivalents | | **(3,696)** | 37,046 |
| Cash and cash equivalents at start of year | | **474,284** | 437,238 |
| **Cash and cash equivalents at end of year** | | **470,588** | 474,284 |
| | | | |
| **Cash and cash equivalents per the Cash flow statement comprise:** | | | |
| Cash at bank | | **471,022** | 474,384 |
| Bank overdraft | | **(434)** | (100) |
| **Cash and cash equivalents** | 8 | **470,588** | 474,284 |

The Cash flow statement has been presented using the indirect method, whereas in the previous year the Cash flow statement was presented using the direct method. This has, resulted in the prior year comparatives being re-presented. Further details can be found in note 17.

The accompanying notes are an integral part of the financial statements.

## Note 1. Basis of preparation

The financial statements of the Company have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The financial statements are presented in Sterling which is the Company's functional and presentation currency and have been prepared on the historical cost basis (except for financial assets and financial liabilities classified and measured at fair value through profit or loss ("FVTPL") in accordance with IFRS 9.

In preparation of these financial statements the Balance sheet has been arranged in order of liquidity.

The following new IFRS pronouncement is relevant to the Company and has been adopted within these financial statements. However, the adoption of this pronouncement did not have a material impact:

Following amendments to IAS 12 'Income Taxes' by the IASB (international Tax Reform - Pillar Two Model Rules, issued in May 2023) entities are not permitted to disclose information about deferred tax assets and liabilities related to the Organisation of Economic, Co-operation and Development's Pillar Two Model Rules, including any qualified domestic minimum top-up taxes. No changes arise in the Company's deferred tax assets or liabilities as a result of the Company having applied the relevant exception.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2023 and which have not been applied in preparing these financial statements are given in note 18.

As at 31 December 2023, the Company is showing a net assets position in the financial statements. The Company has continued to perform in line with the Programme Documentation. There are certain items included in the Programme Documentation as referred to in the annual report and financial statements in KPIs (Strategic Report) and explained in the note on Management of risk. In the course of their regular monitoring of these KPIs and review of risk, the Directors are confident that these will have no issues for the period of at least twelve months from when the financial statements are authorised for issue, despite the current adverse environment. The Directors have also considered the credit enhancement features of the transaction and the limited recourse nature of the issued notes.

The Directors are satisfied that the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis, taking into account:

- There is a net asset position of £847,830 (2022: £851,146).
- The Company has continued to perform in line with the Programme Documentation.
- The Company will continue to be able to repay its liabilities as they fall due through its liquid assets and/or its ability to drawdown on additional funding available.
- The credit enhancement features of the transaction and the limited recourse nature of the issued notes.

During the course of their regular monitoring of these KPIs and review of risk, the Directors are confident that these will have no issues for the period of at least twelve months from when the financial statements are authorised for issue, despite the current adverse environment.

## Note 2. Material accounting policies

The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

### Note 2.1 Interest receivable and interest payable

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss includes interest earned on the financial asset and is included in the 'Net fair value movements on financial assets and liabilities at fair value through profit or loss' line item.

Bank interest income is recognised in the period in which it is earned.

### Note 2.2 Fees and commissions

Fees and commissions receivable relate to incremental fees received on redemption for the continuing servicing of the mortgage portfolio and are recognised when the mortgage loan has been settled.

### Note 2.3 Financial instruments

The Company's financial instruments comprise a mortgage portfolio with an embedded derivative, cash liquid resources, interest-bearing loan notes with an embedded derivative and various other receivables and payables that arise directly from its operations.

### Note 2. Material accounting policies (continued)

### Note 2.3 Financial instruments (continued)

#### 2.3.1 Cash and cash equivalents

The Company holds bank accounts with Bank of Scotland plc, its parent. These accounts are held in the Company's name and meet the definition of cash and cash equivalents. The use of certain accounts is restricted by a detailed priority of payments set out in the Programme Documentation. As the cash and Bank overdrafts can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

These bank accounts are classified as financial assets held at amortised cost in accordance with IFRS 9 and income is recognised using the effective interest method.

For the purposes of the Balance sheet and Cash flow statement, Cash and cash equivalents and Bank overdrafts comprise balances with less than three months' maturity.

#### 2.3.2 Lifetime Mortgage portfolio

The Company has a lifetime mortgage portfolio. The contract for these loans contains a share appreciation receivable clause where the customer has to share any appreciation in the property value with the company as per an agreed rate. The shared appreciation receivable is considered as an embedded derivative, however, the Company has made an accounting policy choice to not un-bundle the contract and to account for the whole amount of the lifetime mortgage (including both the shared appreciation receivable (embedded derivative) and the loan (host contract), as one instrument and to recognise this at fair value on origination and subsequent measurements.

#### 2.3.3 Embedded derivatives

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. The economic characteristics and risks of the embedded derivatives are closely related to the economic characteristics and risks of the host instrument. The hybrid instrument is measured at fair value, and the embedded derivative is not separated from the host instrument with changes in fair value of the embedded derivative recognised in the Statement of comprehensive income in accordance with IFRS 9.

The capital appreciation arising on the sale of a mortgage holder's property is shared between the mortgage holder and the Company as set out in the original loan agreement. The Company pays its entire share of the appreciation to the Note holders.

The economic characteristics and risks of the shared appreciation rights receivable and payable are viewed as being closely related to those arising on the mortgages and Notes, respectively. There is uncertainty regarding the timing of any future shared appreciation, and therefore the shared appreciation rights receivable and payable have been valued with the mortgages and Notes at fair value through profit or loss using discounted cash flow valuation techniques for a number of accounting estimates. Further details can be found in note 3.2 below.

### Note 2.4 Taxation

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of Comprehensive Income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of Comprehensive Income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by His Majesty's Revenue and Customs (HMRC) or other relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

## Note 2. Material accounting policies (continued)

### Note 2.4 Taxation (continued)

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

### Note 2.5 Capital management

The Company is not subject to externally imposed capital requirements in the current and prior year. The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the Directors, to support the transactions and level of business undertaken by the Company.

## Note 3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of estimates. These judgements and estimates are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors.

The following are considered the most critical judgements and estimates made by the Directors in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

### 3.1 Critical accounting judgements

**Litigation**

In January 2021, a litigation claim was brought by, or on behalf of, a number of customers against Bank of Scotland plc and its subsidiary undertakings which had issued shared appreciation mortgage products, including the Company. The claim was issued in the County Court and was brought under the unfair relationship provisions of the Consumer Credit Act 1974. On 23 January 2024, the Claimants and Bank of Scotland plc (and the other Defendants, including the Company) agreed a commercial settlement of this litigation, without any admission of liability. The terms of the settlement agreement are confidential. There are no changes to the mortgages, or their terms and conditions. Following the settlement in January 2024, as detailed in note 16, the Directors have used their judgement and considered the wider implication of the last claim by assessing the likelihood of various legal outcomes and the impact such would have on the Company's assets and liabilities, the outcome of which are discussed in more detail per note 3.2 below.

### 3.2 Key sources of estimation uncertainty

**Fair value of financial assets and financial liabilities**

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty.

The fair values of the embedded derivative and the host contract have been calculated by discounting expected cash flows at an appropriate market rate for a regular standard variable mortgage product. In addition, the fair value includes an estimate of future HPI growth using the Group's own economic growth assumptions, together with an estimated dilapidation rate which has been determined based upon actual impact to date from previous redemption activity.

The fair value calculation also factors in mortality rates which are used by the Group's insurance division and sourced from industry-wide metrics. The embedded derivative and the host contract are therefore reported within Financial assets at FVTPL and Financial liabilities at FVTPL, respectively, for the mortgage assets and the Note liabilities. Further information on the accounting policies are discussed in notes 2.3.2 and 2.3.3.

The shared appreciation clause within the lifetime mortgages has not been valued because it is not separated from the host contract. There are no other derivative financial instruments.

### Note 3. Critical accounting judgements and key sources of estimation uncertainty (continued)

#### 3.2 Key sources of estimation uncertainty (continued)

**Fair value of financial assets and financial liabilities (continued)**

The table below shows the impact on the Company's financial instruments carried at fair value from a decrease ('favourable') or increase ('unfavourable') of 1% in the dilapidation rate of 21.0% (2022: 20.8%):

| | **Favourable** | **Unfavourable** | Favourable | Unfavourable |
|---|---|---|---|---|
| | **2023** | **2023** | 2022 | 2022 |
| | **£** | **£** | £ | £ |
| Financial assets held at fair value through profit or loss | **126,037** | **(126,037)** | 131,202 | (131,203) |
| Financial liabilities designated at fair value through profit or loss | **(126,037)** | **126,037** | (131,202) | 131,203 |

The Company uses forecasts produced by the Group for the projected HPI growth when estimating the discounted cash flows expected over the life of the mortgage loans and the Notes, for the appreciation rights in the embedded derivative of the mortgage assets and the Note liabilities. At 31 December 2023, the HPI forecast estimated a reduction of 4.4% in house prices in the first 12 months to 31 December 2024, followed by increases in house prices of between 1.1% and 4.3% over the estimated life over the estimated life of the mortgage loans and the Notes after 2025.

The table below shows the impact on the Company's financial instruments carried at fair value from an increase ('favourable') or decrease ('unfavourable') in the HPI forecast rates by 1% (2022: 1%):

| | **Favourable** | **Unfavourable** | Favourable | Unfavourable |
|---|---|---|---|---|
| | **2023** | **2023** | 2022 | 2022 |
| | **£** | **£** | £ | £ |
| Financial assets held at fair value through profit or loss | **683,621** | **(629,660)** | 773,575 | (708,377) |
| Financial liabilities designated at fair value through profit or loss | **(683,621)** | **629,660** | (773,575) | 708,377 |

The Company discounts the expected cash flows by using the Group's economic forecast for the Bank of England base rate, and applies the standard variable rate margin that Halifax branded mortgages add to any variable rate mortgage. The current Bank of England base rate was 5.25% at 31 December 2023 and the forecast used had rates ranging from between 5.25% to 3.50%. The discount rate used, including the margin, ranges from 8.74% to 6.99% over the estimated life of the mortgage loans and Notes.

The table below shows the impact on the Company's financial instruments carried at fair value from an decrease ('favourable') or increase ('unfavourable') in the discount factor forecast rates by 1% (2022: 1%):

| | **Favourable** | **Unfavourable** | Favourable | Unfavourable |
|---|---|---|---|---|
| | **2023** | **2023** | 2022 | 2022 |
| | **£** | **£** | £ | £ |
| Financial assets held at fair value through profit or loss | **748,426** | **(681,621)** | 818,811 | (740,786) |
| Financial liabilities designated at fair value through profit or loss | **(730,953)** | **665,385** | (797,381) | 720,921 |

The average age of the customers at 31 December 2023 was 86 years (2022: 85 years). The table below shows the impact on the Company's financial instruments carried at fair value from an increase ('favourable') or decrease ('unfavourable') in the mortality rate by changing the average age by 1 year (2022: 1 year):

| | **Favourable** | **Unfavourable** | Favourable | Unfavourable |
|---|---|---|---|---|
| | **2023** | **2023** | 2022 | 2022 |
| | **£** | **£** | £ | £ |
| Financial assets held at fair value through profit or loss | **71,115** | **(73,997)** | 62,761 | (72,672) |
| Financial liabilities designated at fair value through profit or loss | **(77,705)** | **80,600** | (67,643) | 78,199 |

## Note 3. Critical accounting judgements and key sources of estimation uncertainty (continued)

### 3.2 Key sources of estimation uncertainty (continued)

**Fair value of financial assets and financial liabilities (continued)**

As discussed in note 3.1, the Company have used their judgement and considered the wider implication of the last litigation claim by assessing the likelihood of various legal outcomes and the impact such would have on the Company's assets and liabilities valued at fair value through profit or loss. The table below shows the impact on the Company's financial instruments carried at fair value from a decrease ('favourable') or increase ('unfavourable) of 1% (2022: 1%) in the probability of there being a litigation claim in the future:

| | **Favourable 2023 £** | **Unfavourable 2023 £** | Favourable 2022 £ | Unfavourable 2022 £ |
|---|---|---|---|---|
| Financial assets held at fair value through profit or loss | **34,404** | **(34,404)** | 44,240 | (44,240) |
| Financial liabilities designated at fair value through profit or loss | **(34,404)** | **34,404** | (44,240) | 44,240 |

**Fair value assessment of litigation**

The Company has considered the impact of the recent legal action which the Company was subject to, as discussed in note 3.1 above, on the carrying amounts of the Company's mortgage assets which are classified as financial assets measured at FVTPL. The Company has carried out a probability-based assessment for a variety of potential legal outcomes and determined, as part of this assessment, that the fair value of these mortgage assets has a carrying amount of £10,665,558 at 31 December 2023 (2022: £10,901,237). The Company has loan notes in issue that are classified as financial liabilities measured at FVTPL. The fair value of these loan notes in issue is intrinsically linked to the fair value of the mortgage assets. Accordingly, based on this assessment, the Company has determined that the fair value of the loan notes in issue has a carrying amount of £10,300,882 at 31 December 2023 (2022: £10,465,883). This assessment has had £nil impact on the Company's result for either the current year or the previous year.

## Note 4. Net interest income on financial assets and liabilities at fair value through profit or loss

| | **2023 £** | 2022 £ |
|---|---|---|
| Interest receivable on Financial assets at FVTPL | **220,419** | 227,905 |
| Interest payable on Financial liabilities FVTPL | **(160,120)** | (165,002) |
| | **60,299** | 62,903 |

## Note 5. Net fair value movements on financial assets and liabilities at fair value through profit or loss

| | **2023 £** | 2022 £ |
|---|---|---|
| Fair value movement on Financial assets at FVTPL | **(235,679)** | (1,052,137) |
| Fair value movement on Financial liabilities at FVTPL | **165,001** | 1,011,815 |
| | **(70,678)** | (40,322) |

Included in the above fair value movement is an increase of £608,123 (2022: decrease of £284,887) towards the financial assets held at fair value through profit or loss and an increase of £679,598 (2022: decrease of £243,996) towards the financial liabilities held at fair value through profit or loss, attributable to the change in unrealised gains or losses for those financial assets and financial liabilities held at fair value through profit or loss.

## Note 6. Operating expenses

| | 2023 £ | 2022 £ |
|---|---|---|
| Intercompany fees | **8,571** | 6,837 |
| Administration fees | **8,867** | 16,350 |
| Audit fees | **37,636** | 29,496 |
| Release of accrued liabilities | **(39,336)** | — |
| | **15,738** | 52,683 |

Audit fees relate to the statutory audit. Fees of £31,363 (2022: £24,580), net of VAT, are payable to Deloitte LLP with respect to the current year. There are no fees payable to the auditors and their associates for services other than the statutory audit (2022: none).

The release of accrued liabilities relates to fees accrued for the statutory audits relating to the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020. The fees were paid on the Company's behalf by an intermediate parent, Lloyds Bank plc. However, Lloyds Bank plc has since confirmed there is no obligation to repay this balance.

The Company has no employees (2022: none). The Directors are employed by other companies within the Group and none of the Directors received any emoluments from the Company in the current or previous year.

## Note 7. Taxation

### Note 7.1 Analysis of tax credit for the year

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| UK corporation tax | | |
| Current tax on taxable profit for the year | **(5,304)** | – |
| Current tax charge for the year | **(5,304)** | – |
| | | |
| UK Deferred tax | | |
| Origination and reversal of timing differences | **6,323** | 5,112 |
| Deferred tax credit for the year | **6,323** | 5,112 |
| Total tax credit for the year | **1,019** | 5,112 |

Corporation tax is calculated at a rate of 23.5% (2022: 19%) of the taxable profit for the year.

Corporation tax rate is increased to 25% from April 2023.

### Note 7.2 Factors affecting the tax credit for the year

A reconciliation of the credit that would result from applying the standard UK corporation tax rate to the loss before tax to the actual tax credit for the year is given below:

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Loss before tax | **(4,335)** | (26,437) |
| Tax credit thereon at UK corporation tax in the UK of 23.5% (2022: 19%) | **1,019** | 5,023 |
| Factors affecting credit: | | |
| - Other | **–** | 89 |
| Total tax credit for the year | **1,019** | 5,112 |
| | | |
| Effective rate | **23.50 %** | 19.34 % |

## Note 8. Cash and cash equivalents

| | 2023 | 2022 |
|---|---|---|
| | £ | £ |
| Cash at bank | **471,022** | 474,384 |
| Bank overdraft | **(434)** | (100) |
| Cash and cash equivalents per the Cash flow statement | **470,588** | 474,284 |

The Company holds bank accounts with Bank of Scotland plc. The use of the accounts is restricted by a detailed priority of payments set out in the Programme Documentation. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash. The accounts are held in the Company's name and meet the definition of cash and cash equivalents.

## Note 9. Financial assets held at fair value through profit or loss

| | Note | 2023 | 2022 |
|---|---|---|---|
| | | £ | £ |
| At 1 January | | **10,901,237** | 11,953,374 |
| Principal mortgage redemptions during the year | | **(239,750)** | (159,750) |
| Fair value adjustment | | **608,123** | (284,887) |
| Shared appreciation receivable movements in the year | | **(604,052)** | (607,500) |
| | 5 | **(235,679)** | (1,052,137) |
| At 31 December | | **10,665,558** | 10,901,237 |

The mortgage loans advanced by the Company have no fixed maturity date but would terminate on the earlier of, the date of sale of the property, or the death of the mortgage account holder. All mortgage loans are considered to be due after one year as the maturity cannot be reasonably determined. As the shared appreciation rights receivable are intrinsically linked to the maturity of the mortgage loans which have no fixed maturity, the balance is considered to be due after one year.

## Note 10. Financial liabilities designated at fair value through profit or loss

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk and the fair value of its financial instruments, see note 13.

| | Note | 2023 | 2022 |
|---|---|---|---|
| | | £ | £ |
| At 1 January | | **10,465,883** | 11,477,698 |
| Accrued interest | | **(855)** | (569) |
| Principal note repayments during the year | | **(239,632)** | (159,750) |
| Fair value adjustment | | **679,598** | (243,996) |
| Shared appreciation payable movements in the year | | **(604,112)** | (607,500) |
| | 5 | **(165,001)** | (1,011,815) |
| At 31 December | | **10,300,882** | 10,465,883 |

### Note 10. Financial liabilities designated at fair value through profit or loss (continued)

| | 2023 | 2022 |
|---|---|---|
| | **£** | £ |
| Non-current liabilities | | |
| Notes | **3,063,517** | 3,332,826 |
| Shared appreciation payable | **7,224,443** | 7,119,279 |
| | **10,287,960** | 10,452,105 |
| Current liabilities | | |
| Interest payable to Note holders | **12,922** | 13,778 |
| At 31 December | **10,300,882** | 10,465,883 |

The mortgage-backed fixed rate Notes are due to redeem in 2072. The interest rate payable on the Notes up to and including the interest period ending in the quarter to 31 August 2027 is 4.20% per annum. Thereafter, the interest rate payable on the Notes will be 5.20% per annum until 2072 when the Notes are due to redeem. At the end of the year the Notes, as rated by S&P, had a rating of A+ (2022: rating of A+).

The Notes carry, in addition to interest, rights to receive certain amounts calculated by reference to the value of shared appreciation proceeds received from redeemed mortgages. The Notes are subject to mandatory part-redemption from time to time based on the level of redeemed mortgages and can be redeemed in full, in certain circumstances, at the option of the Company. The Notes are secured on the mortgage portfolio, the bank accounts and certain other assets of the Company.

The Company is contractually obliged to pay to the Note holders any amounts received from mortgage customers for the shared appreciation. As the shared appreciation rights payable are intrinsically linked to the amounts received following maturity of the mortgage loans which have no fixed maturity, the balance is considered to be non-current.

### Note 11. Deferred tax liability

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| At 1 January | **(33,232)** | (38,344) |
| Credit for the year | **6,323** | 5,112 |
| At 31 December | **(26,909)** | (33,232) |
| The deferred tax credit in the year comprises the following temporary differences: | | |
| Other temporary differences | **6,323** | 5,112 |
| Deferred tax liability comprises: | | |
| Other temporary differences | **(26,909)** | (33,232) |

Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

### Note 12. Share capital

| | 2023 | 2022 |
|---|---|---|
| | **£** | £ |
| Allotted, authorised and fully paid | | |
| 50,000 (2022: 50,000) ordinary shares of £1 each | **50,000** | 50,000 |
| 1 (2022: 1) deferred share of £1 | **1** | 1 |
| **Total Share capital** | **50,001** | 50,001 |

The Company is a directly held subsidiary undertaking of Bank of Scotland plc.

The £1 deferred share is held by Deutsche Trustee Company Limited.

The holder of the ordinary shares is entitled to receive dividends as declared by the Company.

### Note 12. Share capital (continued)

The deferred share carries no entitlement to any dividend or to any share in any surplus assets of the Company on a winding-up, other than the right to be repaid the amount of any paid-up share capital thereon. The right to be repaid any paid-up share capital in the deferred share shall be deferred until after all paid-up share capital has been first repaid on all other classes of issued share capital in the Company.

The deferred share carries the right to receive notice of all general meetings of the Company but does not carry the right to attend, speak or vote at a general meeting unless a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holder of the deferred share, or for the winding up or administration of the Company under the Insolvency Act 1986, or for the entry by the Company with any other party into a merger, reconstruction, scheme of arrangement or amalgamation of or affecting the Company, in any of which cases such holder shall have the right to attend such general meeting and shall be entitled to speak and vote. Whenever the holder of the deferred share is entitled to vote at a general meeting, such holder shall have one vote and on a poll such number of votes as is equal to 34.00% of the number of votes attached to all other issued shares of the Company.

### Note 13. Management of risk

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. Considerable resource is given to maintaining effective controls to manage, measure and mitigate these risks. Further detailed analysis of the risks facing the Company in relation to its financial instruments is provided below. The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented.

| | | | | | **Carrying value** |
|---|---|---|---|---|---|
| **31 December 2023** | **Note** | **Financial assets** | | **Financial liabilities** | |
| | | **FVTPL** | **Amortised cost** | **FVTPL** | **Amortised cost** |
| Cash and cash equivalents | **8** | | **471,022** | | |
| Trade and other receivables | | | **44,779** | | |
| Financial assets held at fair value through profit or loss | **9** | **10,665,558** | | | |
| Bank overdraft | **8** | | | | **434** |
| Financial liabilities designated at fair value through profit or loss | **10** | | | **10,300,882** | |

| | | | | | Carrying value |
|---|---|---|---|---|---|
| 31 December 2022 | Note | Financial assets | | Financial liabilities | |
| | | FVTPL | Amortised cost | FVTPL | Amortised cost |
| Cash and cash equivalents | 8 | | 474,384 | | |
| Financial assets held at fair value through profit or loss | 9 | 10,901,237 | | | |
| Bank overdraft | 8 | | | | 100 |
| Trade and other payables | | | | | 25,260 |
| Financial liabilities designated at fair value through profit or loss | 10 | | | 10,465,883 | |

#### Note 13.1. Credit risk

Credit risk is the risk of financial loss arising from a customer's failure to settle financial obligations as they fall due.

Credit risk arises on the individual loans within the mortgage portfolio which are in turn secured on the underlying UK residential properties. The performance of these loans is therefore influenced by the economic background and the UK housing market. Mortgage loans are no longer offered by the Company but the maximum loan-to-value of the original advances was 75.00% and the credit risk is considered to be low as the customer is required to pay back principal and share appreciation on sell or death whichever is earlier and also considerations for interest receipts.

The ability of the Company to meet its obligations to repay the Notes is dependent upon the receipt of funds earned on the mortgage portfolio and the letter of credit issued by Bank of Scotland plc (see "Liquidity risk"). To the extent that this income does not provide sufficient funds to cover the interest due on the Notes or the repayment of the Notes, the Note holders have no claim on the assets of Bank of Scotland plc.

The terms of the mortgage portfolio agreement given by Bank of Scotland plc in respect of the mortgages require Bank of Scotland plc to repurchase any mortgage which is found to be in breach of warranty. Bank of Scotland plc will repurchase any mortgages that are found or held not to be valid, binding and enforceable. Although in such an event the total value of the outstanding loan will be covered by Bank of Scotland plc, the Note holder will not receive the benefit of any future payments of appreciation amounts or partial repayment of appreciation amounts in respect of the mortgages repurchased.

In terms of the shared appreciation in all other circumstances, in accordance with the Programme Documentation, amounts received by the Company from the borrower are required to be paid over to the Note holders in line with the priority of payments.

**Note 13. Management of risk (continued)**

**Note 13.1. Credit risk (continued)**

In terms of arrears management, the Company has engaged Bank of Scotland plc as servicer of the loans in the portfolio to help reduce the risk of loss. The servicer is required to monitor repayments on the mortgage loans in accordance with its usual credit policies.

The total value of interest arrears at 31 December 2023 was £7,941 (2022: £nil). All accounts in the mortgage portfolio had a maximum loan-to-value of 75.00% and those accounts in interest arrears had a current loan-to-value ratio of less than 40.00%. Credit risk is considered to be low. There are no properties in possession or bad debts within the Company (2022: none). The current loan-to-value is 13.68% (2022: 13.13%).

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below.

| | Note | **Carrying amount** | **Maximum exposure** | Carrying amount | Maximum exposure |
|---|---|---|---|---|---|
| | | **2023** | **2023** | 2022 | 2022 |
| | | **£** | **£** | £ | £ |
| **Assets held at amortised cost:** | | | | | |
| Cash and cash equivalents | 8 | **471,022** | **471,022** | 474,384 | 474,384 |
| **Assets held at fair value:** | | | | | |
| Financial assets held at fair value through profit or loss | 9 | **10,665,558** | **10,665,558** | 10,901,237 | 10,901,237 |
| **Total Assets** | | **11,136,580** | **11,136,580** | 11,375,621 | 11,375,621 |

**Note 13.2 Market risk**

Market risk is the risk of financial losses to the Company in the event of movements in the prices of the market in which it operates. The Company's market is the UK residential housing market.

Under the terms of the Notes the Company is obliged to pay the Note holders the return on the shared appreciation that has accrued during the life of the mortgage loan at the rate implicit in the specific mortgage loan agreement as and when repaid by the mortgage loan customer. Shared appreciation is subject to the movement in the market value of the property which is dependent upon house price inflation, as measured by the HPI.

However, the Company itself is not impacted by market risk as the risk of returns on the Notes being below initial expectations lies with the Note holder and there are no guarantees within the terms of the Notes for expected increases in value.

**Note 13.3 Interest rate risk**

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at a different time.

The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. Both the mortgage portfolio and the Notes issued by the Company are exposed to fair value interest rate risk as they carry fixed interest rates.

At 31 December 2023, if interest rates had been 100 basis points higher or lower with all other variables held constant, the net effect on the Company's Statement of comprehensive income would be insignificant. All items remain unaffected by interest rate changes except for interest earned on bank accounts but a 100 basis points change would not give rise to a significant impact on bank interest.

**Note 13.4 Liquidity risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost.

The extent to which the Company can meet its obligations to pay interest and ultimately repay the Notes will be dependent upon the receipt of funds earned on the mortgage portfolio and the letter of credit issued by Bank of Scotland plc.

The Company has an unconditional and irrevocable 364-day revolving letter of credit provided by Bank of Scotland plc. The letter of credit is for a maximum aggregate principal amount of £890,000 (2022: £890,000) to assist the Company should it not be able to meet its certain obligations under the Notes. The reliance on this facility is therefore dependent upon the creditworthiness of Bank of Scotland plc, which currently has a short-term rating from Standard and Poor's (S&P) of A+1 (2022: S&P short-term rating: A+1). The Company has not drawn on the letter of credit since inception.

**Note 13. Management of risk (continued)**

**Note 13.4 Liquidity risk (continued)**

The liquidity tables reflect the undiscounted cash payments which will fall due if the structure continues until the earliest contractual maturity date as set out in the Programme Documentation. However, the actual Note repayment profile mirrors the repayment of the mortgages and based on current modelling assumptions, which use mortality rates sourced from industry wide metrics, it is anticipated that not all of the mortgages will have been settled by the earliest contractual maturity date used for the maturity analysis in these tables.

In the event that a mortgage loan redeems earlier than the earliest contractual maturity date used in these tables, the related Notes would be due for payment at the next quarterly waterfall cycle and paid earlier than these tables assume. The Company would also pay less interest than these tables have assumed if the Notes are settled earlier than the contractual maturity date used in these tables.

| **2023** | **Carrying amount** | **Contractual repayment value** | **Not later than one month** | **Later than one month but not later than three months** | **Later than three months but not later than one year** | **Later than one year and not later than five years** | **Later than five years** |
|---|---|---|---|---|---|---|---|
| | **£** | **£** | **£** | **£** | **£** | **£** | **£** |
| **Principal** | | | | | | | |
| Financial liabilities designated at fair value through profit or loss | **10,287,960** | **10,287,960** | **–** | **–** | **–** | **10,287,960** | **–** |
| Bank overdraft | **434** | **434** | **434** | **–** | **–** | **–** | **–** |
| **Interest payable** | | | | | | | |
| Interest payable to Note holders | **12,922** | **570,666** | **–** | **37,830** | **114,320** | **418,516** | **–** |
| | **10,301,316** | **10,859,060** | **434** | **37,830** | **114,320** | **10,706,476** | **–** |

| 2022 | Carrying amount | Contractual repayment value | Not later than one month | Later than one month but not later than three months | Later than three months but not later than one year | Later than one year and not later than five years | Later than five years |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| **Principal** | | | | | | | |
| Financial liabilities designated at fair value through profit or loss | 10,452,105 | 10,452,105 | – | – | – | 10,452,105 | – |
| Trade and other payables | 25,260 | 25,260 | – | 25,260 | - | - | – |
| Bank overdraft | 100 | 100 | 100 | - | - | - | |
| **Interest payable** | | | | | | | |
| Interest payable to Note holders | 13,778 | 757,764 | – | 40,444 | 122,220 | 595,100 | – |
| | 10,491,243 | 11,235,229 | 100 | 65,704 | 122,220 | 11,047,205 | – |

Note – the repayment of principal and associated shared appreciation is contractually due when the mortgage loan becomes due on either the date of sale of the property or on the death of the customer.

**Note 13.5 Fair values**

The financial instruments below are analysed by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices (level 2)).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

**Note 13. Management of risk (continued)**

**Note 13.5 Fair values (continued)**

Financial assets and liabilities carried at fair value

| | 2023 £ Level 3 | 2022 £ Level 3 |
|---|---|---|
| Financial assets held at fair value through profit or loss | **10,665,558** | 10,901,237 |
| Financial liabilities designated at fair value through profit or loss | **(10,300,882)** | (10,465,883) |

The management discusses the significant inputs to the valuation model on half-yearly basis with a model governance committee, which review and approves any changes.

The shared appreciation rights receivable and mortgage portfolio as a whole (financial assets at FVTPL), plus the shared appreciation rights payable and loan notes as a whole (financial liabilities at FVTPL), are both measured at fair value. The fair value has been calculated by discounting expected cash flows at an appropriate market rate for a regular standard variable mortgage product. In addition, the fair value includes an estimate of future HPI growth using the Group's own economic growth assumptions, together with an estimated dilapidation rate which has been determined based upon actual impact to date from previous redemption activity. The fair value calculation also factors in mortality rates which are used by the Group's insurance division and sourced from industry wide metrics. For this reason, in accordance with IFRS 13 Fair value measurement ("IFRS 13"), the fair value measurement is considered to be Level 3 in the fair value hierarchy.

The fair value also includes the adjustment for any future litigation risk. Please refer to note 3 for further details. There has been no change in the valuation technique from last year.

Financial assets and liabilities carried at amortised cost

Cash and cash equivalents, Trade and other receivables and Trade and other payables are recognised at amortised cost. The fair value of these assets and liabilities is considered to be a close approximation to amortised cost due to the short-term nature of these assets and liabilities.

**Note 14. Related parties**

The Company is a subsidiary undertaking of Bank of Scotland plc and ultimately Lloyds Banking Group plc.

The Company receives bank interest from Bank of Scotland plc on its bank deposits. Bank of Scotland plc administers the mortgage portfolio on behalf of the Company, for which quarterly service fees are paid. No dividend was paid during the year (2022: £nil).

During the year Bank of Scotland plc agreed settlement, on the Company's behalf, with those customers who had been party to a claim issued in the County Court against Bank of Scotland plc and its subsidiaries, including the Company. Further information on the claim and the settlement can be found in Note 3.1 and Note 15.

During the year the Company released accrued liabilities of £39,336 relating to fees accrued for the statutory audits of the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020. The fees were previously paid on the Company's behalf by an intermediate parent, Lloyds Bank plc. However, Lloyds Bank plc has since confirmed there is no obligation to repay this balance.

During the year the Company undertook the following transactions with companies in the Group:

| | Parent 2023 £ | Parent 2022 £ |
|---|---|---|
| **Statement of comprehensive income** | | |
| **Income** | | |
| Interest receivable and similar income | **21,732** | 3,665 |
| **Expenses** | | |
| Operating expenses | **(8,571)** | (6,837) |

**Note 14. Related parties (continued)**

| | Parent | Parent |
|---|---|---|
| | **2023** | 2022 |
| | **£** | £ |
| **Balance sheet** | | |
| **Assets** | | |
| Cash and cash equivalents | **471,022** | 474,384 |
| **Liabilities** | | |
| Bank overdraft | **(434)** | (100) |

The key management personnel during the year were the Directors, as set out in the Directors' Report.

**Note 15. Contingent liabilities**

Tax matters

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it appealed to the First Tier Tax Tribunal, with a hearing having taken place in May 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities for the Company of approximately £61,000 (including interest). The Group, following conclusion of the hearing and having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Litigation

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by, or on behalf of, customers as well as legal and regulatory reviews, challenges, investigations and enforcement actions.

In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material. Following the agreement reached on the last known claim, as discussed further below, the Company is not aware of any further such matters where it expects the final outcome would have a material adverse effect on its financial position, operations or cash flows.

In January 2021, a litigation claim was brought by, or on behalf of, a number of customers against Bank of Scotland plc and some of its subsidiary undertakings which had issued shared appreciation mortgages, including the Company. The claim was issued in the County Court and was brought under the unfair relationship provisions of the Consumer Credit Act 1974. On 23 January 2024, the Claimants and Bank of Scotland plc (and the other Defendants, including the Company) agreed a commercial settlement of this litigation, without any admission of liability. The terms of the settlement agreement are confidential. There are no changes to the mortgages, or their terms and conditions. Following the settlement in January 2024, as detailed in note 16, the Directors have concluded that no provision is required against this claim in the Company's financial statements as Bank of Scotland plc has borne the costs of this settlement and likely will continue to do so for any further claims that may arise in the future.

**Note 16. Events after the Balance sheet**

The Company had previously been subject to a claim issued in the County Court by a group of customers or their representatives, brought under the unfair relationship provisions of the Consumer Credit Act 1974 against Bank of Scotland plc and some of its subsidiaries, including the Company, in relation to shared appreciation mortgages which the Company had issued between 1996 to 1997.

On 23 January 2024, the Claimants and Bank of Scotland plc (and the other Defendants, including the Company) agreed a commercial settlement of this litigation, without any admission of liability and no change to the mortgage terms.

**Note 17. Re-presentation of Cash flow statement**

The Company has changed the presentation of the Cash flow statement in the current year from the direct method to the indirect method. The decision was taken to align the presentation to the indirect method for consistency with the Group's presentation in its annual report and accounts and with other entities within the Group.

The prior year comparatives have been re-presented in the Operating cash flows section of the Cash flow statement. The 2022 Cash flow statement was disclosed as per the table below:

| **Cash flow statement** | 2022 |
|---|---|
| for the year ended 31 December 2022 | £ |
| | |
| **Operating activities** | |
| Intercompany admin fees paid | (6,837) |
| Administration expenses paid | (16,350) |
| Tax received | 7,928 |
| **Net cash flows used in operating activities** | (15,259) |

**Note 18. Future accounting pronouncements**

The following pronouncement will be relevant to the Company but was not effective at 31 December 2023 and has not been applied in preparing these financial statements.

| Pronouncement | Nature of change | Effective date |
|---|---|---|
| Minor amendments to other accounting standards | The IASB has issued a number of minor amendments to IFRSs effective 1 January 2024 including IFRS16 Lease liability in sale and leaseback, IAS 1 Non-current liabilities with covenants, and IAS 1 Classification of liabilities as current or non-current. | Annual periods beginning on or after 1 January 2024 |

The full impact of this pronouncement is being assessed by the Company. However, the initial view is that this is not expected to cause any material adjustments to the reported numbers in the financial statements.

**Note 19. Parent undertaking and controlling party**

The Company's immediate parent company is Bank of Scotland plc (incorporated in Scotland).

The financial statements of the parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is Bank of Scotland plc may be obtained from 25 Gresham Street, London EC2V 7HN.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and financial statements of Lloyds Banking Group plc may be obtained from Lloyds Banking Group plc's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of BOS (Shared Appreciation Mortgages) No. 1 plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

### 2. 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

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

## 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matter that we identified in the current year was the valuation of financial assets held at fair value through profit or loss. |
| **Materiality** | The materiality that we used in the current year was £0.1 million which was determined on the basis of 1% of total assets. |
| **Scoping** | All audit procedures to respond to the risks of material misstatement were performed by the audit engagement team, including our financial instrument valuation specialists. |
| **Significant changes in our approach** | We have changed our factor for determining materiality from 1.5% of total assets to 1% of total assets. The revised factor is more aligned with the industry the company operates in, and with the needs and expectations of the users of the financial statements. There are no other significant changes in our approach. |

## 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

- inspecting the securitisation programme documentation to identify triggers that could have an impact on the company's ability to continue as a going concern;
- specific consideration of the impact of the litigation case settled subsequent to the year end and the potential impact of any future litigation claims, in order to understand, challenge and assess the key judgements made by management;
- considering the limited recourse features of the notes and the impact on liquidity requirements;
- inspecting the minutes of meetings of the company's board of directors for periodic discussion of the performance of the company; and
- assessing the appropriateness of the disclosures made in the financial statements.

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

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

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Valuation of financial assets held at fair value through profit or loss

| | |
|---|---|
| Key audit matter description | The company issued lifetime mortgage loans, which included terms that entitled the company to a share of the capital appreciation of the property collateral, on which the mortgage loans are secured. The company's share of appreciation is determined in accordance with a formula agreed at the time of the origination of the mortgage loans, including the 'loan-to-value' ratio on the principal amount borrowed. The company is entitled to the share of appreciation in the event of a sale of the property or the death of the borrower. Due to these terms, the mortgage loans failed the 'solely payment of principal and interest' test under IFRS 9 'Financial Instruments', and accordingly have been recognised at fair value through profit or loss.<br><br>The valuation model involves management judgement in determining the fair valuation methodologies. It involves the estimate of future HPI ('House Price Index') growth using Lloyds Banking Group's own economic growth assumptions, together with an estimated dilapidation rate which has been determined based upon the actual impact to date of previous redemption activity. The fair value calculation also factors in mortality rates which are based on an analysis of the average age of borrowers in the portfolio, derived from industry wide metrics. The model also includes an estimation of future cash flows discounted at an appropriate market rate for a regular standard variable mortgage product.<br><br>An adjustment for an ongoing litigation matter was included in the valuation model in the previous year. However, the matter was settled subsequent to the year end. As explained in note 3.1, the valuation model still includes an adjustment for any potential legal claims which is a probability-based assessment for a variety of potential legal outcomes.<br><br>Due to the complexity involved in the valuation process, we consider that the above key judgements and estimates carry a risk of management bias and therefore give rise to a potential risk of fraud.<br><br>As of 31 December 2023, the company has recognised the fair value of financial assets held at fair value through profit or loss of £10.7 million (2022: £10.9 million).<br><br>Refer to notes 2.3.2, 2.3.3, 3, 9 and 13.5 in the financial statements. |
| How the scope of our audit responded to the key audit matter | We obtained an understanding of the relevant controls over the company's valuation process.<br><br>We performed the following substantive audit procedures over the valuation of financial assets held at fair value through profit or loss: |

| | |
|---|---|
| | • involved financial instrument valuation specialists, to perform an independent recalculation of the fair value of financial assets at the year end;<br>• challenged and assessed the reasonableness of the future HPI growth rates, discount rates and mortality rates through comparison to independent market data;<br>• assessed the reasonableness of dilapidation rates by performing recalculations of historical actual redemptions on a sample basis and vouched the inputs to underlying source data;<br>• reviewed the settlement agreement and payment evidence for legal cases settled subsequent to the year end;<br>• challenged and assessed the litigation probabilities on any potential legal claims and their impact on the fair valuation model, by performing independent inquiries with both in-house legal counsel and external legal counsel;<br>• tested on a sample basis the accuracy and completeness of the inputs to the fair valuation model to underlying source data; and<br>• performed a stand back assessment of the appropriateness of the assumptions, model, and input data to evaluate any contradictory evidence. |
| Key observations | We identified a control deficiency over the process to update inputs within the fair valuation model and the review of the fair valuation model. As at the year end date the fair valuation model was updated to remediate the findings.<br><br>From the work performed, we are satisfied that the judgements and estimates involved in the fair valuation are reasonable and the fair valuation of the financial assets held at fair value through profit or loss as at 31 December 2023 is appropriate. |

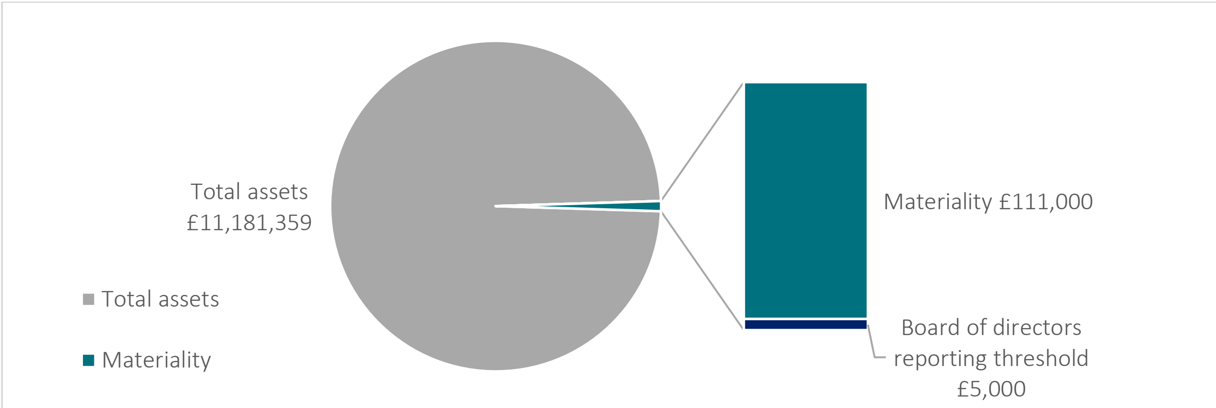
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

| | |
|---|---|
| **Materiality** | £0.1 million (2022: £0.2 million) |
| **Basis for determining materiality** | 1% of total assets (2022: 1.5% of total assets) |
| **Rationale for the benchmark applied** | The noteholders are the primary users of the financial statements and the key focus for users of the financial statements is the total assets as the repayment to noteholders is driven by this. During the year, we have changed our factor for determining materiality from 1.5% of total assets to 1% of total assets. The revised benchmark is more aligned with the industry the company operates in, and with the needs and expectations of the users of the financial statements. |




### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

a. our risk assessment, including our assessment of the company's overall control environment;
b. our understanding of the business processes and complexity involved in the preparation of financial statements;
c. potential litigation claims in relation to the mortgages issued by the company; and
d. the nature, volume and size of corrected and uncorrected misstatements in the previous audit which has indicated a low number of corrected and uncorrected misstatements identified in prior period.

### 6.3. Error reporting threshold

We agreed with the board of directors that we would report to them all audit differences in excess of £5,000 (2022: £8,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the board of directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Scoping

Our audit scope was determined through obtaining an understanding of the entity and its environment, including internal controls, and assessing risks of material misstatements. Audit procedures to respond to risks of material misstatement were performed by the engagement team including financial instrument valuation specialists.

### 7.2. Our consideration of the control environment

We obtained an understanding of the control environment, including the underlying IT systems. We planned not to rely on the general IT controls or application controls, as the company's operations are largely based on manual processes and controls.

## 8. Other information

The other information comprises the information included in the annual report, i.e., the strategic report and the directors' 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 our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the statement of director's responsibilities, 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.

## 10. 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.

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](www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11. Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the directors about their own identification and assessment of the risks of irregularities including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including financial instrument valuation specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of the financial assets held at fair value through profit or loss. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of financial assets held at fair value through profit or loss as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing these to supporting documentation to assess compliance with the provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- enquiring of management, the directors, in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

# Report on other legal and regulatory requirements

## 12. 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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

## 13. Matters on which we are required to report by exception

### 13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

## 14. Other matters which we are required to address

### 14.1. Auditor tenure

Following the recommendation of the audit committee of ultimate controlling party as defined in note 19, we were appointed by the shareholders of the ultimate controlling party at its annual general meeting on 20 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement of the firm is 3 years, covering the years ending 31 December 2021 to 31 December 2023.

### 14.2. Consistency of the audit report with the additional report to those charged with governance

Our audit opinion is consistent with the additional report to those charged with governance we are required to provide in accordance with ISAs (UK).

## 15. 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.

I Mahroof

Ifada Mahroof, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 April 2024