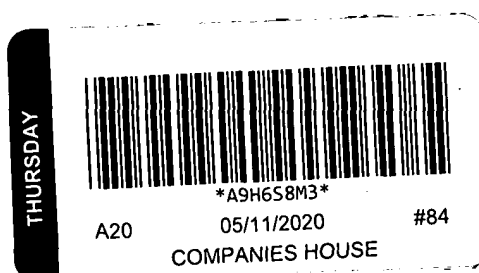


BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC

Annual report and financial statements
for the year ended 31 December 2019



DIRECTORS AND COMPANY INFORMATION

Directors

Emma Louise Lawrence
Johan Robin Charles Von Schmidt Auf Altenstadt

Company secretary

Alyson Elizabeth Mulholland

Registered office

Trinity Road
Halifax
HX1 2RG

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Strategic report

For the year ended 31 December 2019

The directors present their Strategic report and the audited financial statements for BOS (Shared Appreciation Mortgages) No.1 plc ("the Company") for the year ended 31 December 2019.

Principal activities

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

The activities of the Company are conducted primarily by reference to a series of transaction documents under the offering circular for BOS (Shared Appreciation Mortgages) No.1 PLC (the "Programme Documentation").

Movements in the mortgage book are disclosed in the notes to the financial statements.

Business structure

The Company is a subsidiary undertaking of Bank of Scotland plc ("BOS") and ultimately Lloyds Banking Group plc ("LBG").

Business review and performance

No new mortgages were acquired or originated by the Company in the year and no new Notes were issued.

The loss for the financial year amounted to £156,768 (2018: profit of £5,458). Total equity as at 31 December 2019 amounted to £544,321 (2018: £701,089).

The principal asset in the Company is a mortgage portfolio which is subject to an impairment review. The mortgage portfolio is subject to the economic factors relating to the housing market (see "Credit risk" below). However, these factors did not have any significant bearing on the Company's arrears levels (see note 13).

The underlying profits are determined by a margin earned between the interest received on the mortgage portfolio and the interest paid to the Note holders.

Key performance indicators

The board is responsible for assessing the risk of irregularities, whether caused by fraud or error in the financial reporting, and ensuring that processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting.

The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual cash flows against expected cash flows on the Notes.

In order to assist the directors to mitigate key risks, there is a board meeting held quarterly with programme managers. This meeting analyses and discusses the trends for the quarter and identifies any issues or required changes. Any such issues are then reported, further discussed, and collectively agreed. There were no significant issues impacting the Company in the current or previous year.

The Company has made all necessary payments on the Notes in accordance with the scheduled repayment dates for the year ended 31 December 2019.

Risk management

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation". The Company's financial instruments comprise a mortgage portfolio with an embedded derivative (Financial assets held at fair value through profit or loss ("Financial assets at FVTPL")), cash liquid resources, interest-bearing loans and borrowings with an embedded derivative (Financial liabilities designated at fair value through profit or loss ("Financial liabilities at FVTPL")) and various other receivables and payables that arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments is undertaken.

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

Credit risk

Credit risk arises on the individual loans within the mortgage loan portfolio which are in turn secured on the underlying UK residential properties. The performance of these loans is therefore influenced by the economic background and the UK housing market. However, with a maximum loan-to-value of the original advances being 75% and with the mortgage portfolio having a weighted average current loan-to-value of 16.1% as at 31 December 2019, the credit exposure is considered to be low.

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

The terms of the mortgage portfolio agreement given by BOS in respect of the mortgages require BOS to repurchase any mortgage which is found to be in breach of warranty. BOS will repurchase any mortgages that are found or held not to be valid, binding and enforceable. There have been no such repurchases in the year.

In such an event the total value of the outstanding loan and any accrued interest will be covered by BOS, the Note holder will not receive the benefit of any future payments of appreciation amounts or partial repayment of appreciation amounts in respect of the mortgages repurchased.

Market risk

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

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

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

Strategic report (continued)

For the year ended 31 December 2019

Risk management (continued)

Interest rate risk

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

The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar.

Liquidity risk

The Company has an unconditional and irrevocable 364-day revolving letter of credit provided by BOS. The letter of credit is for a maximum aggregate principal amount of £890,000 to assist the Company should it not be able to meet its obligations under the Notes. The reliance on this facility is therefore dependent upon the creditworthiness of BOS, which currently has a long-term rating from Standard and Poor's (S&P) of A+ (2018: S&P long-term rating: A+). The Company has not drawn on the Letter of Credit since inception.

Operational risk

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

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

Section 172(1) of the Companies Act 2006

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2019, the directors provide the following statement to confirm that they have had regard to the matters set out in Section 172(1) of the Act, when performing their duty to promote the success of the Company under Section 172(1).

The Company is a wholly owned subsidiary of BOS, and ultimately LBG. Consequently the directors further acknowledge that the activities taken with regard to the Company's strategy have been closely aligned to that of LBG, which is to achieve both long-term and sustainable returns, central to which is ensuring engagement with stakeholders, and considering in all instances the long-term implications of decisions made, acting at all times to maintain the highest possible standards of conduct. Further information on LBG's strategy around Section 172(1) can be found in the LBG annual report and accounts for 2019 on pages 20 to 27. Further details of how to obtain access to the LBG annual report and accounts for 2019 can be found in note 18.

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

In accordance with s.426B of the Companies Act 2006 the above paragraph is available at the following website address
<https://www.lloydsbankinggroup.com/investors/financial-performance>

Key stakeholders

The directors confirm that they have regularly engaged with all key stakeholders of the Company, as well as confirm that they have treated all key stakeholders fairly in their activities, to ensure that there has been appropriate use of knowledge and expertise when making business decisions around the long-term strategy of the Company and its activities during the year.

Customers

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

Regulators

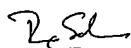
The Company and its directors have a strong, open and transparent relationship with relevant regulators and other authorities, and liaise regularly both directly and as part of LBG to ensure the business is aligned to the evolving regulatory framework. Key areas of focus have included ensuring robust prudential standards and supervision arrangements are in place, ensuring the fair treatment of customers, adapting to changes in regulatory requirements, recovery and resolution, and preparations for the UK's withdrawal from the European Union.

The approach of LBG, including that of the Company, to managing regulatory change is discussed further on page 11 of the LBG annual report and accounts for 2019.

Communities and the environment

The directors acknowledge that they have performed all of their duties as directors in accordance with the strategy of LBG around the Company's impact on its communities and the environment, where further details can be found within the LBG annual report and accounts for 2019.

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



Johan Robin Charles Von Schmidt Auf Altenstadt
Director

Trinity Road
Halifax
HX1 2RG

DATE: 29th October 2020

Directors' report

For the year ended 31 December 2019

The directors present their annual report and the audited financial statements for BOS (Shared Appreciation Mortgages) No.1 plc (the "Company") for the year ended 31 December 2019.

Directors

The directors of the Company during the year, and up to the date of signing the financial statements, were:

Emma Louise Lawrence
Johan Robin Charles Von Schmidt Auf Altenstadt (appointed 26th March 2019)
Janet Turner (resigned 26th March 2019)

Company Secretary

The following change took place during the year:

Alyson Elizabeth Mulholland (appointed 11 November 2019)
David Dermot Hennessey (resigned 11 November 2019)

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmations

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

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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

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

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company, (including former directors who retired during the year), a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements (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 contract of indemnity during that period of service. The indemnity remains in force for the duration of a director's period of office. The deed indemnifies the directors to the maximum extent permitted by law. The deed for existing directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Future developments

The Company's business will continue to unwind over the life of the mortgages issued as no further advances will be made. Cash is continuing to be collected. A review of the business can be found in the Strategic report.

The directors' assessment suggests that performance of the mortgage portfolio should continue to be satisfactory. Whilst consensus suggests that interest rates will continue to remain low, as will unemployment rates, inflationary pressures and higher prices caused by Sterling weakness may put further pressure on household incomes, which may feed through further increases in mortgage arrears. The situation will be monitored and the Servicer, on behalf of the Company, will continue to adopt appropriate forbearance measures.

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and on-going challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. There also remains the possibility of a further referendum on Scottish independence. The Company is part of the wider Lloyds Banking Group, and, it is at that level that consideration of the many potential implications this may have has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications. No impact is expected for the Company.

The directors are aware of the ongoing process to replace LIBOR and will assess the impact at a future date once there is more market clarity on the timing and nature of the replacement.

Directors' report (continued)

For the year ended 31 December 2019

Future developments (continued)

There has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. In view of its currently evolving nature, the directors are unable to estimate its financial and other effects. The directors have assessed this to be a non-adjusting post balance sheet event. It is also deemed to have no impact on our going concern assessment.

From 25 March 2020 mortgage borrowers impacted financially by Covid-19 can request a payment holiday for up to three months until 31 October 2020. Where borrowers have made a successful application, they are not considered to be in a payment shortfall and as such will not be reported as delinquent. Payment holidays will reduce the revenue and principal received, however, liquidity remains available through existing structural mechanisms and note principal payments are modest in the next 12 months.

Dividends

The directors did not recommend the payment of a dividend during the year ended 31 December 2019 (2018: £Nil).

Corporate governance

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

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

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

From the perspective of the Company, the daily operational internal controls and risk management systems are integrated with those of LBG, the Company's ultimate controlling party. Therefore additional information may be found in section "Internal Control" of the 2019 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2019 Annual Report of LBG can be found in note 20.

Risk management

Further details on the risks facing the Company and how these risks are managed are detailed in the Strategic report.

Employees

The Company had no employees during the year ended 31 December 2019 (2018: Nil).

None of the directors received any emoluments from the Company in the current or previous year.

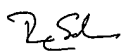
Independent auditors

The company regarded by the directors as the ultimate controlling party is Lloyds Banking Group plc ("LBG"). The Company's directors give the LBG audit committee the authority to appoint the auditors of the Company. PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

Statement of going concern

The Company has continued to perform in line with the programme documentation. 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.

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



Johan Robin Charles Von Schmidt Auf Altenstadt
Director

Trinity Road
Halifax
HX1 2RG

DATE: 29th October 2020

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019 £	2018 £
Interest receivable and similar income	2	1,043	1,653
Net interest income on financial assets and liabilities at fair value through profit or loss	3	75,843	79,804
Net fair value movements on financial assets and liabilities at fair value through profit or loss	4	(343,865)	(44,846)
Other operating income		106,595	250
Operating expenses	5	(33,157)	(30,122)
(Loss) / profit before tax		(193,541)	6,739
Taxation	6	36,773	(1,281)
(Loss) / profit for the financial year / total comprehensive (expense) / income attributable to owner		(156,768)	5,458

The (loss) / profit shown above is derived from continuing operations. The Company operates in a single business segment and all of the Company's activities are in the UK.

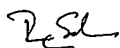
The accompanying notes on pages 10 to 18 are an integral part of the financial statements.

Balance sheet

As at 31 December 2019

	Note	2019 £	2018 £
Assets			
Cash and cash equivalents	7	707,431	310,724
Financial assets held at fair value through profit or loss	8	17,557,507	18,987,419
Current tax asset	6	31,660	-
Total assets		18,296,598	19,298,143
Equity and liabilities			
Bank overdraft	7	-	60
Financial liabilities designated at fair value through profit or loss	9	17,426,771	18,512,817
Deferred tax liability	10	36,729	41,842
Current tax liability	6	-	6,393
Trade and other payables	11	288,777	35,942
Total liabilities		17,752,277	18,597,054
Share capital	12	50,001	50,001
Retained earnings		494,320	651,088
Total equity		544,321	701,089
Total equity and liabilities		18,296,598	19,298,143

The financial statements on pages 6 to 18 were approved by the board of directors on 29th October 2020 and were signed on behalf of the board by:



Johan Robin Charles Von Schmidt Auf Altenstadt
Director

The accompanying notes on pages 10 to 18 are an integral part of the financial statements

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2019	50,001	651,088	701,089
Loss for the financial year / total comprehensive expense for the year	-	(156,768)	(156,768)
Balance at 31 December 2019	50,001	494,320	544,321

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2018	50,001	645,630	695,631
Profit for the financial year / total comprehensive income for the year	-	5,458	5,458
Balance at 31 December 2018	50,001	651,088	701,089

The accompanying notes on pages 10 to 18 are an integral part of the financial statements.

Cash flow statement

For the year ended 31 December 2019

	Note	2019 £	2018 £
Operating activities			
BOS administration fees paid		(7,226)	(8,072)
External audit fees paid		-	(1,200)
Administration expenses paid		(11,531)	(7,650)
Tax Paid		(6,393)	(11,252)
Net cash flows used in operating activities		(25,150)	(28,174)
Investing activities			
Repayments on mortgage portfolio		300,349	795,033
Income earned on mortgage portfolio		344,478	305,326
Shared appreciation rights received		679,905	1,479,241
Bank interest received		1,043	1,653
Net cash flows generated from investing activities		1,325,775	2,581,253
Financing activities			
Repayment of borrowings		(228,559)	(824,704)
Interest paid on borrowings		(202,469)	(228,891)
Shared appreciation rights paid to Note holders		(472,830)	(1,526,672)
Net cash flows used in investing financing activities		(903,858)	(2,580,267)
Net increase/(decrease) in cash and cash equivalents		396,767	(27,188)
Cash and cash equivalents at start of year		310,664	337,852
Cash and cash equivalents at end of year	7	707,431	310,664

The Cash flow statement is presented using the direct method.

The accompanying notes on pages 10 to 18 are an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 December 2019

1. Significant accounting policies

The Company is a public limited liability company domiciled in England and incorporated in the United Kingdom under the Companies Act 2006.

(a) Basis of preparation

The financial statements for the year ended 31 December 2019 have been prepared in accordance with European Union adopted International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRS IC). The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the board. All accounting policies have been consistently applied in the financial statements.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRSs.

There are no accounting pronouncements that will be relevant to the Company, but which were not effective at 31 December 2019 see note 16.

The Company is reliant on funding provided by BOS which is a subsidiary of LBG. LBG has provided letters of support dated 19 February 2020 stating that in its capacity as the indirect parent of BOS, it will continue to provide access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the directors of the Company are satisfied that the financial statements have been prepared on a going concern basis. The Company's reserves are sufficient to cover the loss in the current year and for the foreseeable future.

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

(b) Interest income and interest payable

Interest income from and interest payable on financial assets at FVTPL and financial liabilities at FVTPL have been calculated using the effective interest method. 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 or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument.

(c) Taxation

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

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit or loss for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that have been 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 Her Majesty's Revenue and Customs ("HMRC") or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each Balance sheet date, and the provisions are re-measured as required to reflect current information.

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

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

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.

(d) Financial instruments

The Company's financial instruments comprise financial assets held at fair value through profit or loss (a mortgage portfolio with an embedded derivative), cash and liquid resources, financial liabilities designated at fair value through profit or loss (loans and borrowings with an embedded derivative) and various other receivables and payables that arise directly from its operations.

The main purpose of these financial instruments is to raise finance for the Company's operations. These financial instruments are classified in accordance with the principles of IFRS 9 as described above.

(d)(i) Mortgage portfolio

The Company's mortgage portfolio comprises mortgage loans with no fixed maturity date. The individual mortgage loans terminate on the earlier of the date of sale of the property or the death of the mortgage account holder.

Under IFRS9, the mortgage portfolio can only be measured at amortised cost if it meets two conditions: (1) where the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The mortgage portfolio does not meet the second condition as the cashflows will include non-interest consideration in the form of shared appreciation on the valuation of the underlying property which the mortgage portfolio is secured upon and the timing of this cashflow is not specified due to the mortgage loans having no fixed maturity date. The mortgage portfolio is consequently classified as non-trading assets mandatorily at fair value through profit or loss loans and advances to customers (including amounts for the shared appreciation referred to in d(iii) below).

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)**(d) Financial instruments (continued)****(d)(ii) Cash and cash equivalents**

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

These bank accounts are classified as "loans and receivables" in accordance with IFRS 9 and income is being recognised using the effective interest method.

(d)(iii) Embedded derivatives

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

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

The economic characteristics and risks of the shared appreciation rights receivable and payable are not viewed as being closely related to those arising on the mortgages and Notes, respectively. The shared appreciation rights receivable and payable have therefore been valued separately from the mortgages and Notes using current HPI. There is uncertainty regarding the timing of any future shared appreciation. As a borrower could sell immediately the directors consider that spot price is the best estimate of shared appreciation and therefore current HPI is used.

The resulting fair value movements of these embedded derivatives are recorded in net fair value gains and losses on derivatives in the Statement of comprehensive income and the embedded derivatives are within financial assets at FVTPL and financial liabilities at FVTPL respectively, on the face of the Balance sheet. The host instruments are valued at fair value, in accordance with IFRS 9, as noted above in (d)(i).

(e) Critical accounting judgements and estimates

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

Fair value of financial assets and financial liabilities

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

The fair values of the embedded derivative and the host contract have been calculated by discounting expected cash flows at an appropriate market rate for a regular standard variable mortgage product. In addition, the fair value includes an estimate of future HPI growth using the Group's own economic growth assumptions, together with an estimated dilapidation rate which has been determined based upon actual impact to date from previous redemption activity. The fair value calculation also factors in mortality rates which are used by the Group's insurance division and sourced from industry wide metrics, together with an estimate for customers moving into long term care, based on experience to date, which triggers earlier redemptions on the mortgage loans than would be expected. The embedded derivative and the host contract are therefore reported within financial assets at FVTPL and financial liabilities at FVTPL, respectively, for the mortgage assets and the Note liabilities. Further information on the accounting policies are discussed in notes 1(d)(i) and 1(d)(iii).

There are no other derivative financial instruments.

(f) Fees and commissions

Fees and commissions receivable for the continuing servicing of loans and receivables are recognised on the basis of services provided. Other fees are recognised when receivable.

(g) Dividends

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

(h) Trade and other payables

Trade and other payables are stated at cost.

(i) Capital management

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

2. Interest receivable and similar income

	2019 £	2018 £
Bank interest receivable	1,043	1,653

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

	2019 £	2018 £
Interest receivable on financial assets at FVTPL	277,238	305,753
Interest payable on Financial liabilities FVTPL	(201,395)	(225,949)
	<u>75,843</u>	<u>79,804</u>

Notes to the financial statements (continued)

For the year ended 31 December 2019

4. Net fair value movements on financial assets and liabilities at fair value through profit or loss

	2019 £	2018 £
Fair value movement on financial assets at FVTPL	(1,429,911)	1,262,117
Fair value movement on financial liabilities at FVTPL	1,086,046	(1,306,963)
	<u>(343,865)</u>	<u>(44,846)</u>

5. Operating expenses

	2019 £	2018 £
Intercompany fees	7,226	8,072
Administration fees	11,531	7,650
Audit fees	14,400	14,400
	<u>33,157</u>	<u>30,122</u>

The Company has no employees (2018: none) and none of the directors received any emoluments from the Company in the current or previous year.

Audit fees relate to the statutory audit. There are no fees payable to the auditors and their associates for services other than the statutory audit (2018: £nil).

The audit fee for 2019, net of VAT, was £12,000 (2018: £12,000).

6. Taxation

	2019 £	2018 £
Current tax		
Corporation tax (credit)/charge for the year	(31,660)	6,393
	<u>(31,660)</u>	<u>6,393</u>
Current tax (credit)/charge for the year		
	(31,660)	6,393
Deferred tax		
Origination and reversal of timing differences	(5,113)	(5,112)
	<u>(5,113)</u>	<u>(5,112)</u>
Deferred tax credit for the year		
	(5,113)	(5,112)
	<u>(5,113)</u>	<u>(5,112)</u>
Total tax (credit)/charge for the year	<u>(36,773)</u>	<u>1,281</u>
Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit for the year.		
	2019 £	2018 £
Reconciliation of effective tax rate		
The tax assessed for the year is equal to (2018: equal to) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)		
(Loss)/profit before tax	(193,541)	6,739
	<u>(193,541)</u>	<u>6,739</u>
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 19.00% (2018: 19%)	(36,773)	1,281
	<u>(36,773)</u>	<u>1,281</u>
Total tax (credit)/charge for the year	<u>(36,773)</u>	<u>1,281</u>

The current tax asset of £31,660 (2018: current tax liability of £6,393) represents the net amount of income tax (recoverable)/payable in respect of the current year.

Cash and cash equivalents	Note	2019 £	2018 £
Bank accounts		707,431	310,724
Bank overdraft		-	(60)
Cash and cash equivalents per the Cash flow statement		707,431	310,664

8. Financial assets held at fair value through profit or loss

		2019 £	2018 £
As at 1 January		18,987,419	22,250,903
Mortgage redemptions during the year	4	(301,000)	(798,611)
Fair value adjustment	4	(951,579)	1,262,117
Mortgage portfolio as at 31 December		17,734,840	22,714,409
Shared appreciation receivable movements in the year	4	(177,333)	(3,726,990)
At 31 December		17,557,507	18,987,419

9. Financial liabilities designated at fair value through profit or loss

		2019	2018
		£	£
As at 1 January		18,512,817	21,739,786
Accrued interest	4	(1,074)	(2,942)
Note repayments	4	(301,000)	(804,000)
Fair value adjustment	4	(606,639)	1,306,963
Shared appreciation payable movements in the year	4	(177,333)	(3,726,990)
As at 31 December		17,426,771	18,512,817

	2019 £	2018 £
Non-current liabilities		
Notes	5,648,485	6,556,125
Shared appreciation payable	11,761,668	11,939,001
	17,410,153	18,495,126
Current liabilities		
Accrued interest payable to Note holders	16,618	17,691
	17,426,771	18,512,817
At 31 December		

13

Notes to the financial statements (continued)

For the year ended 31 December 2019

9. Financial liabilities designated at fair value through profit or loss (continued)

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

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

The 2018 comparative numbers have been re-presented for the separate presentation of movement in shared appreciation. The directors believe this presentation provides greater clarity to the users of the financial statements.

10. Deferred tax liability

	2019 £	2018 £
At 1 January	41,842	46,954
Credit for the year	(5,113)	(5,112)
At 31 December	36,729	41,842
The deferred tax credit in the period comprises the following temporary differences:		
Other temporary differences	(5,113)	(5,112)
The Deferred tax liability comprises:		
Other temporary differences	36,729	41,842

The Deferred tax liability was recognised for the fair value adjustments that arose on transition to IFRS 9 on 1 January 2018 and is being amortised over a period of 10 years from this date to the Statement of comprehensive income.

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. Within the March 2020 budget, the UK government stated its intention to maintain the corporation tax rate at 19 per cent on 1 April 2020. The effect of this proposed rate change on the Company's deferred tax balances has been assessed and is not significant.

11. Trade and other payables

	2019 £	2018 £
Shared appreciation payable	207,169	-
Accruals and deferred income	81,608	35,942
	288,777	35,942

All amounts are due within 12 months of the Balance sheet date.

12. Share capital

	2019 £	2018 £
Authorised		
50,000 (2018: 50,000) ordinary shares of £1 each	50,000	50,000
1 (2018: 1) deferred share of £1	1	1
Allotted and paid up		
50,000 (2018: 50,000) ordinary shares of £1 each	50,000	50,000
1 (2018: 1) deferred share of £1	1	1

The Company is a directly held subsidiary undertaking of BOS.

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

The holder of the ordinary shares is entitled to receive dividends as declared from time to time.

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

The deferred share carries the right to receive notice of all general meetings of the Company but does not carry the right to attend, speak or vote at a general meeting unless a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holder of the deferred share, or for the winding up or administration of the Company under the Insolvency Act 1986, or for the entry by the Company with any other party into a merger, reconstruction, scheme of arrangement or amalgamation of or affecting the Company, in any of which cases such holder shall have the right to attend such general meeting and shall be entitled to speak and vote. Whenever the holder of the deferred share is entitled to vote at a general meeting, such holder shall have one vote and on a poll such number of votes as is equal to 34% of the number of votes attached to all other issued shares of the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2019

13. Management of risk

The principal risks arising from the Company's financial instruments are credit risk and interest rate risk. However, considerable resource is given to maintaining effective controls to manage, measure and mitigate these risks. Further detailed analysis of the risks facing the Company in relation to its financial instruments is provided below.

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented.

13(a) Credit risk

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

Credit risk arises on the individual loans within the mortgage portfolio which are in turn secured on the underlying UK residential properties. The performance of these loans is therefore influenced by the economic background and the UK housing market. Mortgage loans are no longer offered by the Company but the maximum loan-to-value of the original advances was 75% and the credit risk is considered to be low.

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

The terms of the mortgage portfolio agreement given by BOS in respect of the mortgages require BOS to repurchase any mortgage which is found to be in breach of warranty. BOS will repurchase any mortgages that are found or held not to be valid, binding and enforceable.

Although in such an event the total value of the outstanding loan and any accrued interest will be covered by BOS, the Note holder will not receive the benefit of any future payments of appreciation amounts or partial repayment of appreciation amounts in respect of the mortgages repurchased. In terms of the shared appreciation, in accordance with the Programme Documentation, amounts received by the Company from the borrower are required to be paid over to the Note holders.

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

The total value of interest arrears at 31 December 2019 was £Nil (2018: £11,232). All accounts in the mortgage portfolio had a maximum loan-to-value of 75% and those accounts in interest arrears had a current loan-to-value ratio of less than 40% in the previous year. Credit risk is considered to be low. There are no properties in possession or bad debts within the Company (2018: none).

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

	Note	Carrying amount 2019 £	Maximum exposure 2019 £	Carrying amount 2018 £	Maximum exposure 2018 £
Assets held at amortised cost:					
Cash and cash equivalents	7	707,431	707,431	310,724	310,724
Assets held at fair value:					
Financial assets held at fair value through profit or loss	8	17,557,507	17,557,507	18,987,419	18,987,419
Total Assets		18,264,938	18,264,938	19,298,143	19,298,143

13(b) Market risk

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

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

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

13(c) Interest rate risk

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

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

At 31 December 2019, if interest rates had been 100 basis points higher or lower with all other variables held constant, the net effect on the Company's income statement would be insignificant. All items remain unaffected by interest rate changes except for interest earned on bank accounts but a 100 basis points change would not give rise to a significant impact on bank interest.

Notes to the financial statements (continued)

For the year ended 31 December 2019

13. Management of risk (continued)**13(d) Liquidity risk**

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

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

The Company has an unconditional and irrevocable 364-day revolving letter of credit provided by BOS. The letter of credit is for a maximum aggregate principal amount of £890,000 to assist the Company should it not be able to meet its obligations under the Notes. The reliance on this facility is therefore dependent upon the creditworthiness of BOS, which currently has a long term rating from Standard and Poor's (S&P) of A+ (2018: S&P long-term rating: A+). The Company has not drawn on the letter of credit since inception.

The liquidity tables reflect the undiscounted cash payments which will fall due if the structure continues until the earliest contractual maturity date as set out in the Programme Documentation. The Note repayment profile mirrors the repayment of the mortgages, and based on current modelling assumptions, it is not anticipated that any mortgages will still be outstanding beyond the step-up date of August 2027.

2019	Carrying amount	Contractual repayment value	Not later than one month	Later than one month but not later than three months	Later than three months but not later than one year	Later than one year and not later than five years	Later than five years
	£	£	£	£	£	£	£
Principal							
Financial liabilities designated at fair value through profit or loss	17,410,153	17,410,153	-	-	-	-	17,410,153
Trade and other payables	288,777	288,777	-	288,777	-	-	-
Interest payable							
Interest payable on Notes	16,618	2,194,924	40,298	38,998	178,090	949,595	987,943
	17,715,548	19,893,854	40,298	327,775	178,090	949,595	18,398,096
2018	Carrying amount	Contractual repayment value	Not later than one month	Later than one month but not later than three months	Later than three months but not later than one year	Later than one year and not later than five years	Later than five years
	£	£	£	£	£	£	£
Principal							
Financial liabilities designated at fair value through profit or loss	18,495,126	18,495,126	-	-	-	-	18,495,126
Trade and other payables	35,942	35,942	-	35,942	-	-	-
Bank overdraft	60	60	60	-	-	-	-
Interest payable							
Interest payable on Notes	17,691	2,546,866	46,773	44,510	206,707	1,102,183	1,146,693
	18,548,819	21,077,994	46,833	80,452	206,707	1,102,183	19,641,819

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

13. Management of risk (continued)**13(e) Fair values**

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

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

Financial assets and liabilities carried at fair value

	2019 £ Level 3	2018 £ Level 3
Financial assets held at fair value through profit or loss	17,557,507	18,987,419
Financial liabilities designated at fair value through profit or loss	(17,426,771)	(18,512,817)
	130,736	474,602

Shared appreciation rights

The shared appreciation rights receivable and mortgage portfolio as a whole (financial assets at FVTPL), and shared appreciation rights payable (financial liabilities at FVTPL) are measured at fair value in the prior year. The fair value has been calculated by discounting expected cash flows at an appropriate market rate, together with a dilapidations rate based on previous experience of redemptions. For this reason, in accordance with IFRS 7 Financial Instruments: Disclosures ("IFRS 7"), the fair value measurement is considered to be Level 3 in the fair value hierarchy.

Financial assets and liabilities carried at amortised cost

Trade and other payables are recognised at cost. The fair value of these liabilities is considered to be a close approximation to cost due to the short term nature of these liabilities.

14. Contingent liabilities

LBG provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where HMRC adopt a different interpretation and application of tax law which might lead to additional tax. LBG 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 LBG that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £54,000 (including interest). LBG does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

In addition, during the ordinary course of business the Company is subject to other complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf customers as well as legal and regulatory reviews, challenges, investigations and enforcement actions. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Company incurring a liability.

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

15. Related parties

The Company is a subsidiary undertaking of BOS and ultimately LBG.

The Company receives bank interest from BOS on its bank deposits. BOS administers the mortgage portfolio on behalf of the Company, for which quarterly service fees are paid. No dividend was paid during the year (2018: £nil).

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

	Parent and its subsidiary undertakings 2019 £	Parent and its subsidiary undertakings 2018 £
Statement of comprehensive income		
Interest receivable and similar income	1,043	1,653
Operating expenses	(7,226)	(8,072)
Balance sheet		
Assets		
Cash and cash equivalents	707,431	310,724
Liabilities		
Bank overdraft	-	(60)

Notes to the financial statements (continued)

For the year ended 31 December 2019

16. Future accounting pronouncements

The following pronouncement is not applicable for the year ending 31 December 2019 and has not been applied in preparing these financial statements.

Minor amendments to other accounting standards

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Company.

17. Post balance sheet events

Since the Balance sheet date there has been a global pandemic from the outbreak of Coronavirus which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the directors are unable to estimate its financial and other effects.

From 25 March 2020 mortgage borrowers impacted financially by Covid-19 can request a payment holiday for up to three months until 31 October 2020. Where borrowers have made a successful application, they are not considered to be in a payment shortfall and as such will not be reported as delinquent. Payment holidays will reduce the revenue and principal received, however, liquidity remains available through existing structural mechanisms and note principal payments are modest in the next 12 months.

18. Parent undertaking and controlling party

The Company's immediate parent company is Bank of Scotland plc. The company regarded by the directors as the ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled 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 group financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

Independent auditors' report to the members of BOS (Shared Appreciation Mortgages) No. 1 plc

Report on the audit of the financial statements

Opinion

In our opinion, BOS (Shared Appreciation Mortgages) No. 1 plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, the cash flow statement, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

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

Independence

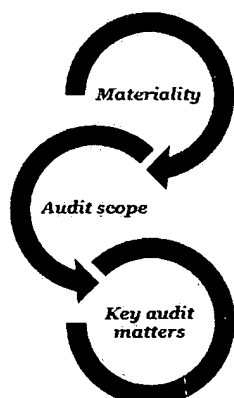
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

We have provided no non-audit services to the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £182,649 (2018: £192,981), based on 1% of Total Assets.
 - The Company is a special purpose vehicle that forms part of a securitisation structure, established primarily as a means of raising wholesale funding for Bank of Scotland plc ("BOS") and subsequently Lloyds Banking Group plc ("LBG") the ultimate parent undertaking. LBG manages the securitisation transaction in its role as administrator, servicer of the underlying mortgage loans and cash manager
 - The capital appreciation realised on the sale of a mortgage holder's property is shared between the mortgage holder and the Company. This appreciation is passed on in full to note holders
 - The activities of the Company are conducted primarily by reference to a series of transaction documents (the "Programme Documentation"). We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring audit procedures were performed in respect of every material financial statements line item
 - In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at LBG as administrator and servicer, and the industry in which the Company operates
 - We obtained an understanding of the control environment in place at the administrator and adopted a controls and substantive testing approach
-

The areas of focus for our audit which involved the greatest allocation of our resources' effort were:

- The impact of Covid-19; and
 - The risk of misstatement in the valuation of assets and liabilities held at fair value through the profit and loss.
-

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the underlying legal documents and agreements governing this securitisation transaction, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. Audit procedures performed by the engagement team included:

- Management inquiries;
- Review of meeting minutes; and
- Review and testing, where applicable of the transaction documents.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
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Impact of Covid-19

Since the balance sheet date there has been a global pandemic from the outbreak of coronavirus (Covid-19).

During finalisation of the financial statements, the potential financial and social impact of coronavirus became significant and is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. In response, the UK government, and the Bank of England, have announced measures designed to ameliorate resulting adverse impacts on the economy.

Whilst it is too early to accurately estimate the financial and business impact of Covid-19, management has considered the potential implications of these events on the Annual Report, including its going concern assessment and post-balance sheet events disclosures.

The directors have concluded that the matter is a non-adjusting post balance sheet event, the financial effect cannot be reliably estimated at this stage.

Refer to note 17 for further information.

We critically assessed management's conclusion that the matter be treated as a non-adjusting post balance sheet event and that the directors consider that the impact cannot be reliably estimated at this stage. We considered:

- the timing of the development of the outbreak across the world and in the UK; and
- how the financial statements and structure of the Company might be impacted by the disruption.

In forming our conclusions over going concern, we evaluated whether management's going concern assessment considered impacts arising from Covid-19. Our procedures in respect of going concern included:

- Enquiries of management to understand the current impact of Covid-19 on the Company's recent financial performance and business operations;
 - inspection of transaction documents to confirm that loan notes are limited recourse;
-

Key audit matter**How our audit addressed the key audit matter**

- inspection of post period end investor reports for pertinent changes in cash flows;
- confirmation of period end cash reserve balances; and
- checking the consistency of relevant “other information” with the financial statements, our knowledge based on the audit, and our procedures above.

Valuation of assets and liabilities held at fair value through the profit and loss

The shared appreciation mortgages include terms that entitle the Company to a share of the capital appreciation of the property on which the mortgage is secured as realised on the eventual sale of the property. The value of the Company’s interest on this appreciation is calculated by reference to the sale proceeds and a formula established and agreed at the origination of the mortgage, including the loan to value ratio on the original advance.

The loan notes in issue are secured on the mortgage portfolio. The Company pays its entire share of the appreciation to the note holders as agreed within the terms on the notes.

As this shared appreciation entitlement is dependent on economic characteristics and risks not closely related to the basic lending arrangement within the mortgage agreement, the overall contract is considered a hybrid instrument. Under IFRS 9 both the mortgage and corresponding shared appreciation are classified as one financial asset valued at fair value through profit and loss.

Due to the pass through nature of the entity, a separate financial instrument is recognised in both assets (as receivable from mortgage holders, and in liabilities (as payable to note holders).

Management’s fair value estimate of both the asset and liability is based on the principal balances of the mortgage loans, shared appreciation percentage as agreed in the original loan agreement, and other assumptions such as House Price Index (“HPI”), mortality rates, a proxy for sales due to long term care commitments, dilapidation expectations and expected discount curves.

These items are disclosed as a ‘financial asset held at FVTPL’, and a ‘financial liability held at FVTPL’ on the balance sheet.

Refer to notes 8 and 9 for further information.

We performed an independent recalculation of the year end shared appreciation rights for all securitised mortgages. As part of this we independently obtained regional HPI data from an external provider covering the period from origination to the balance sheet date, and agreed the shared appreciation percentages on a mortgage by mortgage basis to management’s mortgage schedule.

Additionally, we have audited the shared appreciation rights model by creating our own independent valuation, supported by our specialist valuations team. This valuation has been performed using independent data sources for the assumptions which include forward looking HPI predictions, LIBOR discount curves, a proxy for sales due to long term care commitments and external mortality rate data. Further to this, we ensured that the models were compliant under IFRS 9, including all applicable disclosures in the financial statements.

Our independent model has been tested using sensitivity analysis on the underlying assumptions.

Management’s mortgage schedule has been separately validated through agreement to the origination documentation on a sample basis in prior years. As no new mortgages have been written, this audited schedule has been validated year on year by agreeing the outstanding principal balances to system reports in order to identify any inappropriate changes.

How we tailored the audit scope

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

Materiality

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

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

Overall materiality	£182,649 (2018: £192,981).
How we determined it	1% of Total Assets.
Rationale for benchmark applied	The entity is a not-for-profit whose main priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the Company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity due to the fact the entity has listed debt and have therefore applied 1%.

We agreed with the directors that we would report to them misstatements identified during our audit above £9,132 (2018: £9,649) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 31 March 2009 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2009 to 31 December 2019.

The audit of Lloyds Banking Group and its subsidiaries was tendered in 2014 and we were re-appointed with effect from 1 January 2016. There will be a mandatory rotation of Lloyds Banking Group for the 2021 audit.



Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

29 October 2020