The Mortgage Business Public Limited Company
Annual report and Accounts
2024

Registered number: 01997277

Member of Lloyds Banking Group

The Directors present their Strategic report and audited financial statements for The Mortgage Business Public Limited Company (the "Company") for the year ended 31 December 2024.

Principal activities

The Company's principal objectives are the administration of residential mortgages and the servicing of loans following the sale of the majority of the loan book on 19 January 2023 to Bridgegate Funding plc, an unconsolidated structured special purpose entity ("SPE"). The Company forms part of Lloyds Banking Group ("the Group"). The Company is funded entirely by other entities within the Group.

Business overview

In 2008 the Company withdrew from the secured mortgage market and no longer offers new mortgages, other than further drawdowns on existing loans. Its sources of funding are customer repayments and the Call funding account arranged by the Group Corporate Treasury division of the Group. The Company is supported by its parent company Bank of Scotland plc which is a subsidiary of Lloyds Banking Group plc ("LBG").

Loans and advances to customers of £2,500,000,000 were sold to the SPE on 19 January 2023.

The results for the year are set out in the Statement of comprehensive income. The Company's profit before tax for the financial year was £5,771,000 (2023: £53,114,000). The decrease is primarily due to the reduction in net interest income of £13,040,000 and the 2023 gain on disposal of assets of £26,394,000 relating to the sale of the assets to the SPE.

Interest income in the year was £4,482,000 (2023: £21,956,000). 2023 included 18 days of interest on the full loan book prior to the asset sale. In addition, the call deposit account balance was higher during the year prior to the 2023 dividend payment driving further higher interest income. Interest expense in the year was £88,000 (2023: £4,522,000). 2023 reflects interest paid on funding deals which were fully settled on completion of the asset sale.

Fees receivable in the year of £4,601,000 (2023: £5,485,000) relate to the arms length servicing fee from the SPE as the Company continues to service the mortgages.

Gross loans and advances to customers increased to £68,507,000 (2023: £59,845,000), predominantly as a result of buyback of loans from the SPE. Buybacks occur due to product switches not permitted per the sale agreement, the majority of which are product transfers from a floating rate to a fixed rate. Interest is earned on the remaining book that will continue to run off.

The impairment gain for the year was £1,695,000 (2023: £6,479,000). The year on year movement is driven by the benefit in 2023 relating to gain on sale of loans to Bridgegate. Expected credit loss balance of £3,173,000 (2023: £4,860,000) has reduced, with lower coverage resulting from model changes and updates to the staging assessment alongside an improved House Price Index ("HPI") outlook.

Other operating expenses for the year of £4,918,000 (2023: £2,677,000) increased due to write offs incurred relating to loans sold to the SPE which were not permitted per the sale agreement.

Amounts due to group undertakings of £40,659,000 (2023: £1,391,000) have increased due to the use of the Call funding account to partially cover the dividend paid to the parent company Bank of Scotland plc.

Key performance indicators ("KPIs")

The Company's Directors are of the opinion that results based on interest receivable and impaired loans relative to the amount of gross loans and advances to customers are sufficient for an understanding of the development, performance and position of the Company. Included in the Strategic report is information as to how the Company's Directors engage with its relevant stakeholders. The key performance indicators considered for the Company are listed below:

KPI	**2024**	2023	Analysis
Gross loans and advances to customers (£'000's)	**68,507**	59,845	The movement in Gross loans and advances to customers is predominantly as a result of buyback of loans from the SPE.
Impairment loss allowance on loans and advances (£'000's)	**3,173**	4,860	Impairment loss allowance has reduced, with lower coverage resulting from model changes and updates to staging assessment alongside an improved House Price Index ("HPI") outlook.
Impaired loans ratio	**4.6%**	8.1%	Coverage has reduced per the above note.
Net interest income (£'000's)	**4,394**	17,434	Interest income reduced by £17,000,000 due to 2023 including 18 days of interest on the full loan book prior to the asset sale, also, the Call deposit account balance was higher during the year prior to the 2023 dividend payment driving further higher interest income. Interest expense was £5,000,000 higher in 2023 reflecting interest paid on funding deals which were fully settled on completion of the asset sale.

Future outlook

Following the sale of the majority of the loans and advances to customers to the SPE in 2023 the Company will continue to service these mortgages receiving an arms length service fee from the SPE. On the remaining loans and advances to customers the Company continues to administer them as per Group's existing practice.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are included in note 16 to the financial statements.

The Company's approach to environmental, social and governance ("ESG") risks is aligned to that of the Group. Further information in respect of the ESG risks in LBG are included within the Strategic report within the LBG Annual Report and Accounts for 2024.

Credit risk, liquidity risk and interest rate risk are managed and monitored by risk teams internal to the Group. Further details of these risks and the risk management policy are contained in note 16 of the financial statements.

Credit risk

Credit risk arises on the individual customer balances, both on the Loans and advances to customers and also any undrawn balances for an existing customer. These loans are continually monitored by the Group's Internal Risk teams for credit performance and to ensure compliance with current regulations and that customers are being treated fairly. Further information can be found in note 16.1.

Liquidity risk

Liquidity risk is the risk of the Company being unable to meet its financial obligations. Liquidity risk is subject to independent oversight by internal risk teams. The Company's ability to meet its funding obligations is closely monitored by the Group's Corporate Treasury team. Further information can be found in note 16.2.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis, or are reset at different times. Interest rate risk for the Company includes customer lending and intragroup funding obligations. Further information can be found in note 16.3.

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. These factors have all contributed to increasing the cost of living which impacts the Group and customers of its subsidiaries. In line with the Group's purpose of Helping Britain Prosper and its clear customer focus, the Group continues to provide support to those most affected by changes to the economic environment. The Company will continue to monitor the situation and risks to the business.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2024, the Directors provide the following statement describing how 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.

Statement of engagement with employees and other stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the following statement also provides details of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of LBG, and as such follows many of the processes and practices of LBG, which are further referred to in this statement where relevant.

The Directors' acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company, as aligned to that of LBG, achieves long-term success and generates 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. This approach has during the course of the year been central to the activities of the Directors, as discussed below.

Customers

The Directors ensure the Company, as part of the Group, works towards achieving the Group's customer ambitions by focusing on customer fair value and by treating customers fairly. The Board meets on a regular basis and Directors also regularly review customer behaviour, customer pricing and repayment of customer loans, to understand areas where improvements can be made.

Following the sale of the loans to the SPE, the Company receives an arms length servicing fee from the SPE as the Company continues to service the mortgages.

Shareholders

The Company is a wholly owned subsidiary of Bank of Scotland plc, forming part of the Group's Consumer Lending Business Unit. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of the Group, ensuring that the interests of LBG as the Company's ultimate parent company are duly acknowledged. Further information in respect of the relationship of LBG with its shareholders is included within the Strategic report within the LBG Annual Report and Accounts for 2024 , which does not form part of this report, available on the Group's website: https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Section 172(1) statement (continued)

Communities and the environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment. It does, however, continue to support the Group's related initiatives, including Helping Britain Prosper by actively managing its current book of mortgages.

Further information in respect of the Group's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic report within the LBG Annual Report and Accounts for 2024, which does not form part of this report. Additional information on the Group's Helping Britain Prosper Plan is available on the Group's website.

Regulators

The Company has continued to provide quarterly updates on its current status to relevant regulators including disclosures on its loan profile and capital position (see note 17). During 2024, the Group had extensive engagement with the regulators and Government representing the interests of LBG and its subsidiaries as required. The status of regulatory relationships continues to be closely monitored, enhancing proactive engagement across key regulatory changes and areas of focus. The approach of the Group, including that of the Company, to manage regulatory change is detailed further in the LBG Annual Report and Accounts for 2024, which does not form part of this report, available on the Group's website.

How Stakeholder interest has influenced decision making

The Directors acknowledge that one of the primary responsibilities of the Board is to ensure the strategy of the Company (as aligned to that of the Group), effectively manages its customer base to generate 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.

During 2024, areas of particular focus for the Directors were to steer through the challenges we have faced as a result of the cost of living crisis both from an operational and customer perspective, ensuring alignment with guidance from the Group and regulators.

Emerging risks

The Directors consider the following to be risks that have the potential to increase in significance and affect the performance of the Company.

The key risks are financial, derived from both physical risks (climate and weather-related events) and transition risks resulting from the process of adjustment towards a low carbon economy. Climate change extends across multiple risk types e.g. credit, market, conduct and operational. For example physical and transition risks could result in the impairment of asset values, which may impact the creditworthiness of our customers, and the products and services our customers require.

The focus on these risks by key stakeholders including businesses, clients, shareholders, governments and regulators is increasing, aligned to the evolving societal, regulatory and political landscape. There also remains a risk that the level and pace of responses taken by the Group are insufficient to mitigate these risks. This could lead to campaign groups or other bodies seeking to take action against the Group or the financial services industry for funding organisations that they deem to be contributing to climate change.

General

The Directors do not consider there to be any further material issues which need to be included in the Strategic report. Approved by the Board of Directors and signed on its behalf by:

Andrew Asaam

Andrew Asaam
Director
11 April 2025

The Directors present their Annual Report and Accounts for the year ended 31 December 2024.

General information

The Company is a public company limited by share capital, incorporated, registered and domiciled in England and Wales, United Kingdom (registered number: 01997277).

Registered office

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

Company Secretary

The Company Secretary is S Haladner.

The following changes have taken place between the beginning of the reporting period and the approval of the Annual Report and Accounts.

S Haladner	appointed 31st July 2024
P Gittins	resigned 31st July 2024

Employees

The Company has no direct employees (2023: nil). All staff are employed by other companies within the Group and the relevant staff costs are recharged to the Company. Full details of policies relating to disabled persons, together with details of actions taken regarding the provision of information to employees, their consultation and involvement, are shown in the Lloyds Banking Group plc Annual Report and Accounts for 2024, which does not form part of this report, and is available on the Lloyds Banking Group plc website: https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Dividends

A dividend of £80,000,000, representing a dividend of £8 per share was declared and paid during the year. (2023: £200,000,000). See note 8.

Events after the reporting date

There were no material post Balance sheet events.

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 Report and Accounts. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

Information included in the Strategic report

The disclosures for future outlook, principal risks and uncertainties, and key performance indicators that would otherwise be required to be disclosed in the Directors' Report can be found in the Strategic Report.

Streamlined Energy and Carbon Reporting ("SECR")

The Company is out of scope of the SECR, as it does not have to report on SECR in its own Director's Report where included in the Group's SECR statement of a UK Group report. Further information in respect of SECR is included within the LBG Annual Report and Accounts for 31 December 2024 which does not form part of this report, available on the LBG website.

Directors

The current Directors of the Company are shown below:

M Campbell
A Asaam
R Diggins
K Kinnaird

The following changes have also taken place between the beginning of the reporting period and the approval of the Annual report and accounts:

K Worgan	resigned 30th January 2025

Directors' indemnities

LBG has granted to the Directors of the Company a deed of indemnity which constitutes '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 or from the date of appointment in respect of the Directors who joined the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service. The deed for existing Directors is available for inspection at the registered office of LBG. 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

The Directors are responsible for preparing the Directors' and Strategic Reports and the 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 Company's 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;
- make judgements and accounting estimates that are reasonable and prudent;
- 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; 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.

Directors' confirmations

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

- the Company 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 and the Directors' 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 risk and uncertainties that it faces.

Auditor and disclosure of information to auditor

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the Directors' report is approved:

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

Deloitte LLP, was the auditor of the Company during the period under review and are to remain in office until the conclusion of the Company's annual general meeting. Having expressed their willingness to continue in office, and pursuant to section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP will be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors and signed on its behalf by:

Andrew Asaam

Andrew Asaam
Director
11 April 2025

Statement of comprehensive income

For the year ended 31 December 2024

	Note	2024	2023
		£'000	£'000
Interest income		**4,482**	21,956
Interest expense		**(88)**	(4,522)
Net interest income	3	**4,394**	17,434
Fee and commission income		**4,601**	5,485
Fee and commission expense		**(1)**	(1)
Net fee and commission income	2	**4,600**	5,484
Gain on disposal of assets		**–**	26,394
Impairment gains	4	**1,695**	6,479
Other operating expenses	5	**(4,918)**	(2,677)
Profit before tax	2	**5,771**	53,114
Taxation	7	**(1,443)**	(12,482)
Profit for the year being total comprehensive income		**4,328**	40,632

All profit for the year being total comprehensive income is attributable to continuing operations.

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

Balance sheet

As at 31 December 2024

	Note	2024	2023
		£'000	£'000
ASSETS			
Cash and cash equivalents		**19,015**	74,681
Loans and advances to customers	10	**65,334**	54,985
Other current assets	9	**395**	1,517
Deferred tax asset	13	**1,737**	2,316
Total assets		**86,481**	133,499
LIABILITIES			
Amounts due to group undertakings	11	**40,659**	1,391
Other current liabilities		**457**	—
Provision for liabilities and charges	12	**3**	1
Current tax liability		**864**	11,937
Total liabilities		**41,983**	13,329
EQUITY			
Share capital	14	**10,000**	10,000
Retained profit		**34,498**	110,170
Total equity		**44,498**	120,170
Total equity and liabilities		**86,481**	133,499

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

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

Andrew Asaam

Andrew Asaam
Director
11 April 2025

Statement of changes in equity

For the year ended 31 December 2024

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2023	10,000	269,538	279,538
Profit for the year being total comprehensive income	–	40,632	40,632
Dividend paid to parent	–	(200,000)	(200,000)
At At 31 December 2023	10,000	110,170	120,170
Profit for the year being total comprehensive income	**–**	**4,328**	**4,328**
Dividend paid to parent	**–**	**(80,000)**	**(80,000)**
At 31 December 2024	**10,000**	**34,498**	**44,498**

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

Cash flow statement

For the year ended 31 December 2024

	Note	2024	2023
		£'000	£'000
Cash flows generated from operating activities			
Profit before tax		**5,771**	53,114
Adjustments for:			
- Interest expense	3	**88**	4,522
- Increase in Provision for liabilities and charges	12	**2**	—
Changes in operating assets and liabilities:			
- Net increase in Loans and advances to customers	10	**(10,349)**	(23,838)
- Net decrease in Other receivables	9	**976**	117,052
- Net increase / (decrease) in Other current liabilities		**457**	(10)
- Net (increase) / decrease in amounts due from Parent undertakings		**(1,018)**	70,404
Cash (used in) / generated from operations		**(4,073)**	221,244
Corporation tax paid		**(11,937)**	(8,345)
Net cash (used in) / generated from operating activities		**(16,010)**	212,899
Cash flows used in financing activities			
Repayments received / (made) on amounts due to Parent undertaking		**504**	(14)
Repayments made on amounts due to Other related parties		**(72)**	(558)
Interest paid	3	**(88)**	(4,522)
Dividend paid	8	**(40,000)**	(200,000)
Net cash used in financing activities		**(39,656)**	(205,094)
Change in Cash and cash equivalents		**(55,666)**	7,805
Cash and cash equivalents at beginning of year		**74,681**	66,876
Cash and cash equivalents at end of year		**19,015**	74,681

	2024	2023
	£'000	£'000
Non cash transactions		
Net decrease in Other receivables	**—**	2,403,196
Repayments made on amounts due to Parent undertakings	**(40,000)**	(2,403,196)
Dividend paid	**40,000**	—
	—	—

During the year a dividend payment was made totalling £80,000,000, partly funded by cash of £40,000,000, and the remaining £40,000,000 paid via the call funding account.

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

1. 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.

1.1 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 information has been prepared under the historical cost convention.

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

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency.

No new IFRS pronouncements which have been adopted resulted in a material impact within these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2024 and which have not been applied in preparing these financial statements are given in note 20.

The Directors are satisfied that it is the intention of LBG that its subsidiaries, including 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:

- The current loan to value (LTV) profile of its customer loans provides significant mitigation against the effects of an adverse credit environment, with the majority of the loan book with an LTV of < 60%.
- There will be limited impact on the Company as a result of the economic uncertainty with the cost of living crisis, rising geopolitical tensions, and an ongoing climate emergency. This will be monitored through the Company's credit risk model.

The Company, as a subsidiary of Bank of Scotland plc, has the benefit of a letter of support from Lloyds Bank plc granted to Bank of Scotland plc dated 19 February 2025, which confirms that it is the intention of Lloyds Bank plc to support Bank of Scotland plc and its subsidiaries (of which the Company is one) in meeting its financial obligations as they fall due.

1.2 Income recognition

(1) Net interest income

Interest income and expense are recognised in the Statement of comprehensive income using the effective interest method for all interest bearing financial instruments, except for those classified at fair value through profit or loss. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability, including early redemption fees, other fees, and premiums and discounts that are an integral part of the overall return.

Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account. Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset; for credit impaired financial assets, the effective interest rate is applied to the net carrying amount after deducting the allowance for expected credit losses.

(2) Fee and commission income and expense

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the Company fulfils its performance obligations. The Company's principal performance obligations arising from contracts with customers are in respect of servicing the loans sold to the SPE. These fees are received, and the Company provides the service, accrued monthly and received quarterly; the fees are recognised in income on this basis. Where it is unlikely that the loan commitments will be drawn, loan commitment fees are recognised in fee and commission income over the life of the facility, rather than as an adjustment to the effective interest rate for loans expected to be drawn. Incremental costs incurred to generate fee and commission income are charged to fee and commission expense as they are incurred.

1. Material accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise loans and advances to customers.

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Company reclassifies financial assets when and only when its business model for managing those assets changes.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

All financial liabilities are measured at amortised cost. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

1.4 Impairment of financial assets

The impairment charge in the Statement of comprehensive income includes the change in expected credit losses ("ECL") over the year including those arising from fraud. ECL are recognised for Loans and advances to customers and other financial assets held at amortised cost, together with any loan commitments. ECL are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default ("PD"), adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Company at the point of default after taking into account the value of any collateral held, repayments and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments) is made for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk ("SICR"), allowance (or provision) is made for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

Unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since initial recognition, the asset is transferred back to Stage 1.

Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount due. Unless identified at an earlier stage, default is deemed to have occurred when a payment is 90 days past due. In addition, other indicators of mortgage default are added including end-of-term payments on past due interest-only accounts and loans considered non-performing due to recent arrears or forbearance. A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no general probation period is applied to assets in Stage 3.

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3 until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2). On renegotiation the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate. Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value.

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of credit impairment losses recorded in the Statement of comprehensive income. The write-off takes place only once an extensive set of collections processes have been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

1.5 Cash and cash equivalents

For the purposes of the Balance Sheet and Cash Flow Statement, Cash and cash equivalents comprise balances with less than three months' original maturity.

1. Material accounting policies (continued)

1.6 Taxation, including deferred income taxes

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 where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

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.

The Company has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes currently required by IAS12 Income Taxes.

1.7 Dividends paid

Dividends on ordinary shares are recognised through equity in the period in which they are paid.

1.8 Provision for liabilities and charges

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote. See note 18.

Provision is made for irrevocable undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

1. Material accounting policies (continued)

1.9 Critical accounting judgements and key sources of estimation uncertainty accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of critical accounting judgements and key sources of estimation uncertainty that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The most significant are set out below:

Critical accounting judgements:

- Determining an appropriate definition of default against which a probability of default, exposure at default and loss given default parameter can be evaluated.
- Establishing the criteria for a significant increase in credit risk ("SICR").
- The use of judgemental adjustments made to impairment modelling processes that adjust inputs, parameters and outputs to reflect risks not captured by models.

Key source of estimation uncertainty:

- Base case and multiple economic scenarios ("MES") assumptions, including the rate of unemployment and the rate of change of house prices, required for creation of MES scenarios and forward-looking credit parameters.
- Recoverability of deferred tax assets.

a) Definition of default

The PD of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Company is described in note 1.4 Impairment of financial assets.

b) Significant increase in credit risk

The Company uses both quantitative and qualitative indicators to determine whether there has been a SICR for an asset. For UK mortgages a reassessment of the SICR criteria was performed following redevelopment of the ECL model in the period, in order to maintain SICR effectiveness. At 31 December 2024 a doubling of PD since origination is set as a quantitative SICR trigger. All origination PDs incorporate forward looking information, and for more recent Interest Only accounts the likelihood of default occurring at the end of term. No additional qualitative criteria are used given SICR effectiveness was not seen to meaningfully improve upon inclusion. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

c) Application of judgement in adjustments to modelled ECL

Impairment models fall within the Company's model risk framework with model monitoring, periodic validation and back testing performed on model components, such as probability of default. Limitations in the Company's impairment models or data inputs may be identified through the ongoing assessment and validation of the output of the models, which may require appropriate judgemental adjustments to the ECL. These adjustments are determined by considering the particular attributes of exposures which have not been adequately captured by the impairment models and range from changes to model inputs and parameters, at account level, through to more qualitative post model adjustments.

During 2022 and 2023 the intensifying inflationary pressures, alongside rising interest rates created further risks not deemed to be fully captured by ECL models which meant judgemental adjustments were required. Throughout 2024 these risks subsided with inflation back at around 2 per cent, base rates reducing and credit performance proving resilient. As a result, the judgements held in respect of inflationary and interest rate risks have been removed (2023: £103,000). Other judgements continue to be applied for broader data and model limitations, both increasing and decreasing ECL where deemed necessary.

These adjustments principally comprise:

Repossession risk[1]: £399,000 (2023: £543,000)

The Company's repossession activity and respective data associated with the portfolio has been distorted for a number of years following pauses in litigation activity both before and during COVID-19. This has seen a larger number of customers in default for a longer period than would typically be expected resulting in a risk that ECL calculated on these accounts is understated. Judgemental adjustments to mitigate this risk have been in place for several years, although the approach has been revisited in 2024. An assessment of recent cure trends indicated that the overall possession rates used in the model appeared adequate; however, the assessment identified a potential recovery risk on specific subsets of long-term defaulted cases (greater than five years), as well as a continued risk from a longer duration between default and repossession than model assumptions used on existing and future defaults.

[1] Previously reported as increase in time to repossession.

1. Material accounting policies (continued)

1.9 Critical accounting judgements and key sources of estimation uncertainty accounting policies (continued)

c) Application of judgement in adjustments to modelled ECL (continued)

Adjustment for specific segments: £84,000 (2023: £110,000)

The Company monitors risks across specific segments of its portfolios which may not be fully captured through collective models. The judgement for fire safety and cladding uncertainty reduced in the period following methodology refinement. Though experience remains limited, the risk is considered sufficiently material to address, given evidence of cases having defective cladding, or other fire safety issues.

d) Generation of multiple economic scenarios

The estimate of ECL is required to be based on an unbiased expectation of future economic scenarios. The approach used to generate the range of future economic scenarios depends on the methodology and judgements adopted. The Group's approach is to start from a defined base case scenario, used for planning purposes, and to generate alternative economic scenarios around this base case. The base case scenario is a conditional forecast underpinned by a number of conditioning assumptions that reflect the Group's best view of key future developments. If circumstances appear likely to materially deviate from the conditioning assumptions, then the base case scenario is updated.

The base case scenario is central to a range of future economic scenarios generated by simulation of an economic model, for which the same conditioning assumptions apply as in the base case scenario. These scenarios are ranked by using estimated relationships with industry-wide historical loss data. With the base case already pre-defined, three other scenarios are identified as averages of constituent scenarios located around the 15th, 75th and 95th percentiles of the distribution. The full distribution is therefore summarised by a practical number of scenarios to run through ECL models representing an upside, the base case, and a downside scenario weighted at 30 per cent each, together with a severe downside scenario weighted at 10 per cent. The scenario weights represent the distribution of economic scenarios and not subjective views on likelihood. The inclusion of a severe downside scenario with a smaller weighting ensures that the non-linearity of losses in the tail of the distribution is adequately captured.

e) Base case and MES economic assumptions

The Company's base case economic scenario has been updated to reflect ongoing geopolitical developments and changes in domestic economic policy. The Company's updated base case scenario has three conditioning assumptions. First, cross-border conflicts do not lead to major disruptions in commodity prices or global trade. Second, the US pursues a more isolationist economic agenda, with policies including trade tariffs; immigration cuts; and unfunded tax cuts. China, EU and UK are assumed to retaliate to US tariffs imposed on them. Third, UK Budget public investment plans are assumed to have a small but positive impact on trend productivity growth, subject to further review as more specific policy detail emerges.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Company's base case scenario is for a slow expansion in GDP and a rise in the unemployment rate alongside modest changes in residential and commercial property prices. Against a backdrop of some persistence in inflationary pressures, UK bank rate is expected to be lowered gradually during 2025. Risks around this base case economic view lie in both directions and are largely captured by the generation of alternative economic scenarios.

The Company has accommodated the latest available information at the reporting date in defining its base case scenario and generating alternative economic scenarios. The scenarios include forecasts for key variables in the fourth quarter of 2024, for which actuals may have since emerged prior to publication.

The key UK economic assumptions made by the Company averaged over a five-year period are shown on page 15. Gross domestic product is presented as an annual change. UK Bank Rate and unemployment rate are averages for the period.

Annual assumptions

Gross domestic product (GDP) is presented as an annual change. House price growth is presented as the growth in the respective indices over each year. Unemployment rate and UK Bank Rate are averages over the year.

Five-year average

The five-year average reflects the average annual growth rate, or level, over the five-year period. It includes movements within the current reporting year, such that the position as at 31 December 2024 covers the five years 2024 to 2028. The inclusion of the reporting year within the five-year period reflects the need to predict variables which remain unpublished at the reporting date and recognises that credit models utilise both level and annual changes. The use of calendar years maintains a comparability between the annual assumptions presented.

Five-year start to peak and trough

The peak or trough for any metric may occur intra year and therefore not be identifiable from the annual assumptions, therefore they are also disclosed. For GDP and house price growth, the peak, or trough, reflects the highest, or lowest cumulative quarterly position reached relative to the start of the five-year period, which as of 31 December 2024 is 1 January 2024. Given these metrics may exhibit increases followed by greater falls, the start to trough movements quoted may be smaller than the equivalent 'peak to trough' movement (and vice versa for start to peak). Unemployment and UK Bank Rate reflect the highest, or lowest, quarterly level reached in the five-year period.

1. Material accounting policies (continued)

1.9 Critical accounting judgements and key sources of estimation uncertainty accounting policies (continued)

e) Base case and MES economic assumptions (continued)

31 December 2024	2024 %	2025 %	2026 %	2027 %	2028 %	Average %	Start to peak %	Start to trough %
Upside								
Gross domestic product	**0.8**	**1.9**	**2.2**	**1.5**	**1.4**	**1.6**	**8.9**	**0.7**
UK Bank Rate	**5.06**	**4.71**	**5.02**	**5.19**	**5.42**	**5.08**	**5.50**	**4.50**
Unemployment rate	**4.3**	**3.5**	**2.8**	**2.7**	**2.8**	**3.2**	**4.4**	**2.7**
House price growth	**3.4**	**3.7**	**6.5**	**6.6**	**5.4**	**5.1**	**28.2**	**0.4**
Base case								
Gross domestic product	**0.8**	**1.0**	**1.4**	**1.5**	**1.5**	**1.2**	**7.0**	**0.7**
UK Bank Rate	**5.06**	**4.19**	**3.63**	**3.50**	**3.50**	**3.98**	**5.25**	**3.50**
Unemployment rate	**4.3**	**4.7**	**4.7**	**4.5**	**4.5**	**4.5**	**4.8**	**4.2**
House price growth	**3.4**	**2.1**	**1.0**	**1.4**	**2.4**	**2.0**	**10.5**	**0.4**
Downside								
Gross domestic product	**0.8**	**(0.5)**	**(0.4)**	**1.0**	**1.5**	**0.5**	**3.2**	**0.0**
UK Bank Rate	**5.06**	**3.53**	**1.56**	**0.96**	**0.68**	**2.36**	**5.25**	**0.59**
Unemployment rate	**4.3**	**6.0**	**7.4**	**7.4**	**7.1**	**6.4**	**7.5**	**4.2**
House price growth	**3.4**	**0.6**	**(5.5)**	**(6.6)**	**(3.4)**	**(2.4)**	**4.0**	**(11.4)**
Severe Downside								
Gross domestic product	**0.8**	**(1.9)**	**(1.5)**	**0.7**	**1.3**	**(0.1)**	**1.2**	**(2.4)**
UK Bank Rate - modelled	**5.06**	**2.68**	**0.28**	**0.08**	**0.02**	**1.62**	**5.25**	**0.02**
UK Bank Rate - adjusted (1)	**5.06**	**4.03**	**2.70**	**2.23**	**1.95**	**3.19**	**5.25**	**1.88**
Unemployment rate	**4.3**	**7.7**	**10.0**	**10.0**	**9.7**	**8.4**	**10.2**	**4.2**
House price growth	**3.4**	**(0.8)**	**(12.4)**	**(13.6)**	**(8.8)**	**(6.7)**	**3.4**	**(29.2)**
Probability-weighted								
Gross domestic product	**0.8**	**0.5**	**0.8**	**1.2**	**1.4**	**1.0**	**5.7**	**0.7**
UK Bank Rate - modelled	**5.06**	**4.00**	**3.09**	**2.90**	**2.88**	**3.59**	**5.25**	**2.88**
UK Bank Rate - adjusted (1)	**5.06**	**4.13**	**3.33**	**3.12**	**3.08**	**3.74**	**5.25**	**3.06**
Unemployment rate	**4.3**	**5.0**	**5.5**	**5.4**	**5.3**	**5.1**	**5.5**	**4.2**
House price growth	**3.4**	**1.8**	**(0.7)**	**(1.0)**	**0.4**	**0.8**	**5.3**	**0.4**

1. The adjustment to UK Bank Rate and CPI inflation in the severe downside is considered to better reflect the risks around the Group's base case view in an economic environment where supply shocks are the principal concern.

1. Material accounting policies (continued)

1.9 Critical accounting judgements and key sources of estimation uncertainty accounting policies (continued)

e) Base case and MES economic assumptions (continued)

31 December 2023	2023 %	2024 %	2025 %	2026 %	2027 %	Average %	Start to peak %	Start to trough %
Upside								
Gross domestic product	0.3	1.5	1.7	1.7	1.9	1.4	8.1	0.2
UK Bank Rate	4.94	5.72	5.61	5.38	5.18	5.37	5.79	4.25
Unemployment rate	4.0	3.3	3.1	3.1	3.1	3.3	4.2	3.0
House price growth	1.9	0.8	6.9	7.2	6.8	4.7	25.7	(1.2)
Base case								
Gross domestic product	0.3	0.5	1.2	1.7	1.9	1.1	6.4	0.2
UK Bank Rate	4.94	4.88	4.00	3.50	3.06	4.08	5.25	3.00
Unemployment rate	4.2	4.9	5.2	5.2	5.0	4.9	5.2	3.9
House price growth	1.4	(2.2)	0.5	1.6	3.5	1.0	4.8	(1.2)
Downside								
Gross domestic product	0.2	(1.0)	(0.1)	1.5	2.0	0.5	3.4	(1.2)
UK Bank Rate	4.94	3.95	1.96	1.13	0.55	2.51	5.25	0.43
Unemployment rate	4.3	6.5	7.8	7.9	7.6	6.8	8.0	3.9
House price growth	1.3	(4.5)	(6.0)	(5.6)	(1.7)	(3.4)	2.0	(15.7)
Severe Downside								
Gross domestic product	0.1	(2.3)	(0.5)	1.3	1.8	0.1	1.0	(2.9)
UK Bank Rate - modelled	4.94	2.75	0.49	0.13	0.03	1.67	5.25	0.02
UK Bank Rate - adjusted (1)	4.94	6.56	4.56	3.63	3.13	4.56	6.75	3.00
Unemployment rate	4.5	8.7	10.4	10.5	10.1	8.8	10.5	3.9
House price growth	0.6	(7.6)	(13.3)	(12.7)	(7.5)	(8.2)	2.0	(35.0)
Probability-weighted								
Gross domestic product	0.3	0.1	0.8	1.6	1.9	0.9	5.4	0.1
UK Bank Rate - modelled	4.94	4.64	3.52	3.02	2.64	3.75	5.25	2.59
UK Bank Rate - adjusted (1)	4.94	5.02	3.93	3.37	2.95	4.04	5.42	2.89
Unemployment rate	4.2	5.3	5.9	5.9	5.7	5.4	6.0	3.9
House price growth	1.4	(2.5)	(0.9)	(0.3)	1.8	(0.1)	2.0	(2.8)

1. The adjustment to UK Bank Rate and CPI inflation in the severe downside is considered to better reflect the risks around the Group's base case view in an economic environment where supply shocks are the principal concern.

1. Material accounting policies (continued)

1.9 Critical accounting judgements and key sources of estimation uncertainty accounting policies (continued)

f) ECL sensitivity to economic assumptions

The table below shows the Company's ECL for the probability-weighted, upside, base case, downside and severe downside scenarios. The stage allocation for an asset is based on the overall scenario probability-weighted probability of default and hence the staging of assets is constant across all the scenarios. Judgemental adjustments applied through changes to model inputs, or more qualitative post model adjustments, are apportioned across the scenarios in proportion to modelled ECL where this better reflects the sensitivity of these adjustments to each scenario. The probability-weighted view shows the extent to which a higher ECL allowance has been recognised to take account of multiple economic scenarios relative to the base case.

	31 December, 2024					31 December, 2023				
ECL allowance £'000	**Probability -weighted**	**Upside**	**Base**	**Downside**	**Severe Downside**	Probability-weighted	Upside	Base	Downside	Severe Downside
Loans & Advances to customers	**3,176**	**1,815**	**2,491**	**3,836**	**7,338**	4,860	2,470	3,664	5,551	13,544

The impact of isolated changes in the UK unemployment rate have been assessed on a univariate basis. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Company's ECL to gradual changes in this critical economic factor.

g) Deferred tax

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

2. Profit before tax

The following items have been included in arriving at Profit before tax of £5,771,000 (2023: £53,114,000).

	2024	2023
	£'000	£'000
Income		
Fees receivable	**4,600**	5,484
Gain on disposal of assets	**—**	26,394
Expenses		
Interest payable to related undertakings (see note 15)	**(88)**	(4,522)
Management Fees (see note 15)	**(1,854)**	(2,555)

Fees receivable relates to the arms length servicing fee from the SPE as the Company continues to service the mortgages.

Interest payable has reduced due to funding being settled following the sale of assets to the SPE. Management fees also reduced due to the reduction in the size of the loan book following the sale.

Accounting and administration services are provided by a related undertaking and are recharged to the Company as part of Management fees. The auditor's remuneration of £64,000 (2023: £63,000) was borne by the parent company, no non-audit services were provided to the Company by the auditor.

3. Net interest income

	2024	2023
	£'000	£'000
Interest income		
From other loans and advances	**3,709**	10,368
Interest income from parent (see note 15)	**773**	11,588
	4,482	21,956
Interest expense		
Interest expense with parent (see note 15)	**(88)**	(4,522)
Net interest income	**4,394**	17,434

4. Impairment (losses) / gains

	Stage 1	**Stage 2**	**Stage 3**	**Total**
31 December 2024	**£'000**	**£'000**	**£'000**	**£'000**
Loans and advances to customer (see note 16)	**13**	**700**	**984**	**1,697**
Undrawn loan commitments (see note 16)	**1**	**(3)**	**–**	**(2)**
	14	**697**	**984**	**1,695**

	Stage 1	Stage 2	Stage 3	Total
31 December 2023	£'000	£'000	£'000	£'000
Loans and advances to customer (see note 16)	91	913	1,078	2,082
Gain on sale of assets	—	—	4,397	4,397
Undrawn loan commitments	—	—	—	—
	91	913	5,475	6,479

5. Other operating expenses

	2024	2023
	£'000	£'000
Management fees (see note 15)	**1,854**	2,555
Other operating expenses	**3,064**	122
	4,918	2,677

Management fees relate to recharges made by the Group in relation to our Group service centres. Other operating costs predominantly include write offs relating to loans sold to the SPE which were not permitted per the sale agreement.

The Company has no employees (2023: nil). It uses the services of its immediate parent undertaking for which a cost transfer charge, included in Management fees, is made.

6. Directors' emoluments

No Director received any fees or emoluments from the Company during the year (2023: £nil). The Directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities.

7. Taxation

a) Analysis of charge for the year

	2024	2023
	£'000	£'000
UK corporation tax:		
- Current tax on taxable profit for the year	**864**	11,937
Current tax charge	**864**	11,937
UK deferred tax:		
- Origination and reversal of temporary differences	**579**	545
Deferred tax charge (see note 13)	**579**	545
Tax charge	**1,443**	12,482

Corporation tax is calculated at a rate of 25.0% (2023: 23.5%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

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

	2024	2023
	£'000	£'000
Profit before tax	**5,771**	53,114
Tax charge thereon at UK corporation tax rate of 25.0% (2023: 23.5%)	**1,443**	12,482
Tax charge on profit on ordinary activities	**1,443**	12,482
Effective rate	**25.00%**	23.50%

The Company has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes currently required by IAS12 Income Taxes. No provision for Pillar 2 current tax is required in respect of this period.

8. Dividends paid

	2024	2023
	£'000	£'000
Equity ordinary shares - Final paid: £8 (2023: £20) per £1 share	**80,000**	200,000

9. Other current assets

	2024	2023
	£'000	£'000
Amounts due from group undertakings (see note 15)	**38**	184
Other debtors	**357**	1,333
	395	1,517

All amounts are receivable within 1 year.

10. Loans and advances to customers

10.1 Loans and advances to customers - maturity

	2024	2023
	£'000	£'000
Gross loans and advances to customers	**68,507**	59,845
Less: allowances for losses on loans and advances	**(3,173)**	(4,860)
Net loans and advances to customers	**65,334**	54,985
of which:		
Due within one year	**6,450**	4,491
Due after one year	**58,884**	50,494
	65,334	54,985

Included within the “due within one year” maturity bucket there is £3,250,000 (2023: £3,723,000) in relation to past term customers. On average these customers have a LTV of <60%. The accounts are actively managed and controlled within an agreed framework by the divisional risk teams.

10. Loans and advances to customers (continued)

10.2 Loans and advances to customers - movement over time

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 January 2024	**22,034**	**19,151**	**18,660**	**59,845**
Transfers to Stage 1	**10,503**	**(6,918)**	**(3,585)**	**–**
Transfers to Stage 2	**(20,426)**	**22,119**	**(1,693)**	**–**
Transfers to Stage 3	**(75)**	**(2,270)**	**2,345**	**–**
Net increase in loans and advances to customers	**12,172**	**(3,133)**	**(404)**	**8,635**
Financial assets that have been written off during the year	**–**	**–**	**(259)**	**(259)**
Recoveries of prior advances written off	**–**	**–**	**286**	**286**
Gross loans and advances to customers at 31 December 2024	**24,208**	**28,949**	**15,350**	**68,507**
Less: allowances for losses on loans and advances	**(22)**	**(370)**	**(2,781)**	**(3,173)**
Net loans and advances to customers at 31 December 2024	**24,186**	**28,579**	**12,569**	**65,334**

Transfers to Stage 2 includes material impacts from the reassessment of SICR criteria performed following redevelopment of the ECL model in the period.

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2023	8,796	6,960	23,273	39,029
Transfers to Stage 1	1,967	(1,967)	—	–
Transfers to Stage 2	(2,311)	3,439	(1,128)	–
Transfers to Stage 3	(579)	(4,232)	4,811	–
Net increase in loans and advances to customers	14,161	14,951	(7,161)	21,951
Financial assets that have been written off during the year	–	–	(2,053)	(2,053)
Recoveries of prior advances written off	–	–	918	918
Gross loans and advances to customers at 31 December 2023	22,034	19,151	18,660	59,845
Less: allowances for losses on loans and advances	(35)	(1,070)	(3,755)	(4,860)
Net loans and advances to customers at 31 December 2023	21,999	18,081	14,905	54,985

The movement tables above are compiled by comparing the position at the end of the period to that at the beginning of the year. Transfers between stages are deemed to have taken place at the start of the reporting period, with all other movements shown in the stage in which the asset is held at the end of the period. Additions and repayments comprise new loans originated and repayments of outstanding balances throughout the reporting period.

The Group's impairment charge comprises impact of transfers between stages, other changes in credit quality and additions and repayments. Advances written off have first been transferred to Stage 3 and then acquired a full allowance through other changes in credit quality.

Recoveries of advances written off in previous years are shown at the full recovered value, with a corresponding entry in repayments and release of allowance through other changes in credit quality.

11. Amounts due to group undertakings

	2024	2023
	£'000	£'000
Amounts due to group undertakings (see note 15)	**40,659**	1,391

Amounts due to group undertakings includes £154,000 in respect of cost allocations recharged from the Group and £40,088,000 in respect of the Call funding account used to partially cover the dividend paid to the Company' parent company Bank of Scotland plc.

12. Provision for liabilities and charges

	Commitments
	£'000
At 1 January 2023 and 31 December 2023	1
Charge for the year (see note 4)	**2**
At 31 December 2024	**3**

A provision for commitments of £3,000 (2023: £1,000) is held for cases where the Company is contractually obligated to advance additional funds.

13. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2024	2023
	£'000	£'000
Brought forward at 1 January	**2,316**	2,861
Charge for the year	**(579)**	(545)
Effect of change in tax rate and related impacts	**–**	–
Balance at 31 December	**1,737**	2,316

The deferred tax charge in the Statement of comprehensive income comprises the following temporary differences:

	2024	2023
	£'000	£'000
Other temporary differences	**(579)**	(545)

Deferred tax asset comprises:

	2024	2023
	£'000	£'000
Other temporary differences	**1,737**	2,316

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14. Share capital

	2024	2023
	£'000	£'000
Allotted, issued and fully paid		
10,000,000 (2023: 10,000,000) ordinary shares of £1 each	**10,000**	10,000

Ordinary shares carry one vote each. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing. The Company's parent can also request the Company to pay dividends or make a capital contribution in order to maintain or adjust the Group's capital structure. The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity.

15. Related party transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity. The Company's key management personnel are its Directors, who consider that their duties in respect of the Company are incidental to their Group responsibilities. No Director entered into transactions with the Company in the year (2023: none).

As disclosed below, a management recharge is made by the immediate parent company to cover the costs of administration and other services provided to the Company. The auditor's remuneration of £64,000 (2023: £63,000) was borne by the parent company.

Banking transactions are entered into by the Company with the Group and its subsidiaries in the normal course of business and on normal commercial terms.

Cash and cash equivalents of £19,015,000 (2023: £74,681,000) comprises a bank account and call deposit account held with its parent undertaking Bank of Scotland plc.

Customer payments and receipts are made through the parent company BOS plc, amounts settled with the Company via the intercompany process.

Amounts due from group undertakings in 2024 relate to recoveries from customers received by the parent company.

Amounts due to group undertakings in 2024 includes amounts owed on buyback of mortgages from the SPE less customer loan repayments due, along with £40,087,000 in respect of the Call funding account used to partially cover the dividend paid to it's parent company Bank of Scotland plc. Amounts due from group undertakings are unsecured. Balances are included within Stage 1 for IFRS 9 purposes and any expected credit losses are considered to be immaterial.

A summary of the outstanding balances at the year end and the related income and expense for the year is set out below.

	2024	2023
	£'000	£'000
Amounts due from group undertakings		
Amounts due from parent	**38**	184
Total amounts due from group undertakings	**38**	184
Amounts due to group undertakings		
Amounts due to parent	**40,505**	1,165
Amounts due to other related parties	**154**	226
Total amounts due to group undertakings	**40,659**	1,391

Interest payable in relation to the call funding account owed to Bank of Scotland is charged at Sterling Overnight Indexed Average ("SONIA").

Interest receivable in relation to the call deposit account due from Bank of Scotland is charged at SONIA.

All related party transactions are at arms length, apart from the intercompany balances which are settled on a monthly basis with short term timing differences.

	2024	2023
	£'000	£'000
Interest income		
Interest income from parent - total interest income (see note 3)	**773**	11,588
Interest expense		
Interest expense to parent - total interest expense (see note 3)	**88**	4,522
Management fees		
Management recharge from the Group - total management fees (see note 5)	**1,854**	2,555

16. Financial risk management

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant foreign exchange, business or market risk. Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by the immediate parent company, Bank of Scotland plc, and the ultimate parent, LBG. Interest rate and liquidity risk faced by the Company is in substance managed and borne by other Group undertakings which fund the Company and credit risk is carefully monitored by Retail Finance's credit committee and credit functions.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

16.1 Credit risk

Credit risk management

Credit risk is the risk that parties with whom the Company has contracted fail to meet their financial obligations (both on and off Balance sheet). Credit risk appetite is set at Board level and is described and reported through a suite of metrics devised from a combination of accounting and credit portfolio performance measures, which include the use of various credit risk rating systems as inputs and assess credit risk at a counterparty level.

For loans and advances, the Company can experience potential losses from both amounts lent and commitments to extend credit to a customer.

Amounts due from other group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is not considered to be significant.

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations are detailed below. No account is taken of any collateral held.

	As at 31 December 2024		As at 31 December 2023	
	Maximum Exposure	**Net Exposure**	Maximum Exposure	Net Exposure
	£'000	**£'000**	£'000	£'000
Loans and advances to customers (net)	**65,334**	**65,334**	54,985	54,985
Off balance sheet items:				
Commitments to lend	**693**	**693**	570	570
	66,027	**66,027**	55,555	55,555

The gross fair value of collateral held is £62,922,000 (2023: £54,435,000) representing 92% of gross loans and advances to customers.

16. Financial risk management (continued)

16.1 Credit risk (continued)

Credit risk management (continued)

The analysis of lending has been prepared by applying the Group's rating scales to the Company's impairment model. The internal credit rating systems are set out below. The Group's PD's, that have been applied, include forward-looking information and are based on 12 month values, with the exception of credit impaired.

		Gross loans and advances to customers - Loan Quality			
At 31 December 2024		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	PD Range	**£'000**	**£'000**	**£'000**	**£'000**
Retail					
RMS 1-6	0.00-4.50%	**21,837**	**23,338**	**–**	**45,175**
RMS 7-9	4.51-14.00%	**2,371**	**2,188**	**–**	**4,559**
RMS 10	14.01-20.00%	**–**	**608**	**–**	**608**
RMS 11-13	20.01-99.99%	**–**	**2,815**	**–**	**2,815**
RMS 14	100%	**–**	**–**	**15,350**	**15,350**
Total		**24,208**	**28,949**	**15,350**	**68,507**

		Gross loans and advances to customers - Loan Quality			
At 31 December 2023		Stage 1	Stage 2	Stage 3	Total
	PD Range	£'000	£'000	£'000	£'000
Retail					
RMS 1-6	0.00-4.50%	20,114	4,766	–	24,880
RMS 7-9	4.51-14.00%	1,920	5,600	–	7,520
RMS 10	14.01-20.00%	–	1,685	–	1,685
RMS 11-13	20.01-99.99%	–	7,100	–	7,100
RMS 14	100%	–	–	18,660	18,660
Total		22,034	19,151	18,660	59,845

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loan Commitments	**£'000**	**£'000**	**£'000**	**£'000**
At 31 December 2024	**239**	**427**	**27**	**693**
At 31 December 2023	369	174	27	570

The principle sources of credit risk for the Company arise from Loan and Advances to customers. Credit risk arises both from amounts advanced and commitments to extend credit to a customer.

The risk division sets out the credit principles, credit risk policies and credit risk appetite statements. These are subject to regular review and governance, with any changes subject to an approval process. Risk teams monitor credit performance trends, review and challenge exceptions, and test the adequacy and adherence to credit risk policies and processes.

The criteria used to determine that there is objective evidence of an impairment is disclosed in note 1.4. All loans and advances to customers are assessed for impairment. No amounts due from Group undertakings are impaired (2023: £nil).

16. Financial risk management (continued)

16.1 Credit risk (continued)

Credit risk management (continued)

Analysis of movement in the allowance for impairment losses by stage:

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2024	35	1,070	3,755	4,860
Transfers to Stage 1	(1,065)	(347)	(721)	(2,133)
Transfers to Stage 2	(27)	99	(72)	–
Transfers to Stage 3	–	(163)	163	–
Impact of transfers between stages	1,081	65	283	1,429
	(11)	(346)	(347)	(704)
Other items credited to the income statement	(2)	(354)	(637)	(993)
Charge for the year (including recoveries) (see note 4)	(13)	(700)	(984)	(1,697)
Advances written off	–	–	(259)	(259)
Recoveries of prior advances written off	–	–	286	286
Discount unwind	–	–	(17)	(17)
At 31 December 2024	22	370	2,781	3,173

In respect of drawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2023	126	1,983	5,773	7,882
Transfers to Stage 1	39	(39)	–	–
Transfers to Stage 2	(5)	202	(197)	–
Transfers to Stage 3	–	(188)	188	–
Impact of transfers between stages	(36)	21	262	247
	(2)	(4)	253	247
Other items credited to the income statement	(89)	(909)	(1,331)	(2,329)
Credit for the year (including recoveries) (see note 4)	(91)	(913)	(1,078)	(2,082)
Advances written off	–	–	(2,053)	(2,053)
Recoveries of prior advances written off	–	–	918	918
Discount unwind	–	–	195	195
At 31 December 2023	35	1,070	3,755	4,860

Loans and advances to customers are held at amortised cost.

16. Financial risk management (continued)

16.1 Credit risk (continued)

Credit risk management (continued)

Analysis of loan to value

An analysis by LTV ratio of the Company's UK residential mortgage lending is provided below. The value of collateral used in determining the loan-to-value ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices. The market takes into account many factors, including environmental considerations such as flood risk and energy efficient additions, in arriving at the value of a home.

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Less than 60%	**19,737**	**24,681**	**10,708**	**55,126**
60% to 70%	**2,403**	**2,438**	**2,058**	**6,899**
70% to 80%	**500**	**763**	**225**	**1,488**
80% to 90%	**95**	**180**	**—**	**275**
90% to 100%	**795**	**608**	**1,112**	**2,515**
Greater than 100%	**678**	**279**	**1,247**	**2,204**
At 31 December 2024	**24,208**	**28,949**	**15,350**	**68,507**

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Less than 60%	19,395	13,538	12,780	45,713
60% to 70%	2,250	2,421	2,430	7,101
70% to 80%	284	1,011	301	1,596
80% to 90%	105	673	138	916
90% to 100%	—	634	1,432	2,066
Greater than 100%	—	874	1,579	2,453
At 31 December 2023	22,034	19,151	18,660	59,845

Repossessed collateral

During 2024 the Company obtained assets with a carrying value of £356,000 (2023: £273,000) as a result of the enforcement of collateral held as security. The Company does not take physical possession of any collateral; instead it uses agents to realise the collateral's value as soon as practicable, usually at auction, to settle indebtedness. Any surplus funds are then returned to the borrower or are otherwise dealt with in accordance with appropriate insolvency regulations.

16. Financial risk management (continued)

16.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group.

Liquidity risks are managed as part of the Group by an intermediate parent company, Lloyds Bank plc, in consultation with the Board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

The liquidity table below is a contractual maturity analysis for Amounts due to group undertakings, based on the earliest date the entity could be expected to repay the amounts owed.

As at 31 December 2024	**Up to 1 month**	**1-12 months**	**1-5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Borrowed funds (see note 11)	**40,659**	**–**	**–**	**40,659**
Contractual interest payments	**–**	**–**	**–**	**–**

As at 31 December 2023	Up to 1 month	1-12 months	1-5 years	Total
	£'000	£'000	£'000	£'000
Borrowed funds (see note 11)	1,391	—	—	1,391
Contractual interest payments	—	—	—	—

All other funding is repayable on demand, although there is no expectation that such a demand would be made. Excluding tax all other financial liabilities are repayable on demand. Borrowed funds are classed as stage 1 for IFRS 9 purposes. Cash and cash equivalents and other current assets are repayable on demand.

16.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities.

Amounts due from group undertakings include amounts that are interest bearing at fixed rates for funding of long term loans and advances and variable rates for other borrowings.

Amounts due to group undertakings include amounts that are interest bearing at fixed rates for funding of long term loans and advances and variable rates for other borrowings.

Interest rate risk - sensitivity analysis

The sensitivity analysis is based on the Company's interest-bearing Amounts due to group undertakings and takes account of movement in SONIA, which is the basis for the interest charged on such balances. A 0.5% (2023: 0.5%) increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as rates have decreased by 0.5% through 2024.

	-50 bps	**Profit before taxation**	**+50 bps**
	£'000	**£'000**	**£'000**
2024	**5,450**	**5,771**	**6,092**
2023	52,867	53,114	53,361

	-50 bps	**Equity**	**+50 bps**
	£'000	**£'000**	**£'000**
2024	**44,522**	**44,498**	**45,163**
2023	119,923	120,170	120,417

16. Financial risk management (continued)

16.3 Interest rate risk (continued)

Interest rate risk - maturity

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates the years in which they contractually mature:

	Less than 1 year	**Between 1-2 years**	**Between 2-5 years**	**5 years or more**	**Total**
2024	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and advances to customers	**6,631**	**3,942**	**20,239**	**34,522**	**65,334**
Interest bearing loans and borrowings	**40,659**	**–**	**–**	**–**	**40,659**

	Less than 1 year	Between 1-2 years	Between 2-5 years	5 years or more	Total
2023	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers	4,491	2,951	16,535	31,008	54,985
Interest bearing loans and borrowings	1,391	—	–	–	1,391

16.4 Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Company has provided loans and advances to customers on fixed, tracker and variable rate bases. The carrying value of the variable rate loans is assumed to be their fair value. For fixed and tracker rate lending, fair value is estimated by discounting anticipated cash-flows (based on contractual interest rates / capital repayments and current experienced level of prepayments) using market rates from the top 10 major lenders based on market share.

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise equity shares, treasury bills and government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

Financial assets and liabilities carried at amortised cost

Cash and cash equivalents, loans and advances to customers, Bank borrowings and Amounts due to group undertakings are all held at amortised cost.

As at 31 December 2024, the carrying amount of loans and advances to customers is £65,334,000 (2023: £54,985,000) and a fair value £62,922,000 (2023: £54,435,000). The fair value is classified as level 3 due to significant unobservable inputs used in the valuation models.

The carrying value of all other financial assets and liabilities is considered an approximation of fair value, due to their short term nature.

17. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and advises the Board of Directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Board of Directors may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or sell assets.

The managed capital of the Company constitutes Total equity. This consists entirely of issued Share capital and Retained earnings. As at 31 December 2024, total managed capital was £44,498,000 (2023: £120,170,000).

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") and is subject to capital resource requirements as set out by the FCA. Capital is actively managed at an appropriate level of frequency and regulatory capital levels are a key factor in the Company's budgeting and planning processes. All FCA capital requirements imposed on the Company during the year were met.

On a quarterly basis it is assessed whether:

- Equity is in excess of capital requirements stated under MIPRU regulations;
- Equity has exceeded capital requirements throughout 2024.

18. Contingent liabilities and capital commitments

Contingent liabilities

During the ordinary course of business the Company is subject to other complaints as well as legal and regulatory reviews, challenges and investigations. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate to determine the likelihood of the Company incurring a liability. 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 to properly 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. The Company does not currently expect the final outcome of any such case to have a material adverse effect on its financial position, operations or cash flows.

Contingent tax liability

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 2020, HMRC concluded its enquiry into the matter and issued a closure notice denying the group relief claim. The Group appealed to the First Tier Tax Tribunal. The hearing took place in May 2023. In January 2025, the First Tier Tribunal concluded in favour of HMRC. The Group believes it has applied the rules correctly and that the claim for group relief is correct. Having reviewed the Tribunal's conclusions and having taken appropriate advice the Group intends to appeal the decision and does not consider this to be a case where an additional tax liability will ultimately fall due. 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 the Company's current tax liabilities of approximately £32,723,000 (including interest). It is unlikely that any appeal hearing will be held before 2026, and final conclusion of the judicial process may not be for several years.

19. Post balance sheet events

There were no material post Balance sheet events.

20. Future developments

There are a number of new accounting pronouncements issued by the IASB with an effective date of 1 January 2027. This includes IFRS 18 Presentation and Disclosure in Financial Statements which replaces IAS 1 Presentation of Financial Statements and IFRS 19 Subsidiaries without Public Accountability: Disclosures. The impact of these standards are being assessed and they have not been endorsed for use in the UK.

The IASB has issued its annual improvements and a number of minor amendments to IFRS Accounting Standards effective date on or after 1 January 2025, including IFRS 9 Financial Instruments and IFRS 7 Financial Instruments Disclosure and IAS 21 The Effects of Changes in Foreign Exchange Rates. These improvements and amendments are not expected to have a significant impact on the Company.

21. Ultimate parent undertaking and controlling party

The immediate parent company is Bank of Scotland plc (incorporated in Scotland). The company regarded by the Directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated in Scotland), which is also the parent undertaking of the largest Group of undertakings for which Group financial statements are drawn up and of which the Company is a member. Bank of Scotland plc is the parent undertaking of the smallest such Group of undertakings.

Copies of the financial statements of both companies may be obtained from the Group Secretariat, Lloyds Banking Group, 33 Old Broad Street, London, EC2N 1HZ. Lloyds Banking Group plc's financial statements may be downloaded via https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Independent Auditors' report to the members of The Mortgage Business Public Limited Company

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Mortgage Business Public Limited Company (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2024 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom adopted international accounting standards and IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB); 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;
- the material accounting policy information in note 1; and
- the related notes 2 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRS Accounting Standards as issued by the IASB.

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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in 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.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired 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 business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Companies Act 2006 and UK tax legislation; and
- 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. This included Financial Conduct Authority ("FCA") regulations.

We discussed among the audit engagement team including relevant internal specialists such as IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our procedures performed to address it are described below:

The Expected Credit Loss ("ECL") provision is required to be determined based on an unbiased expectation of future economic scenarios. The approach used to generate the range of future economic scenarios depends on the methodology and judgements applied, and there is a risk that the base case macroeconomic forecasts do not represent a reasonable view of the current macroeconomic outlook. In response to the risk identified, we worked with our internal economic specialists to challenge the base case macroeconomic forecasts through comparison to independent economic outlooks, other external analyses and market data.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.
In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing correspondence with the FCA and Prudential Regulatory Authority ("PRA").

Report on other legal and regulatory requirements

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.

Independent Auditors' report to the members of The Mortgage Business Public Limited Company (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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.

Will Walter CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
11 April 2025