The Mortgage Business Public Limited Company
Annual report and Financial Statements
2023

Registered number: 01997277

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2023

The directors present their Strategic report for The Mortgage Business Public Limited Company (the "Company") for the year ended 31 December 2023.

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, the unconsolidated structured special purpose entity ("SPE"), The Company forms part of Lloyds Banking Group ("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 if required term funding deals arranged by 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").

Assets held for sale at December 2022 of £2,521,453k comprising Loans and Advances to Customers 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 £53,114k (2022: £46,238k). The year on year increase is primarily due to the profit on disposal of Assets held for sale of £26,394k offsetting the reduction in net interest income due to the asset sale in January.

Interest income in the year was £21,956k which has decreased from £118,237k in 2022, due to the disposal of the Assets held for sale. Interest expense in the year was £4,522k, the charge reflects interest paid on funding deals which were fully settled on completion of the asset sale.

Fees receivable of £5,485k in 2023, predominantly 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 £59,845k (2022: £39,029k), 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. The remaining book will continue to run off, earning interest income on its remaining customer loans.

Full year impairment credit of £6,479k (2022: £2,578k) is driven by the gain on sale of loans to Bridgegate relating to stage 3 balances of £4,397k and benefit from updated economic outlook, primarily driven by HPI improvements in the second half of the year. Expected credit loss balance of £4,860 (2022: £7,882) has reduced due to both an improved economic outlook and model change impacting fraud accounts.

Amounts due to group undertakings of £1,391k (2022: £2,403,996k) has reduced due to settlement of funding following the sale of the assets to the SPE.

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 metrics considered to be KPIs for the Company are listed below:

KPI	2023	2022	Analysis
Gross loans and advances to customers (£'000's)	59,845	39,029	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)	4,860	7,882	The decrease in impairment loss allowance is due to improved economic outlook and model change impacting fraud accounts.
Impaired loans ratio	8.2 %	20.2 %	Reduced during the year as buybacks shift the weighting towards stage 1 where coverage is much lower. Further reductions driven by HPI outlook improvements, and a model change impacting fraud accounts.
Net interest income (£'000's)	17,434	53,787	The net interest income decrease is due to the disposal of the Assets held for sale.

Future outlook

Following the sale of the majority of the Loans and advances to customers to the SPE on the 19th January 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. Full details of the Group's approach to risk is included in the LBG Annual Report, these include Capital, Change and execution, Climate, Conduct, Data, Operational, Operational resilience and Regulatory and legal risk. Further details of the Company's and Group's financial risk management policy are contained in note 17 to the financial statements.

Economic environment

The current financial year has been a year of change and economic uncertainty, with the cost of living crisis, rising bank base rates, 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 aims 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.

Employees

The Company has no employees (2022: nil). It uses the services of its immediate parent undertaking for which a cost transfer charge, included in Other operating expenses, is made.

Section 172(1) statement

In accordance with the Companies Act 2006 ("the Act"), for the year ended 31 December 2023, 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 toward 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 2023 , which does not form part of this report, available on the Group's website.

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 2023, 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.

In October 2022, the Group announced the ambition to achieve a 50 per cent reduction in the carbon emissions we generate through our supply chain by 2030 on the path to net zero by 2050 or sooner.

Section 172(1) statement (continued)

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 17.5) and the assessments of the impact of the cost of living crisis on its liquidity position. During 2023, the Group had extensive engagement with the regulators and Government in the initial response to the cost of living crisis, this helped ensure the best support for our customers but also remain in step with Government priorities for supporting the stability of the wider UK economy. The Group have also been working towards the introduction of the Financial Conduct Authority's (FCA) new Consumer Duty requirements. 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 2023, 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), is to effectively manage 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 2023, areas of particular focus for the directors were to steer through the challenges we have faced into 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, and the sale of the loans and advances to the SPE in January 2023.

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.

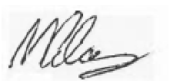
The key risks are financial, derived from both physical risks (climate and weather-related events) and transition risks resulting from the process of adjustment towards a low carbon economy. Climate change extends across multiple risk types e.g. credit, market, conduct and operational. For example physical 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.

The Company has taken an exemption from Streamlined Energy and Carbon Reporting (SECR), in its own Directors' Report as it is included within LBG's SECR report given in the LBG 2023 Annual Report and Accounts, available on the Group's website.

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:



Melanie Campbell
Director
22 April 2024

Directors' report

For the year ended 31 December 2023

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

General information

The Company is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is registered in England (registered number: 01997277).

Registered office

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

Company Secretary

The Company Secretary is Mr P Gittins.

Dividends

A dividend of £200,000k, representing a dividend of £20 per share was declared and paid during the year (2022: £120,000k). See note 8.

Events after the reporting date

There are no material events after the reporting date requiring disclosure in these financial statements.

Going concern

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

Information included in the Strategic report

The disclosures for Future outlook, Principal risks and uncertainties, Employees and Key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report on pages 1 to 3.

Streamlined Energy and Carbon Reporting

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("The 2018 Regulations") came into effect on 1 April 2019. The 2018 Regulations impose requirements on large companies as defined by sections 465 and 466 of the Companies Act 2006 to prepare an equivalent report to the Directors' Report ("the Energy and Carbon Report") for each financial year including their energy and carbon information. Though the Company is within scope for Streamlined Energy and Carbon Reporting (SECR), the directors have elected for an exemption from SECR based on LBG's consolidated financial statements providing sufficient SECR details for all its subsidiaries.

The Company is committed to LBG's climate change goals set in 2020 of achieving net zero emissions by 2050 or sooner. The directors have given much consideration to the Company's approach and set the following objectives which are closely monitored by the Board:

- ensure the Company's operations are net zero by 2030;
- support LBG companies to reduce their emissions by 50% by 2030, on a path to net zero by 2050 or sooner.

Further information on LBG's process can be found in their Annual Report and Accounts.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown below:

M Campbell	appointed 29th September 2023
A Asaam	appointed 27th February 2023
R Diggins	appointed 14th June 2023
K Kinnaird	appointed 11th July 2023
K Worgan	appointed 8th December 2023
R Fletcher	resigned 8th December 2023
C Gowland	resigned 14th March 2023
I Santos Perez	resigned 24th February 2023
A Ambani	appointed 14th March 2023, resigned 29th September 2023
A Bickers	appointed 1st January 2023, resigned 30th November 2023

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 Director 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 have prepared 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.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditor

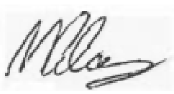
In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the Directors' report is approved:

- 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.

Independent auditor

The auditor, 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:



Melanie Campbell
Director
22 April 2024

Statement of comprehensive income

For the year ended 31 December 2023

	Note	2023	2022
		£'000	£'000
Interest income		**21,956**	118,237
Interest expense		**(4,522)**	(64,450)
Net interest income	3	**17,434**	53,787
Fee and commission income	2	**5,485**	96
Fee and commission expense		**(1)**	(1)
Net fee and commission income		**5,484**	95
Gain on disposal of assets	11	**26,394**	–
Credit impairment gains	4	**6,479**	2,578
Other operating expenses	5	**(2,677)**	(10,222)
Profit before tax	2	**53,114**	46,238
Taxation	7	**(12,482)**	(8,785)
Profit for the year being total comprehensive income		**40,632**	37,453

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 2023

	Note	**2023**	2022
		£'000	£'000
ASSETS			
Cash and cash equivalents		**74,681**	66,876
Loans and advances to customers	10	**54,985**	31,147
Assets held for sale	11	**–**	2,521,453
Other current assets	9	**1,517**	69,553
Deferred tax asset	14	**2,316**	2,861
Total assets		**133,499**	2,691,890
LIABILITIES			
Amounts due to group undertakings	12	**1,391**	2,403,996
Other current liabilities		**–**	10
Provision for liabilities and charges	13	**1**	1
Current tax liability		**11,937**	8,345
Total liabilities		**13,329**	2,412,352
EQUITY			
Share capital	15	**10,000**	10,000
Retained profit		**110,170**	269,538
Total equity		**120,170**	279,538
Total equity and liabilities		**133,499**	2,691,890

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

The financial statements on pages 6 to 35 were approved by the board of directors and were signed on its behalf by:

Melanie Campbell
Director
22 April 2024

Statement of changes in equity

For the year ended 31 December 2023

	Share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 January 2022	10,000	352,085	362,085
Profit for the year being total comprehensive income	–	37,453	37,453
Dividend paid to parent	–	(120,000)	(120,000)
At 31 December 2022	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 31 December 2023	**10,000**	**110,170**	**120,170**

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

Cash flow statement

For the year ended 31 December 2023

	2023 £'000	*Re-presented 2022 £'000
Cash flows generated from operating activities		
Profit before tax	**53,114**	46,238
Adjustments for:		
- Interest expense	**4,522**	64,450
- Decrease in Provision for liabilities and charges	**–**	(42)
Changes in operating assets and liabilities:		
- Net (increase) / decrease in Loans and advances to customers	**(23,838)**	3,158,090
- Net decrease / (increase) in Other receivables	**117,052**	(2,521,195)
- Net decrease in Other current liabilities	**(10)**	(4)
- Net decrease / (increase) in amounts due from Parent undertakings	**70,404**	(10,653)
Cash generated from operations	**221,244**	736,884
Corporation tax paid	**(8,345)**	(19,874)
Net cash generated from operating activities	**212,899**	717,010
Cash flows used in financing activities		
Repayments received / (made) on amounts due to Parent undertakings	**(14)**	(490,706)
Repayments made on amounts due to Other related parties	**(558)**	(758)
Interest paid	**(4,522)**	(64,450)
Dividend paid	**(200,000)**	(120,000)
Net cash used in financing activities	**(205,094)**	(675,914)
Change in Cash and cash equivalents	**7,805**	41,096
Cash and cash equivalents at beginning of year	**66,876**	25,780
Cash and cash equivalents at end of year	**74,681**	66,876

	2023 £'000	2022 £'000
Non cash transactions		
Net decrease in Other receivables	**2,403,196**	–
Repayments made on amounts due to Parent undertakings (see note 16)	**(2,403,196)**	–
	–	–

*Cash movements of £10,653k in 2022 related to amounts due from parent undertakings have been re-presented from financing activities to operating activities to reflect the appropriate classification of these movements.

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

1. Material accounting policies

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 statements have also been prepared in accordance with International Financial Reporting Standards ("IFRS"s) as issued by the International Accounting Standards Board ("IASB"). 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. 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 2023 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 sale of £2,521,423k of net loans and advances to customers on the 19th January 2023 leaves the Company with £54,985k remaining. It is expected that the remaining book will continue to run off, earning interest income on its remaining customer loans.
- The current 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 bank base rates, 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 21 February 2024, 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. The principal 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.

1.2 Income recognition

(1) Net interest income

Interest income and expense are recognised in the income statement 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.

1.3 Financial assets and liabilities

Loans and advances to customers at amortised cost

Financial assets include loans and advances to customers. Financial assets are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Financial assets classified as loans and receivables are accounted for at amortised cost using the effective interest method less provision for impairment.

Financial assets and liabilities

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. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

1. Material accounting policies (continued)

1.3 Financial assets and liabilities (continued)

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

1.4 Impairment of financial assets

(i) Loans and advances to customers

The impairment charge in the income statement includes the change in expected credit losses and certain fraud write-offs and recoveries. Expected credit losses are recognised for loans and advances to customers, other financial assets held at amortised cost and certain loan commitments. Expected credit losses are calculated as an unbiased and probability weighted estimate using an appropriate probability of default, 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, or other mitigants of loss 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 expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses 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.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Company uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators and other indicators of historical delinquency, credit weakness or financial difficulty. The use of internal credit ratings and qualitative indicators ensures alignment between the assessment of staging and the Group's management of credit risk which utilises these internal metrics within distinct retail portfolio risk management practices. However, 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. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due which the Group now uses for all its products following changes to the definition of default for UK Mortgages on 1 January 2022. 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.

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 has been completed, or the status of the account reaches a point where policy dictates that continuing concessions are no longer appropriate.

1.5 Assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell, unless they are financial instruments which continued to be measured in accordance with IFRS 9.

1.6 Cash and cash equivalents

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

1. Material accounting policies (continued)

1.7 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 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.

1.8 Dividends paid

Dividends on ordinary shares are recognised through equity in the period in which they are paid. The Company paid a dividend of £200m to its parent company, Bank of Scotland plc, during 2023.

1.9 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.

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)

1.10 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 set out below:

Critical 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 probability of default ("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. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due which the Company now uses for all its products following changes to the definition of default for UK mortgages on 1 January 2022. In addition, other indicators of mortgage default include end-of-term payments on past due interest-only accounts and loans considered in probation due to recent arrears or forbearance, aligning the definition of Stage 3 credit-impaired for IFRS 9 to the CRD IV prudential regulatory definition of default.

b) Significant increase in credit risk

An ECL allowance equivalent to 12 months' expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition. Credit-impaired assets are transferred to Stage 3 with a lifetime expected losses allowance.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. A deterioration in the Retail Master Scale (default model that segments customer loans into a number of rating grades, each representing a defined range of default probabilities) of three grades for personal mortgages, is treated as a SICR. All financial assets are assumed to have suffered a SICR if they are more than 30 days past due.

A Stage 3 asset that is no longer credit-impaired is transferred back to Stage 2 as no cure period is applied to Stage 3. If an exposure that is classified as Stage 2 no longer meets the SICR criteria, which in some cases capture customer behaviour in previous periods, it is moved back to stage 1. 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. The Company monitors the effectiveness of SICR criteria on an ongoing basis.

c) Lifetime of an exposure

The PD of a financial asset is dependent on its expected life. The Company estimates a product's expected life using the full contractual life and taking into account behavioural factors such as early repayments and refinancing. For Loans and advances to customers, the Company has assumed the expected life for each product to be the time taken for all significant losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company. The assessment of significant increase in credit risk ("SICR") and corresponding lifetime loss, and the PD, of a financial asset designated as Stage 2, or Stage 3, is dependent on its expected life.

d) 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. In these circumstances, management applies appropriate judgemental adjustments to the ECL to ensure that the overall provision adequately reflects all material risks. 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. Post-model adjustments are not typically calculated under each distinct economic scenario used to generate ECL, but on final modelled ECL. All adjustments are reviewed quarterly and are subject to internal review and challenge, including by the Audit Committee, to ensure that amounts are appropriately calculated and specific release criteria is identified.

1. Material accounting policies (continued)

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

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

During 2022 the intensifying inflationary pressures, alongside rising interest rates within the Group's outlook created further risks not deemed to be fully captured by ECL models. These pressures played out in 2023 with households experiencing increased interest rates and living costs. These risks, whilst still present, are beginning to subside with inflation now reducing and interest rates now believed to have peaked. As a result, the judgements held in respect of inflationary and interest rate risks are at a slightly reduced level of £167k (2022: £185k). Other judgements continue to be applied for broader data and model limitations, both increasing and decreasing ECL. At 31 December 2023 judgemental adjustments resulted in net additional ECL allowances totalling £865k (2022: £1,310k).These adjustments principally comprise:

Inflationary and interest rate risk: £103k (2022: £185k)

There has been only modest evidence of credit deterioration in the UK mortgages portfolio through 2023 despite the high levels of inflation and the rising interest rate environment. Mortgage ECL models use bank base rate as a driver of predicted defaults largely capturing the stretch on customers due to increased payments, and that has contributed materially to the elevated levels of ECL at 31 December 2023. The impact is also partly mitigated from stressed affordability assessments applied at loan origination which means most customers have demonstrated the ability to absorb payment shocks.

However, there remains a potential risk to affordability from continued inflationary pressures combined with higher interest rates, and that this may not be fully captured by the Company's ECL models. The risk remains for customers maturing from low fixed rate deals, the accumulated impact on variable rate product holders, lower levels of real household income and rental cover value. Therefore a judgemental uplift in ECL has been taken in these segments of the mortgages portfolio, either where inflation is expected to present a more material risk, or where segments within the model do not recognise bank base rate as a material driver of predicted defaults.

Increase in time to repossession: £543k (2022: £518k)

Due to the Company suspending mortgage litigation activity between late-2014 and mid-2018 due to policy changes for the treatment of arrears, and as collections strategy normalises post COVID-19 pandemic, the Company's experience of possessions data on which our models rely is limited. This reflects an adjustment made to allow for an increase in the time assumed between default and repossession. A number of defaulted accounts, equivalent in scale to the estimated shortfall in possessions experienced, have had their provision coverage judgementally increased to the level of those accounts already in repossession. A further adjustment is made to accounts which have been in default for more than 24 months, with an arrears balance increase in the last six months. These accounts have their probability of possession judgmentally set to an increased level based on observed historical losses incurred on accounts that were of an equivalent status.

Asset recovery values: £nil (2022: £488k)

The low level of repossession volumes throughout 2020 to 2022 restricted the calibration of Forced Sale Discount (FSD) model parameters which uses the achieved sales price experience over the last 12 months. Over this period management partly incorporated an increasing trend in FSD rates through judgementally extending the observation period. At December 2023 the level of sales volumes observed over the past 12 months has subsequently returned to an adequate level for model calibrations to again be performed removing the need for judgemental adjustment.

Adjustment for specific segments: £110k (2022: £121k)

The Company monitors risks across specific segments of its portfolios which may not be fully captured through wider collective models. The judgement for fire safety and cladding uncertainty has been maintained. Though experience remains limited the risk is considered sufficiently material to address through judgement, given that there is evidence of assessed cases having defective cladding, or other fire safety issues.

e) Generation of multiple economic scenarios

The estimate of expected credit losses 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 Company'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 Company'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. No material changes were made to the model in 2023.

1. Material accounting policies (continued)

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

f) Base case and MES economic assumptions

The Company's base case economic scenario has been updated to reflect ongoing geopolitical developments, and further evidence of easing of inflationary pressures allowing shifts to less restrictive monetary policies globally. The Group's updated base case scenario has three conditioning assumptions: first, the wars in Ukraine and the Middle East remain geographically contained and do not lead to a major escalation in energy prices; second, China's economic stabilisation policy is effective; and third, less restrictive monetary and fiscal policy throughout this year.

Based on these assumptions and incorporating the economic data published in the fourth quarter, the Company's base case scenario is for slow expansion in GDP and a rise in the unemployment rate alongside modest changes in residential property prices. Following a reduction in inflationary pressures, UK Bank Rate is expected to be lowered during 2024. 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 2023, for which actuals may have since emerged prior to publication.

The key UK economic assumptions made by the Company are shown in the following tables across a number of measures explained below.

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 2023 covers the five years 2023 to 2027. 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 2023 is 1 January 2023. 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)

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

f) 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)

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

f) Base case and MES economic assumptions (continued)

31 December 2022	2022 %	2023 %	2024 %	2025 %	2026 %	Average %	Start to peak %	Start to trough %
Upside								
Gross domestic product	4.1	0.1	1.1	1.7	2.1	1.8	6.5	0.4
UK Bank Rate	1.94	4.95	4.98	4.63	4.58	4.22	5.39	0.75
Unemployment rate	3.5	2.8	3.0	3.3	3.4	3.2	3.8	2.8
House price growth	2.4	(2.8)	6.5	9.0	8.0	4.5	24.8	(1.1)
Base case								
Gross domestic product	4.0	(1.2)	0.5	1.6	2.1	1.4	4.3	(1.1)
UK Bank Rate	1.94	4.00	3.38	3.00	3.00	3.06	4.00	0.75
Unemployment rate	3.7	4.5	5.1	5.3	5.1	4.8	5.3	3.6
House price growth	2.0	(6.9)	1.2	2.9	4.4	0.2	6.4	(6.3)
Downside								
Gross domestic product	3.9	(3.0)	(0.5)	1.4	2.1	0.8	1.2	(3.6)
UK Bank Rate	1.94	2.93	1.39	0.98	1.04	1.65	3.62	0.75
Unemployment rate	3.8	6.3	7.5	7.6	7.2	6.5	7.7	3.6
House price growth	1.6	(11.1)	(9.8)	(5.6)	(1.5)	(5.4)	6.4	(24.3)
Severe Downside								
Gross domestic product	3.7	(5.2)	(1.0)	1.3	2.1	0.1	0.7	(6.4)
UK Bank Rate - modelled	1.94	1.41	0.20	0.13	0.14	0.76	3.50	0.12
UK Bank Rate - adjusted (1)	2.44	7.00	4.88	3.31	3.25	4.18	7.00	0.75
Unemployment rate	4.1	9.0	10.7	10.4	9.7	8.8	10.7	3.6
House price growth	1.1	(14.8)	(18.0)	(11.5)	(4.2)	(9.8)	6.4	(40.1)
Probability-weighted								
Gross domestic product	4.0	(1.8)	0.2	1.5	2.1	1.2	3.4	(1.8)
UK Bank Rate - modelled	1.94	3.70	2.94	2.59	2.60	2.76	3.89	0.75
UK Bank Rate - adjusted (1)	1.99	4.26	3.41	2.91	2.91	3.10	4.31	0.75
Unemployment rate	3.7	5.0	5.8	5.9	5.7	5.2	5.9	3.6
House price growth	1.9	(7.7)	(3.2)	0.7	2.9	(1.2)	6.4	(9.5)

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)

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

g) 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, with the severe downside scenario incorporating adjustments made to UK Bank Rate. 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. In each economic scenario the ECL for individual assessments is held constant reflecting the basis on which they are evaluated. Judgemental adjustments applied through changes to model inputs or parameters, 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 2023					31 December 2022				
ECL allowance £'000	**Probability -weighted**	**Upside**	**Base**	**Downside**	**Severe Downside**	Probability -weighted	Upside	Base	Downside	Severe Downside
Loans & Advances to customers	**4,860**	**2,470**	**3,664**	**5,551**	**13,544**	7,882	5,165	6,515	9,275	15,955
Assets held for sale	**–**	**–**	**–**	**–**	**–**	126,173	82,416	103,936	148,322	257,712

The impact of isolated changes in the UK unemployment rate and House Price Index (HPI) has 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 Group's ECL to gradual changes in these two critical economic factors. The assessment has been made against the base case with staging held flat to the reported probability-weighted view and is assessed through the direct impact on modelled ECL and only includes judgemental adjustments applied through changes to model inputs.

The table below shows the impact on the Company's ECL in respect of UK mortgages of an increase or decrease in loss given default for a 10 percentage point increase or decrease in the UK House Price Index (HPI). The increase or decrease is presented based on the adjustment phased evenly over the first 10 quarters of the base case scenario.

HPI	**31 December 2023**		31 December 2022	
ECL impact, £'000	**10pp Increase**	**10pp Decrease**	10pp Increase	10pp Decrease
Loans & Advances to customers	**(813)**	**1,191**	(1,322)	2,174
Assets held for sale	**–**	**–**	(21,033)	34,609

The table below shows the impact on the Company's ECL resulting from a 1 percentage point increase or decrease in the UK unemployment rate. The increase or decrease is presented based on the adjustment phased evenly over the first 10 quarters of the base case scenario. A more immediate increase or decrease would drive a more material ECL impact as it would be fully reflected in both 12-month and lifetime probability of defaults.

UK unemployment	**31 December 2023**		31 December 2022	
ECL impact, £'000	**1pp Increase**	**1pp Decrease**	1pp Increase	1pp Decrease
Loans & Advances to customers	**75**	**(75)**	159	(127)
Assets held for sale	**–**	**–**	2,535	(1,999)

h) 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 £53,114k (2022: £46,238k).

	2023	2022
	£'000	£'000
Income		
Fees receivable	**5,484**	95
Gain on disposal of assets	**26,394**	–
Expenses		
Interest payable to related undertakings (see note 16)	**(4,522)**	(64,450)
Management Fees (see note 16)	**(2,555)**	(9,728)

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 £63k (2022: £61k) was borne by the parent company, no non-audit services were provided to the Company by the auditor.

3. Net interest income

	2023	2022
	£'000	£'000
Interest income		
From other loans and advances	**10,368**	118,237
Interest income from parent (see note 16)	**11,588**	–
	21,956	118,237
Interest expense		
Interest expense with parent (see note 16)	**(4,522)**	(64,450)
Net interest income	**17,434**	53,787

4. Credit impairment gains

	Stage 1	Stage 2	Stage 3	Total
31 December 2023	£'000	£'000	£'000	£'000
Loans and advances to customer (see note 17)	**91**	**913**	**1,078**	**2,082**
Gain on sale of assets	–	–	**4,397**	**4,397**
Undrawn loan commitments	–	–	–	–
	91	**913**	**5,475**	**6,479**

	Stage 1	Stage 2	Stage 3	Total
31 December 2022	£'000	£'000	£'000	£'000
Loans and advances to customer (see note 17)	150	24,311	(21,894)	2,567
Undrawn loan commitments	7	5	(1)	11
	157	24,316	(21,895)	2,578

5. Other operating expenses

	2023	2022
	£'000	£'000
Management fees (see note 16)	**2,555**	9,728
Other operating expenses	**122**	494
	2,677	10,222

Management fees relate to recharges made by the Group in relation to our Group service centres.

The Company has no employees (2022: 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 (2022: £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

	2023	2022
	£'000	£'000
UK corporation tax:		
- Current tax on taxable profit for the year	**11,937**	8,345
Current tax charge	**11,937**	8,345
UK deferred tax:		
- Origination and reversal of timing differences	**545**	440
Deferred tax charge (see note 14)	**545**	440
Tax charge	**12,482**	8,785

Corporation tax is calculated at a rate of 23.5% (2022: 19%) 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 charge for the year is given below:

	2023	2022
	£'000	£'000
Profit before tax	**53,114**	46,238
Tax charge thereon at UK corporation tax rate of 23.5% (2022: 19.00%)	**12,482**	8,785
Tax charge on profit on ordinary activities	**12,482**	8,785
Effective rate	**23.50%**	19.00%

8. Dividends paid

	2023	2022
	£'000	£'000
Equity ordinary shares - Final paid: £20 (2022: £12) per £1 share	**200,000**	120,000

9. Other current assets

	2023	2022
	£'000	£'000
Current		
Amounts due from group undertakings (see note 16)	**184**	69,425
Other debtors	**1,333**	128
	1,517	69,553

All amounts are receivable within 1 year.

10. Loans and advances to customers

10.1 Loans and advances to customers - maturity

	2023	2022
	£'000	£'000
Gross loans and advances to customers	**59,845**	39,029
Less: allowances for losses on loans and advances	**(4,860)**	(7,882)
Net loans and advances to customers	**54,985**	31,147
of which:		
Due within one year	**4,491**	4,721
Due after one year	**50,494**	26,426
	54,985	31,147

Included within the “due within one year” maturity bucket there is £3,723k (2022: £3,632k) in relation to past term customers. On average these customers have a loan to value 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 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

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Balance at 1 January 2022	1,937,969	1,051,786	343,605	3,333,360
Transfers to Stage 1	118,718	(118,432)	(286)	–
Transfers to Stage 2	(372,750)	382,998	(10,248)	–
Transfers to Stage 3	(9,702)	(209,970)	219,672	–
Net decrease in loans and advances to customers	(352,780)	(211,288)	(71,420)	(635,488)
Financial assets that have been written off during the year	–	–	(11,701)	(11,701)
Gross assets transferred to assets to held for sale	(1,312,659)	(888,134)	(446,833)	(2,647,626)
Recoveries of prior advances written off	–	–	484	484
Gross loans and advances to customers at 31 December 2022	8,796	6,960	23,273	39,029
Less: allowances for losses on loans and advances	(126)	(1,983)	(5,773)	(7,882)
Net loans and advances to customers at 31 December 2022	8,670	4,977	17,500	31,147

The movement tables are compiled by comparing the position at 31 December 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 31 December.

Net increases in loans and advances 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. Assets held for sale

	2023	2022
	£'000	£'000
Assets held for sale	**–**	2,521,453

On 19 January 2023 the Company sold net loans and advances of £2,521,453k to an SPE. These were classified as Assets held for sale in 2022. The equivalent gross loans and advances to customers were £2,647,626k (note 10.2) with an impairment allowance of £126,173k (£126,144k drawn, £29k undrawn, note 17.1).

The mortgages were a group of assets which were actively marketed for sale in a single transaction and available for immediate sale. The sale was a highly probable event at the balance sheet date and as such considered a material disposal group under IFRS 5. The disposal group was presented separately from other assets on the face of the balance sheet as an asset held for sale. As the disposal group only comprised mortgages, under IFRS 5 there was no requirement to remeasure the assets and they continued to be measured under IFRS 9.

The mortgages transferred by the Company to the SPE by way of equitable assignment were derecognised. This is due to a qualifying transfer of the contractual cashflows taking place, and substantially all risks and rewards being transferred. The Company derecognised the mortgages in full in January 2023, recognising the difference between carrying value and sale price in Other Operating Income (gain of £26m) and through the impairment charge in relation to any Stage 3 impaired loans (gain of £4m).

The Company will continue to service the mortgages receiving an arms length service fee from the SPE.

12. Amounts due to group undertakings

	2023	2022
	£'000	£'000
Amounts due to group undertakings (see note 16)	**1,391**	2,403,996

Amounts due to group undertakings includes £227k in respect of cost allocations recharged from the Group.

13. Provision for liabilities and charges

	Conduct	**Commitments**	**Total**
	£'000	**£'000**	**£'000**
At 1 January 2022	2	41	43
Charge / (credit) for the year	–	(11)	(11)
Transfer to assets held for sale (see note 17.1)	–	(29)	(29)
Utilised during the year	(2)	–	(2)
At 31 December 2022	–	1	1
Charge / (credit) for the year (see note 4)	**–**	**–**	**–**
Utilised during the year	**–**	**–**	**–**
At 31 December 2023	**–**	**1**	**1**

As at 31 December 2023, no conduct provisions are held (2022: nil). A provision for commitments of £1k (2022: £1k) is held for cases where the Company is contractually obligated to advance additional funds.

14. Deferred tax asset

The movement in the Deferred tax asset is as follows:

	2023	2022
	£'000	£'000
Brought forward at 1 January	**2,861**	3,301
Charge for the year	**(545)**	(440)
Effect of change in tax rate and related impacts	**–**	–
Balance at 31 December	**2,316**	2,861

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

	2023	2022
	£'000	£'000
Other temporary differences	**(545)**	(440)

Deferred tax asset comprises:

	2023	2022
	£'000	£'000
Other temporary differences	**2,316**	2,861

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

15. Share capital

	2023	2022
	£'000	£'000
Allotted, issued and fully paid		
10,000,000 (2022: 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.

16. 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 (2022: 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 £63k (2022: £61k) 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 £74,681k (2022: £66,876k) comprises a bank account and call deposit account held with its parent undertaking Bank of Scotland plc.

Amounts due from group undertakings in 2022 relates to customer loan repayments due from the parent.

Amounts due to group undertakings in 2023 includes amounts owed on buyback of mortgages from the SPE of £1,503k which offset the customer loan repayments due of £338k. 2022 includes funding which was settled following the sale of the loans. 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.

	2023	2022
	£'000	£'000
Amounts due from group undertakings		
Amounts due from parent	**184**	69,423
Amounts due from other related parties	**–**	2
Total amounts due from group undertakings	**184**	69,425
Amounts due to group undertakings		
Amounts due to parent	**1,165**	2,403,210
Amounts due to other related parties	**226**	786
Total amounts due to group undertakings	**1,391**	2,403,996

Interest on term funding balances owed to Bank of Scotland plc is charged at SONIA plus an internal liquidity transfer pricing rate and is repayable on demand. All term funding was settled in January 2023.

Interest payable in relation to the call account owed to Bank of Scotland which was settled in January 2023 was charged at Bank Base Rate (BBR) plus 10 basis points.

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.

	2023	2022
	£'000	£'000
Interest income		
Interest income from parent - total interest income (see note 3)	**11,588**	–
Interest expense		
Interest expense to parent - total interest expense (see note 3)	**4,522**	64,450
Management fees		
Management recharge from the Group - total management fees (see note 5)	**2,555**	9,728

17. 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. Business risk is managed through regular reporting and oversight.

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

17.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk associated with Loans and advances to customers is managed through the application of strict underwriting criteria, determined by the Retail Division's credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for all losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in notes 1.4 and 1.10.

The maximum credit risk exposure of the Company in the event of other parties failing to perform their obligations is detailed below. No account is taken of any collateral held and the maximum exposure to loss is considered to be the Statement of financial position carrying amount for loans and advances to customers and commitments.

	As at 31 December 2023		As at 31 December 2022	
	Maximum Exposure	**Net Exposure**	Maximum Exposure	Net Exposure
	£'000	**£'000**	£'000	£'000
Loans and advances to customers (net)	**54,985**	**54,985**	31,147	31,147
Off balance sheet items:				
Commitments to lend	**570**	**570**	3,222	3,222
	55,555	**55,555**	34,369	34,369

The gross fair value of collateral held is £54,435k (2022: £37,848k) representing 91% of gross loans and advances to customers.

Classifications of lending incorporate expected recovery levels for mortgages, as well as probabilities of default assessed using internal rating models. Good quality lending includes the lower assessed default probabilities and all loans with low expected losses in the event of default, with other categories reflecting progressively higher risks and lower expected recoveries.

		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**

17. Financial risk management (continued)

17.1 Credit risk (continued)

Credit risk management (continued)

		Gross loans and advances to customers - Loan Quality			
At 31 December 2022		Stage 1	Stage 2	Stage 3	Total
	PD Range	£'000	£'000	£'000	£'000
Retail					
RMS 1-6	0.00–4.50%	8,750	3,095	–	11,845
RMS 7–9	4.51–14.00%	46	1,146	–	1,192
RMS 10	14.01–20.00%	–	334	–	334
RMS 11–13	20.01–99.99%	–	2,385	–	2,385
RMS 14	100%	–	–	23,273	23,273
Total		8,796	6,960	23,273	39,029

	Stage 1	Stage 2	Stage 3	Total
Loan Commitments	**£'000**	**£'000**	**£'000**	**£'000**
At 31 December 2023	**369**	**174**	**27**	**570**
At 31 December 2022	1,409	1,759	54	3,222

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 (2022: £nil).

17. Financial risk management (continued)

17.1 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 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**

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2023 and 31 December 2023	**1**	**–**	**–**	**1**

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 2022	1,682	61,152	81,289	144,123
Transfers to Stage 1	3,111	(3,095)	(16)	–
Transfers to Stage 2	(922)	2,350	(1,428)	–
Transfers to Stage 3	(24)	(15,464)	15,488	–
Impact of transfers between stages	(2,817)	8,688	9,821	15,692
	(652)	(7,521)	23,865	15,692
Other items credited to the income statement	502	(16,790)	(1,971)	(18,259)
Credit for the year (including recoveries) (see note 4)	(150)	(24,311)	21,894	(2,567)
Advances written off	–	–	(11,701)	(11,701)
Recoveries of prior advances written off	–	–	484	484
Discount unwind	–	–	3,687	3,687
Transferred to assets held for sale	(1,406)	(34,858)	(89,880)	(126,144)
At 31 December 2022	126	1,983	5,773	7,882

17. Financial risk management (continued)

17.1 Credit risk (continued)

Credit risk management (continued)

In respect of undrawn balances	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
1 January 2022	13	26	2	41
Transfers to Stage 1	1	(1)	–	–
Transfers to Stage 2	(3)	3	–	–
Transfers to Stage 3	–	(3)	3	–
Impact of transfers between stages	(1)	1	(1)	(1)
	(3)	–	2	(1)
Other items credited to income statement	(4)	(5)	(1)	(10)
Charge / (release) to the income statement (see note 4)	(7)	(5)	1	(11)
Transfer to assets held for sale	(5)	(21)	(3)	(29)
At 31 December 2022	1	–	–	1

Loans and advances to customers are held at amortised cost.

Analysis of loan to value

An analysis by loan-to-value ratio of the Company's 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, after making allowance for indexation error and dilapidations.

	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'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**

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Less than 60%	7,645	5,638	14,807	28,090
60% to 70%	918	761	1,666	3,345
70% to 80%	142	218	483	843
80% to 90%	57	72	1,101	1,230
90% to 100%	34	142	835	1,011
Greater than 100%	—	129	4,381	4,510
At 31 December 2022	8,796	6,960	23,273	39,029

Repossessed collateral

During 2023 the Company obtained assets with a carrying value of £273k (2022: £14,086k) 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.

17. Financial risk management (continued)

17.2 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 risk is 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 2023	**Up to 1 month**	**1-12 months**	**1-5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Borrowed funds (see note 12)	**1,391**	–	–	**1,391**
Contractual interest payments	–	–	–	–

As at 31 December 2022	Up to 1 month	1-12 months	1-5 years	Total
	£'000	£'000	£'000	£'000
Borrowed funds (see note 12)	1,853,982	400,014	150,000	2,403,996
Contractual interest payments	—	7,339	5,730	13,069

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.

17.3 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.

17. Financial risk management (continued)

17.3 Interest rate risk (continued)

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% (2022: 0.5%) increase or decrease is used to assess the possible change in Interest expense. This rate is appropriate as rates have increased by 1.8% through 2023 however stabilised towards the end of the year. 2022 excludes amounts in respect of the disposal group (see note 11).

	-50 bps	Profit before taxation	+50 bps
	£'000	£'000	£'000
2023	**52,867**	**53,114**	**53,361**
2022	447	662	878

	-50 bps	Equity	+50 bps
	£'000	£'000	£'000
2023	**119,923**	**120,170**	**120,417**
2022	3,787	4,003	4,218

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
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**
2022	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers	4,721	1,075	8,146	17,205	31,147
Interest bearing loans and borrowings	2,253,996	150,000	–	–	2,403,996

17.4 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.

17. Financial risk management (continued)

17.4 Fair values of financial assets and liabilities (continued)

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, Assets held for sale, Bank borrowings and Amounts due to group undertakings are all held at amortised cost.

As at 31 December 2023, the carrying amount of loans and advances to customers is £54,985k (2022: £31,147k) and a fair value £54,435k (2022: £34,555k). The fair value is classified as level 3 due to significant unobservable inputs used in the valuation models.

Assets held for sale with a gross value of £2,647,626k (net £2,521,453k) at 31 December 2022 were valued at £2,625,534k on the 19th January 2023 and sold for £2,656,324k.

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

17.5. 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 shareholders, return capital to shareholders, issue new shares, or sell assets.

The managed capital of the Company constitutes Total equity. This consists entirely of issued Share capital and retained profits. As at 31 December 2023, total managed capital was £120,170k (2022: £279,538k).

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 2023.

18. Contingent liabilities and capital commitments

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 2013, HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded its enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it appealed to the First Tier Tax Tribunal, with a hearing having taken place in May 2023. If the final determination of the matter by the judicial process is that HMRC's position is correct, management believes that this would result in an increase in current tax liabilities for the company of approximately £31,055k (including interest). The Group, following conclusion of the hearing and having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

Contingent liabilities

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas. 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 Statement of financial position 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 situation, and no provisions are held in relation to such matters.

19. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

20. Future developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2024, including IFRS 16 Lease liability in a sale and leaseback, IAS 1 Non-current liabilities with covenants, and IAS 1 Classification of liabilities as current or non-current. These amendments are not expected to have a significant impact on the Group.

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 Group Secretariat, Lloyds Banking Group, 25 Gresham Street, London, EC2V 7HN. The Group's financial statements may be downloaded via www.lloydsbankinggroup.com.

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 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) 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 IFRSs 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.

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

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/auditors responsibilities. 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. These 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.

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 Financial Conduct Authority (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.

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
22 April 2024