

ERM FUNDING PLC

Registered number: 12498822

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023



ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

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COMPANY INFORMATION

Directors	Mark Howard Filer L.D.C. Securitisation Director No.1 Limited L.D.C. Securitisation Director No.2 Limited
Company secretary	Law Debenture Corporate Services Limited
Registered number	12498822
Registered office	8 th Floor 100 Bishopsgate London EC2N 4AG
Independent auditor	Deloitte LLP 1 New Street Square London EC4A 3HQ United Kingdom

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

STRATEGIC REPORT

The directors present their strategic report for ERM Funding Plc (the "Company") for the year ended 31 December 2023.

General company information

The Company is a public company limited by shares, incorporated in England and Wales on 4 March 2020 with the registered number of 12498822.

Principal activities and review of business

The Company was set up as a special purpose vehicle to establish a lifetime mortgage-backed securities programme. On 9 November 2021 the Company issued a series prospectus (the "Prospectus") for Series 2021-1 to issue fixed rate Notes (the "Notes") and Deferred Consideration Instruments (DCIs), which were listed on the London Stock Exchange on 17 November 2021. The proceeds of the Note issuance were used to acquire the beneficial interest in a portfolio of residential lifetime mortgages (the "mortgage loans") as part of a securitisation transaction. The Notes have a final maturity date of July 2090 and are limited recourse in nature. Further detail on the Loan Notes is set out in Note 13.

RGA Americas Reinsurance Company Limited ("RGA Americas") holds all the DCIs in Series 2021-1. The holders of the DCIs are entitled to the quarterly residual income, after paying all of the higher-ranking payments as set out in the payment waterfall for Series 2021-1, including interest on the Notes and other expenses.

Under the terms of the securitisation transaction, the mortgage loans are serviced by More 2 Life Limited (the "Servicer"). RGA UK Services Limited is the programme servicer (the "programme servicer") and has an oversight role of the lifetime mortgage-backed securities programme established by the Company.

Results

The profit for the year before tax was £3,313k (2022: £24,951k). The main driver for the decrease in profit was the movement in the fair value of both the mortgage loans and loan notes. The decrease in the fair value of the mortgage loans was much greater than the decrease in fair value of the loan notes mainly due to reduced prepayment rates.

The directors do not recommend the payment of a dividend for the year under review (2022: £nil)

Key performance indicators (KPIs)

Financial KPIs

	2023 £000	2022 £000
Interest receivable and similar income	17,142	18,102
Interest expense	(11,348)	(11,531)
Net interest income	5,794	6,571
 New mortgages acquired	 3,100	 5,199
Voluntary redemptions during the period	11,218	29,722

Non-financial KPIs

The non-financial KPIs considered by management are any triggers of the transaction terms. These triggers include a fall in the credit ratings of the liquidity facility provider and series bank account providers as well as insolvency of the mortgage servicer and cash manager. During the year ended 31 December 2023 and to the date of signing this report, management were not aware of any triggers having been breached (2022: none).

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STRATEGIC REPORT (CONTINUED)

Principal risks and financial risk management and objectives

The principal risks that could affect the Company are credit, interest, price and liquidity risks. Please refer to Note 13 for further details on these risks.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk exists on the mortgage loans.

On origination, mortgage loans are required to adhere to specific lending criteria to ensure credit risks are identified on a timely basis and losses are minimised. The Company has appointed Citibank as the Cash Manager to produce quarterly investor reports including information provided by the servicer. Credit risks generated by delinquencies and any ultimate credit losses are managed through the limited recourse nature of the Loan Notes.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest risks by ensuring that the characteristics of assets and liabilities are similar. The mortgage loans and Notes issued by the Company are both at fixed interest rates.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its seller, or factors affecting similar financial instruments traded in the market. The Company is exposed to price risk because of changes in the market values of the mortgage loans, Loan Notes and DCIs. As the Notes issued by the Company are limited recourse in nature, the Company is only expected to pay its Noteholders to the extent of the income it receives.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. For the purposes of managing this risk, the cash manager ensures that all monies received are paid out in accordance with a priority of payments set out in the Series transaction documents. Credit enhancement is provided to the A1 and A2 Notes by way of a Series Main Reserve Fund (the "Reserve Fund") and Series Liquidity Facility. The Company also entered into a Reverse Repurchase Agreement whereby excess cash is placed on deposit with RGA Americas and earns a return of 5bps. The Reverse Repurchase Agreement is upsized or downsized on each Interest Payment Date depending on the cash needs of the Company. Liquidity risks generated by delinquencies and any ultimate credit losses are managed through the limited recourse nature of the Loan Notes.

Capital structure

The capital structure of the Company consists of debt disclosed in note 13 and equity attributable to the share trustee, comprising issued share capital and retained earnings as disclosed in the statement of financial position. The Company is not subject to any external capital requirements except the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

Future developments

As described in the "Principal activities and review of business" section above, the Company established a programme to acquire the beneficial interest in a portfolio of residential lifetime mortgages through separate Series Notes issuances. To date just one Series has been issued. The directors anticipate that these activities will continue for the foreseeable future, accepting that the market for residential lifetime mortgages may fluctuate according to factors beyond the Company's control, such as interest rates, house prices and inflation amongst other factors. All the underlying collateral properties for the residential lifetime mortgage loans in the Company are in the United Kingdom and hence the Company's prospects are closely linked to economic conditions in the UK. World events including conflicts in Russia/Ukraine and Israel/Gaza have affected the global economic markets and is exacerbating ongoing economic challenges, including inflation, cost of living and global supply chain disruption. The Directors believe that the Company's performance is not directly affected by the economic implications of the conflict.

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STRATEGIC REPORT (CONTINUED)

Streamlined Energy and Carbon Reporting (SECR)

The Company is out of scope of the Streamlined Energy and Carbon Reporting (SECR) as it does not meet the numerical thresholds in relation to turnover and number of employees.

SECTION 172(1) OF THE COMPANIES ACT 2006

As a special purpose vehicle, the governance structure of the Company is such that the key policies have been predetermined at the time the Company issued the bonds which are listed on the London Stock Exchange. The Directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- a) the transaction documents, which cannot be changed without bondholder consent, have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and as disclosed in notes to the financial statements;
- b) the transaction documents only allow the Company to retain a minimal profit and due to the limited recourse nature of the structure, the returns to bond holders are limited by the cash flows received;
- c) the company has no employees;
- d) the Company is a securitisation vehicle and therefore a key stakeholder are the bondholders. The transaction documents determine the nature and quality of assets that can be securitised and how the cash flows from securitised assets are distributed. Relationships are also fostered with suppliers and others via professional third parties who have been assigned operational roles with their roles strictly governed by the transaction documents and fee arrangements agreed in advance. The Company has no customers;
- e) as a securitisation vehicle the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment;
- f) the Company maintains a reputation for high standards of business conduct via professional third parties who have contracted with the Company to provide specific operational roles. Fee arrangements have been agreed in advance and supplier invoices paid strictly in accordance with the transaction documents including a priority of payments, if applicable; and
- g) the Company has a sole member The Law Debenture Intermediary Corporation Plc and entire issued share capital is held on a discretionary trust basis for charitable purposes.

In accordance with section 426B of Companies Act 2006 a copy of this statement is available at: www.lawdebenture.com/independent-professional-services/structured-finance-services/investor-reporting.

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



Rich Lynn
For and on behalf of L.D.C. Securitisation Director No.1 Limited
Director
28 June 2024

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2023.

RESULTS AND DIVIDENDS

Details of the results and dividends can be found in the Strategic Report and form part of this report by cross-reference.

DIRECTORS AND SECRETARY

The directors who served throughout the year and up to the date of this report are set out on page 2. The directors have no interests in the shares (2022: nil) of the Company.

The company has no employees (2022: nil).

The directors are not subject to retirement by rotation.

DIRECTORS' INDEMNITIES

Adequate third-party indemnity provisions for the benefit of the directors were in place during the year and remain in force at the date of this report.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of financial risk management objectives and policies can be found in the Strategic Report and form part of this report by cross-reference.

FUTURE DEVELOPMENTS AND SUBSEQUENT EVENTS

Details of future developments can be found in the Strategic Report and form part of this report by cross-reference. Subsequent events have been disclosed in note 17.

GOING CONCERN

At 31 December 2023 the Company had only issued one Series under its Programme, being Series 2021-1.

Due to the way in which the transaction underlying the sole purpose of the Company has been structured, the Company is only required to repay the funding to the extent that it receives income from the underlying mortgage pool.

World events including conflicts in Russia/Ukraine and Israel/Gaza have affected the global economic markets and is exacerbating ongoing economic challenges, including inflation and global supply chain disruption. The Directors believe that the Company's performance is not directly affected by the economic implications of the conflict. However, while the extent and duration of the effect of this economic uncertainty remains unclear, there is a risk of stifled growth for the Company as borrowers will be unable/unwilling to take on extra debt in the current environment.

After making enquiries and taking into consideration the availability of liquidity and reserve funds and that the Company continued to collect interest and principal on the mortgage loans, that there were no financial or non-financial triggers during the year, as well as that principal repayments of loan notes are only required to the extent that amounts are received from borrowers, the directors have a reasonable expectation that the Company has access to adequate resources to continue to operate for a period of at least 12 months from the date of this report. The directors have therefore prepared these financial statements on the going concern basis.

CORPORATE GOVERNANCE

The directors have been charged with governance in accordance with the transaction documents detailing the mechanism and structure of the Company. The structure of the Company is such that the key policies have been predetermined at the time of issuance of the various Note Series and the operational roles have been assigned to third parties and these are strictly governed by the transaction documents.

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DIRECTORS' REPORT (CONTINUED)

The transaction documents provide 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 Company or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling the directors to comply with the regulatory obligations.

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

Due to the nature of all the Notes issued (excluding the DCIs), each of which is listed on the London Stock Exchange, the Company is exempt from the provisions of UK Corporate Governance Code and the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority with the exception of DTR 7.2.5. The directors are therefore satisfied that there is no requirement for an audit committee or to publish a corporate governance statement. As a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment.

DTR 7.2.5 requires a description of the main features of the issuer's internal control and risk management systems in relation to the financial reporting process. The directors are responsible for establishing and maintaining adequate internal control and risk management systems of the Company in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Company's financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The directors have established processes regarding internal control and risk management systems to ensure its effective oversight of the financial reporting process. The directors are responsible to evaluate and discuss significant accounting and reporting issues as the need arises. The directors are responsible to examine and evaluate the external auditors' performance, qualifications and independence.

CLIMATE CHANGE AND DONATIONS

Due to the nature of the Company the Directors are of the opinion that climate change has a negligible impact. There were no charitable or political donations made during the current or prior year.

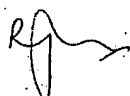
AUDITOR

Deloitte LLP have been appointed as auditors to the company and have expressed their willingness to continue in office and a resolution for their reappointment as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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



Rich Lynn
For and on behalf of L.D.C. Securitisation Director No.1 Limited
Director
28 June 2024

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FOR THE YEAR ENDED 31 DECEMBER 2023

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic report, the Directors' report 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 elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance contracts'. 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 for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 to 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.

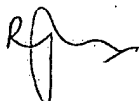
RESPONSIBILITY STATEMENT

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

- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting standards, including FRS 102 in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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

This responsibility statement was approved by the board of directors on 28 June 2024 and is signed on its behalf by:



Rich Lynn
For and on behalf of L.D.C. Securitisation Director No.1 Limited
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERM FUNDING PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of ERM Funding Plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 'Insurance Contracts'; 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 statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

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

3. Summary of our audit approach

Key audit matters	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> the valuation of the mortgage loans and debt securities held at fair value through profit or loss. <p>The risk level is consistent with the prior year.</p>
Materiality	<p>The materiality that we used in the current year was £2.17m (2022: £2.14m) which was determined on the basis of 1% of the preliminary fair value of the mortgage loans (2022: 1% of the preliminary fair value of the mortgage loans).</p>
Scoping	<p>Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, which included our financial instrument valuation specialists.</p>
Significant changes in our approach	<p>There were no significant changes in our approach in the current year.</p>

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the cash flows of the company and its post year end performance to assess whether the company has sufficient cash to meet its obligations;
- considering the limited recourse features of the loan notes;
- assessing the potential impact of financial and non-financial triggers in the terms of the loan notes;
- reviewing the minutes of meetings of the company's board of directors;
- assessing the availability of financing facilities;
- assessing the appropriateness of assumptions applied by management in arriving at their conclusion on going concern, including the impact of the current uncertain UK economic environment; and
- assessing the appropriateness of the going concern disclosures included within the financial statements.

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

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Valuation of mortgage loans and debt securities held at fair value through profit or loss

Key audit matter description	The company holds a portfolio of lifetime mortgage loans with a no negative equity guarantee feature in place. The company has made the accounting policy choice to recognise the mortgage loans and debt securities at fair value through profit and loss ('FVTPL') on initial recognition and subsequent measurement. As at 31 December 2023, the company has recognised the fair value of mortgage loans held at fair value through profit or loss at £222m (2022: £226m) and debt securities at £226m (2022: £239m).
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The fair value of the mortgages and debt securities is determined by a third-party specialist using a valuation model which is reviewed by management. The valuation model involves estimates, which includes assumptions for collateral values including the impact of house price inflation, the expected prepayment rates of the mortgages and the estimated mortality rates of borrowers. The model uses these assumptions and the characteristics of the mortgages to estimate the timing and amount of future cash flows and discounts these at an appropriate market rate for similar mortgage products.

Given the significant assumptions and complexity involved in determining the fair value of mortgage loans and debt securities, we consider that the above estimates carry a risk of management bias and we have identified this as an area susceptible to potential fraud.

We have identified the discount rate and the prepayment rates used in the valuation as the most significant estimates for the fair value of mortgage loans, and the discount rate as the most significant estimate for the debt securities. The accounting policy for the mortgage loans and debt securities is disclosed in note 1 and the estimates basis is disclosed in the key sources of estimation uncertainty section of note 1. The mortgage loan balance and debt securities balance are disclosed in note 13 of the financial statements.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the process and the relevant controls in relation to the valuation process.
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We performed the following substantive audit procedures over the valuation of the mortgage loans and debt securities:

- evaluated the competence, capability and objectivity of the third party who was engaged to perform the valuation;
- involved our financial instrument valuation specialists, who performed an

	<p>independent valuation;</p> <ul style="list-style-type: none"> • challenged and assessed the reasonableness of valuation inputs specifically the discount rate and prepayment rates through comparison to independent market data; • tested on a sample basis the accuracy and completeness of the inputs to the fair value model to underlying source data; • performed a stand back assessment of the appropriateness of the assumptions, model and input data to evaluate any contradictory evidence; and • assessed the appropriateness of disclosure related to the mortgage loans and the debt securities in note 1 and 13 of the financial statements.
Key observations	<p>A control deficiency was identified over the process for the review of inputs and assumptions used in the fair valuation model. As at the year-end date, the fair valuation model was updated to correct the related errors.</p> <p>From the work performed, we are satisfied that the estimates involved in the fair valuation are reasonable and the valuation of the mortgage loans and debt securities held at fair value through profit or loss and the related disclosures as at 31 December 2023 are appropriate.</p>

6. Our application of materiality

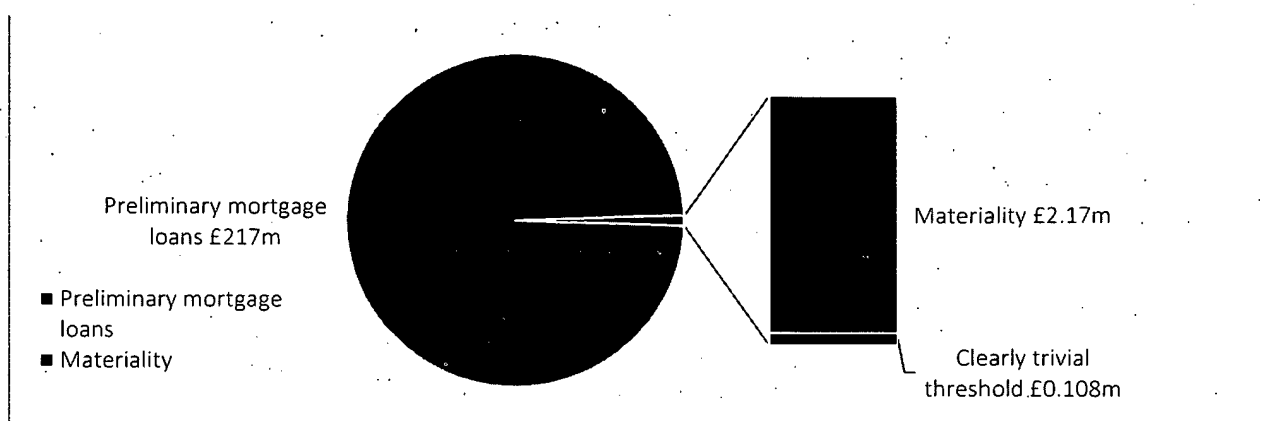
6.1. Materiality

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

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

Materiality	£2.17m (2022: £2.14m)
Basis for determining materiality	<p>1% of the preliminary fair value of the mortgage loans (2022: 1% of the preliminary fair value of the mortgage loans).</p> <p>As at the year end, the final fair value of the mortgage loans was £222m and we did not revise our materiality set during the planning phase of the audit.</p>
Rationale for the benchmark applied	The note holders are the primary users of the financial statements and the key focus for users of the financial statements is the fair value of the financial assets held at fair value through profit or loss as the repayment to noteholders is driven by collections on the mortgage portfolio.

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6.2. Performance materiality

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

- our risk assessment, including our assessment of the quality of the control environment;
- our understanding of the business processes and the nature of the company's operations as a special purpose vehicle; and
- the nature, volume and size of any corrected and uncorrected misstatements identified in the prior year.

6.3. Error reporting threshold

We agreed with those charged with governance that we would report to them all audit differences in excess of £0.108m (2022: £0.107m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed by the audit engagement team, which included our financial instrument valuation specialists.

7.2. Our consideration of the control environment

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

We assessed the control environment including the use of service organisations. We obtained an understanding of the relevant controls over financial reporting, the valuation of mortgage loan and debt securities and other relevant processes that address the risks of material misstatement.

8. 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.

9. 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.

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect

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FOR THE YEAR ENDED 31 DECEMBER 2023

of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

11.2. Audit response to risks identified

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

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

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

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

13.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of those charged with governance, we were appointed by the board of ERM Funding Plc on 22 August 2022 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the years ending 31 December 2021 to 31 December 2023.

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

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

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

If Mahroof

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Ifada Mahroof (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

28 June 2024

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Interest receivable and similar income	3	17,142	18,102
Interest payable and similar expenses	4	(11,348)	(11,531)
Net interest income		5,794	6,571
Administrative expenses		(1,287)	(1,549)
Movement in fair value through profit and loss	5	(1,194)	19,929
Profit before taxation	6	3,313	24,951
Taxation	7	(2)	(2)
Profit for the year		3,311	24,949

All amounts relate to continuing operations.

Notes 1 to 17 form part of these financial statements.

There were no other gains or losses in the current or prior year.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

REGISTERED NUMBER 12498822

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

Non-current assets	Note	2023	2022
		£000	£000
Mortgage loans	13	222,274	226,232
Total non-current assets		222,274	226,232
Current assets			
Trade and other receivables	8	149	1,036
Reverse repurchase agreement	9	35,709	36,587
Cash and cash equivalents	10	4,802	7,599
Total current assets		40,660	45,222
Current liabilities			
Trade and other payables	11	4,977	3,834
Net current assets		35,683	41,388
Total assets less current liabilities		257,957	267,620
Non-current liabilities			
Debt securities	13	225,891	238,865
NET ASSETS		32,066	28,755
Capital and reserves			
Called up share capital	12	50	50
Retained earnings		32,016	28,705
TOTAL EQUITY		32,066	28,755

These financial statements were approved by the Board of Directors and authorised for issue on 28 June 2024.

Signed on behalf of the Board of Directors by:



Rich Lynn
For and on behalf of L.D.C. Securitisation Director No.1 Limited
Director

Notes 1 to 17 form part of these financial statements.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital	Retained earnings	Total
	£000	£000	£000
Balance at 1 January 2022	50	3,756	3,806
Profit for the year	-	24,949	24,949
Balance at 31 December 2022	50	28,705	28,755
Profit for the year	-	3,311	3,311
Balance at 31 December 2023	50	32,016	32,066

Notes 1 to 17 form part of these financial statements.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2023	Year ended 31 December 2022
		£000	£000
Operating activities			
Profit on ordinary activities before tax		3,313	24,951
Adjustments for:			
Mortgage interest receivable and similar items	3	(16,796)	(17,869)
Reverse repurchase agreement interest receivable	3	(183)	(152)
Loan Notes interest payable and similar items	4	11,348	11,531
Fair value movement through profit and loss	5, 13	1,172	(19,309)
Amortisation of day 1 fair value gain	5, 13	22	(620)
		(1,124)	(1,468)
Changes in working capital			
Decrease in trade and other receivables	8	887	7,461
(Decrease)/increase in trade and other payables	11	(365)	428
		522	7,889
Net cash (used in)/ generated by operating activities before tax		(602)	6,421
Tax paid		(2)	
Investing activities			
Mortgage loans acquired	13	(3,982)	(5,199)
Mortgage amounts repaid	13	11,218	27,007
Reverse repurchase agreement redeemed/(acquired)	9	890	(36,560)
Mortgage interest and similar income received	3	2,670	6,703
Reverse repurchase Agreement income received	3	171	125
Net cash generated from/(used for) investing activities		10,967	(7,924)
Financing activities			
Loan Notes repaid	13	(3,321)	(19,712)
Loan Notes interest paid	4	(9,839)	(9,979)
Net cash used in financing activities		(13,160)	(29,691)
Decrease in cash during the year		(2,797)	(31,194)
Cash and cash equivalents at 1 January		7,599	38,793
Cash and cash equivalents at 31 December	10	4,802	7,599

Notes 1 to 17 form part of these financial statements.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The Company was incorporated in England and Wales on 4 March 2020, as ERM Funding PLC. The Company is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006. The Company has its registered office at 8th Floor, 100 Bishopsgate, London, EC2N 4AG.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements and the Company's principal activities of raising finance through Loan Notes and DCIs and using the proceeds to purchase a portfolio of lifetime mortgages.

Basis of preparation

The financial statements of the Company have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, in conformity with the requirements of the Companies Act 2006. The financial statements are also in compliance with FRS 103 Insurance contracts ('FRS 103').

The financial statements are prepared on the historical cost basis except for the mortgages loans, Loan Notes, DCI and Reverse Repurchase Agreement which are measured at fair value as described further in the accounting policies. The functional and presentation currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. Amounts in the financial statements have been rounded to the nearest £1,000.

Going concern

At 31 December 2023 the Company had only issued one Series under its Programme, being Series 2021-1.

Due to the way in which the transaction underlying the sole purpose of the Company has been structured, the Company is only required to repay the funding to the extent that it receives income from the underlying mortgage pool.

World events including conflicts in Russia/Ukraine and Israel/Gaza have affected the global economic markets and is exacerbating ongoing economic challenges, including inflation and global supply chain disruption. The Directors believe that the Company's performance is not directly affected by the economic implications of the conflict. However, while the extent and duration of the effect of this economic uncertainty remains unclear, there is a risk of stifled growth for the Company as borrowers will be unable/unwilling to take on extra debt in the current environment.

After making enquiries and taking into consideration the availability of liquidity and reserve funds and that the Company continued to collect interest and principal on the mortgage loans, that there were no financial or non-financial triggers during the year as well as that principal repayments of loan notes are only required to the extent that amounts are received from borrowers, the directors have a reasonable expectation that the Company has access to adequate resources to continue to operate for a period of at least 12 months from the date of these financial statements. The directors have therefore prepared these financial statements on the going concern basis.

Segmental reporting

The Company operates in one business sector and generates all income in the United Kingdom and therefore there is only one segment.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Mortgage Loans

The mortgage loans are held at fair value through profit and loss. The mortgage contracts contain a No Negative Equity Guarantee ('NNEG') clause where the Company cannot pursue a borrower in the event that the proceeds from the sale of the property are less than the contractual loan balance outstanding. Therefore, the lifetime mortgages meet the definition of an insurance contract FRS 103. The Company has made an accounting policy choice to not unbundle the contract and to account for the whole amount of the lifetime mortgage (including both the NNEG and the loan excluding NNEG) as one instrument and to recognise this at fair value on acquisition of the mortgages and subsequent measurement.

Day 1 fair value differences

On acquisition of the mortgage loans, there may be differences arising between the transaction price and the fair value. The fair value of the mortgage loans and DCIs is determined using unobservable data and therefore the difference between the transaction price and the fair value is not recognised immediately in the income statement but is deferred and recognised over the weighted average expected life of the mortgage loans. The amounts recognised in the statement of financial position relating to the difference between the transaction price and the amounts determined at initial recognition using valuation techniques are as follows:

	Note	2023 £'000	2022 £'000
Opening Balance as at 1 January		7,351	7,971
Amount amortised during the year	5, 13	(282)	(485)
Additional amortisation due to change in weighted average life of the mortgage loans		304	(135)
Closing Balance as at 31 December		<u>7,373</u>	<u>7,351</u>

The amortisation of the day 1 gain is less by £304,000 (2022: £135,000 more), due to the change in weighted average life of the mortgage loans.

Reverse Repurchase Agreement (Reverse Repo)

The Company entered into a Reverse repurchase Agreement with RGA Americas whereby it provides cash not currently required for the quarterly waterfall, to RGA Americas in exchange for eligible securities to be placed on deposit. Depending on the type of eligible securities invested in, RGA Americas may also need to exchange a certain level of collateral. The Reverse Repurchase Agreement is treated as a collateralised financing transaction. The financing is initially and subsequently carried at the amount at which the securities were acquired plus accrued interest, which approximates fair value. The income earned on the transaction is accounted for in the income statement on an accrual basis.

Liabilities

The Loan Notes and DCIs contain a non-recourse feature that transfers the insurance risk on the mortgage loans to the noteholder. Accordingly, the Loan Notes and DCIs meet the definition of a reinsurance contract. These are measured at fair value through profit and loss on acquisition and for subsequent measurement in line with the mortgage assets.

Offsetting

Financial assets and liabilities are only offset in the statement of financial position when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

Assets

Financial assets are derecognised when (a) the contractual rights to the cash flows from the financial asset expire or are settled; (b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or (c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party.

Liabilities

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Cash and cash equivalents

Cash and cash equivalents comprise cash, short-term bank deposits and the reserve accounts with an original maturity of three months or less. The reserve accounts are restricted accounts and can only be used as set out in the "Liquidity risk" section of Note 13.

Interest income

The Company's primary source of income is interest income, which is accrued on a time basis. When interest is included as a component of a financial asset's fair value, interest is reflected separately to changes in fair value in the statement of comprehensive income within 'Interest receivable and similar income'.

Interest expense

Interest expense is accrued on a time basis, by reference to the principal outstanding of the loan notes.

Administrative expenses

Administrative expenses are recognised in the statement of comprehensive income on an accrual basis.

Taxation

The Company falls within the permanent tax regime for securitisation companies; The Taxation of Securitisation of Companies Regulation. The directors are satisfied that the company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, the Company is subject to tax on its issuer profit as determined in the transaction documents.

Critical judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with UK GAAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense, in particular the estimation of future cash flows on the portfolio of mortgage loans in order to determine the fair value of these investments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements on carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

Critical judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

Fair value of mortgage loans, Loan Notes and DCIs

The Company holds its lifetime residential mortgage loans, Loan Notes and DCIs at fair value through profit and loss. The fair value of the lifetime residential mortgage loans, Loan Notes and DCIs has been determined using a discounted cash flow methodology applied by valuation experts and there is inherent estimation uncertainty underpinning the assumptions used. Management have considered the assumptions made, which principally relate to: conditional prepayment rates, the mortality rates of borrowers, discount rates and future cash flows and have determined these to be appropriate.

For sensitivity analysis of the key assumptions, please see Note 13.

Critical accounting judgements.

There are no areas of critical accounting judgement.

2. DIRECTORS' REMUNERATION AND EMPLOYEES

The Company has no employees (2022: nil).

None of the directors, all of whom are appointed under the terms of a Corporate Services Agreement entered into by the Company with Law Debenture Corporate Services Limited, received any remuneration for their services during the year (2022 - £nil).

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
	£000	£000
Interest income	16,449	16,418
Early Repayment Charge (ERC) income	333	1,448
Fee income	14	3
Bank interest income	163	81
Reverse repurchase agreement income	183	152
	<u>17,142</u>	<u>18,102</u>

4. INTEREST PAYABLE AND SIMILAR EXPENSE

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
	£000	£000
Interest expense on Loan Notes	11,348	11,531
	<u>11,348</u>	<u>11,531</u>

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. MOVEMENT IN FAIR VALUE THROUGH PROFIT AND LOSS

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
	£000	£000
Fair value loss on mortgage loans	(10,847)	(85,802)
Fair value loss on Loan Notes	9,347	104,903
Fair value loss on DCI	328	208
Amortisation of day 1 fair value gain	(22)	620
	<u>(1,194)</u>	<u>19,929</u>

6. PROFIT BEFORE TAXATION

Profit for the year before taxation is stated after charging the following:

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
	£000	£000
Auditor's remuneration for the audit of these financial statements (excluding VAT).	<u>110</u>	<u>341</u>

There were no fees payable in the current or prior year to the auditors and their associates for services other than the statutory audit.

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of taxation charge

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
	£000	£000
UK corporation tax:		
Current tax	<u>2</u>	<u>2</u>
Total tax charged	<u>2</u>	<u>2</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2022: lower than) the standard rate of corporation tax in the UK of 23.5% (2022: 19%). A reconciliation of charge that would result from applying standard UK corporation rate to the profit before tax to the actual tax charge is given below.

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
	£000	£000
Profit before tax for the year	<u>3,313</u>	<u>24,951</u>
UK corporation tax charge @ 23.50% (2022: 19.00%)	779	4,741
Reduction in tax due to accounting profit not taxable in accordance with The Taxation of Securitisation Companies Regulations	(777)	(4,739)
Total tax expense	<u>2</u>	<u>2</u>

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

(c) Factors affecting the Company current tax charge for the year

For UK corporation tax purposes, the Company has been considered as a securitisation company under the Taxation of Securitisation Companies Regulations. Therefore, the Company is not required to pay corporation tax on its accounting profit. Instead, the Company is required to pay tax on its cash retained profits as specified in the documentation governing the securitisation transaction into which the Company has entered.

From 1 April 2015 to 31 March 2023, a single rate of corporation tax of 19% applied to all companies. From the financial year beginning 1 April 2023, the main rate of corporation tax increased from 19% to 25% for companies with profits in excess of £250,000, while companies with profits of £50,000 or less that met the criteria of a small company continued to pay taxes at 19%. However, the Company, defined as a securitisation company, closely resembles a Close Investment Holding Company and therefore, in the interest of prudence, is subject to the main rate of 25% from 1 April 2023.

8. TRADE AND OTHER RECEIVABLES

	31 Dec 2023	31 Dec 2022
	£000	£000
Other debtors	50	50
Sundry debtors	99	986
	<u>149</u>	<u>1,036</u>

Other debtors relate to the cash held by the Share Trustee in relation to the paid-up share capital of the Company. Sundry debtors relate to loan funding amounts which have not yet been utilised by M2L.

9. REVERSE REPURCHASE AGREEMENT

	31 Dec 2023	31 Dec 2022
	£000	£000
Principal balance at start of year	36,560	-
Additions during the year	-	36,560
Repayments during the year	(890)	-
Principal balance at end of year	<u>35,670</u>	<u>36,560</u>
Accrued income	39	27
	<u>35,709</u>	<u>36,587</u>

As at 31 December 2023 there was one Reverse Repurchase Agreement in place (2022: 1).

Main terms of the Reverse Repurchase Agreement in place as at 31 December 2023 are shown below. These terms have not changed from the prior year.

Notional	Rate	Maturity	Counterparty
£000	%		
35,670	0.5	Receivable on demand	RGA Americas

The pledged assets under this contract were valued at £61,000,000 as at 31 December 2023 (2022: £61,000,000).

The long term credit rating of the liquidity facility manager for the Reverse Repurchase Agreement using Moody's credit rating, is Baa1 (2022: Baa1).

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. CASH AND CASH EQUIVALENTS

	31 Dec 2023	31 Dec 2022
	£000	£000
Cash at bank	4,802	7,599
	<u>4,802</u>	<u>7,599</u>

11. TRADE AND OTHER PAYABLES

	31 Dec 2023	31 Dec 2022
	£000	£000
Interest payable	4,557	3,049
Sundry creditors	418	783
Tax payable	2	2
	<u>4,977</u>	<u>3,834</u>

12. CALLED UP SHARE CAPITAL

	31 Dec 2023	31 Dec 2022
	£000	£000
Authorised		
50,000 ordinary shares of £1.00 each	<u>50</u>	<u>50</u>
Allotted, called up and fully paid		
50,000 ordinary shares of £1.00 each	<u>50</u>	<u>50</u>

Only one class of shares is in issue.

13. MORTGAGE LOANS, REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT

The Company was set up as a special purpose vehicle to establish a lifetime mortgage-backed securities programme. It issued limited recourse, fixed rate Loan Notes (the "Notes") and DCIs, together referred to as the "Debt securities". It used the proceeds to acquire the beneficial interest in a portfolio of residential lifetime mortgages (the "mortgage loans").

The mortgage contracts contain a NNEG clause where the Company cannot pursue a borrower in the event that the proceeds from the sale of the property are less than the contractual loan balance outstanding. Therefore, the lifetime mortgages meet the definition of an insurance contract under FRS 103. The mortgages fall within level 3 of the fair value hierarchy.

The Company has made an accounting policy choice to not unbundle the contract and to account for the whole amount of the lifetime mortgage (including both the NNEG and the loan excluding NNEG) as one instrument and to recognise this at fair value on acquisition of the mortgages and subsequent measurement.

The Loan Notes contain a non-recourse feature that transfers the insurance risk on the mortgage loans to the noteholder. Accordingly, the Loan Notes, together with the DCIs meet the definition of a reinsurance contract. These are measured at fair value in line with the mortgage assets and both the Loan Notes and DCIs fall within level 3 of the fair value hierarchy.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. MORTGAGE LOANS REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value hierarchy

Quoted market prices - Level 1

Financial instruments, the valuations of which are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs - Level 2

Financial instruments that have been valued using inputs other than quoted prices as described for level 1 but which are observable for the asset or liability, either directly or indirectly.

Valuation technique using significant unobservable inputs - Level 3

Financial instruments, the valuation of which incorporates significant inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

MORTGAGE LOANS

	31 Dec 2023	31 Dec 2022
	£000	£000
Balance brought forward	226,232	322,676
Loans purchased during the year	3,982	5,199
Interest and fees	14,125	17,868
Repayments	(11,218)	(33,710)
Fair value movement on mortgage loans	(10,847)	(85,802)
	222,274	226,232

The mortgage loans have no fixed maturity date. They are expected to terminate at the earlier of the death of the mortgage account holder, transfer into long term care, the date of sale of property or early repayment by the borrower. As the maturity cannot be determined, the mortgage loans have been classified as long term.

DEBT SECURITIES

	31 Dec 2023	31 Dec 2022
	£000	£000
Loan Notes	219,530	232,198
Deferred Consideration Instrument	6,361	6,667
	225,891	238,865

The Company has charged by way of security to the Note Trustee its rights to receive principal and interest on the mortgage loans.

ERM FUNDING PLC
FOR THE YEAR ENDED 31 DECEMBER 2023

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. MORTGAGE LOANS REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT (CONTINUED)

The terms of the loan Notes for each Series as at 31 December 2023 are listed below.

2023

Class	Total Nominal value £000	Issue price %	Total Principal £000	Principal retained by RGA £000	Net principal £000	Fixed Interest rate	Maturity date
A1 Notes	170,230	101.1	172,154	34,431	137,723	3.000%	15/07/2090
A2 Notes	110,560	102.4	113,268	96,278	16,990	3.300%	15/07/2090
B Notes	38,387	100	38,385	30,710	7,677	4.265%	15/07/2090
C Notes	3,510	100	3,510	2,457	1,053	5.492%	15/07/2090
D Notes	2,630	100	2,630	1,841	789	6.673%	15/07/2090
E Notes	1,750	100	1,750	875	875	7.646%	15/07/2090
Z1 Notes	2,190	85	1,862	931	931	10.000%	15/07/2090
Z2 Notes*	2,190	10	219	110	110	2.000%*	15/07/2090
Fair value movement			(114,248)				
	<u>331,447</u>		<u>219,530</u>	<u>167,633</u>	<u>166,148</u>		

2022

Class	Total Nominal value £000	Issue price %	Total Principal £000	Principal retained by RGA £000	Net principal £000	Fixed Interest rate	Maturity date
A1 Notes	170,230	101.1	172,154	34,431	137,723	3.000%	15/07/2090
A2 Notes	110,560	102.4	113,268	96,278	16,990	3.300%	15/07/2090
B Notes	41,708	100	41,708	33,366	8,342	4.265%	15/07/2090
C Notes	3,510	100	3,510	2,457	1,053	5.492%	15/07/2090
D Notes	2,630	100	2,630	1,841	789	6.673%	15/07/2090
E Notes	1,750	100	1,750	875	875	7.646%	15/07/2090
Z1 Notes	2,190	85	1,862	931	931	10.000%	15/07/2090
Z2 Notes*	2,190	10	219	110	110	2.000%*	15/07/2090
Fair value movement			(104,901)				
	<u>334,768</u>		<u>232,200</u>	<u>170,289</u>	<u>166,813</u>		

* The interest Rate on the Z2 Notes increases to a fixed rate of 12% from and including the Interest Period commencing on the Series Payments Date falling in October 2036.

The holders of the DCIs are the least ranking Notes in the priority of payments. They are entitled to any quarterly residual income, after paying the related expenses and Note holder interest and principal for each Tranche as relevant. All DCIs are held by RGA Americas and are measured at fair value through profit and loss account.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. MORTGAGE LOANS REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT (CONTINUED)

RECONCILIATION OF OPENING AND CLOSING BALANCE OF DEBT INSTRUMENTS

	31 Dec 2023	31 Dec 2022
	£000	£000
Loan Notes		
Balance at start of year	232,198	356,813
Repayments during the year	(3,321)	(19,712)
Movement in fair value	(9,347)	(104,903)
Balance at end of year	<u>219,530</u>	<u>232,198</u>
	31 Dec 2023	31 Dec 2022
	£000	£000
DCIs		
Balance at start of year	6,667	7,495
Amortisation of day 1 fair value gain	22	(620)
Movement in fair value	(328)	(208)
Balance at end of year	<u>6,361</u>	<u>6,667</u>

The deferred day 1 fair value gain recognised is set out below:

	31 Dec 2023	31 Dec 2022
	£000	£000
Balance at start of year	7,351	7,971
Amount amortised during the year	(282)	(485)
Additional amortisation due to change in weighted average life of the mortgage loans	304	(135)
Balance at end of year	<u>7,373</u>	<u>7,351</u>

Fair value

The fair value of the mortgage loans is derived from discounted cash flow models. These models incorporate observable inputs such as prepayment rates, rate of borrowers moving into long term care, liquidation time between mortality and redemption of the collateral as well as appropriate discount rates. The fair value of the Loan Notes is derived from discounted cashflows using zero coupon gilt rates plus a spread. Due to the way the transaction was set up and the limited recourse nature of the Loan Notes, the fair value of the DCI is the net fair value of all the other assets and liabilities to give the Company a net asset value ("NAV") equal to the equity.

ERM FUNDING PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. MORTGAGE LOANS REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

The impact of a change in the fair value of the mortgage loans and loan notes if different levels of the key assumptions were applied is set out below:

31 December 2023

	Fair value £000s	Most significant inputs	Fair value results	
			Positive impact £000s	Negative impact £000s
Mortgage loans	222,274	Mortality rate	217,765	215,250
Mortgage loans	222,274	Discount rate	250,676	188,787
Mortgage loans	222,274	Prepayment rate	258,769	180,976
Loan Notes	219,530	Discount rate	194,280	249,855

31 December 2022

	Fair value £000	Most significant inputs	Fair value results	
			Positive impact £000	Negative impact £000
Mortgage loans	226,232	Mortality rate	226,970	225,464
Mortgage loans	226,232	Discount rate	256,507	201,462
Mortgage loans	226,232	Prepayment rate	258,553	184,292
Loan Notes	232,200	Discount rate	264,239	205,777

For the sensitivity analysis set out above, the following scenarios were used:

	Base case	Downside case	Upside case
Mortality rate	90% multiplier	+5%	-5%
Discount rate - mortgages	GBP zero coupon gilts rate + liquidity premium	+1%	-1%
Prepayment rate	Variable range from 3-10% with long term rate of 3%	+5%	-5%
Discount rate - loan notes	GBP zero coupon swap rate + liquidity premium	+1%	-1%

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

ERM FUNDING PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. MORTGAGE LOANS REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The main assets of the Company are lifetime mortgage loans. These mortgage loans are only expected to repay both capital and interest at the earlier of: the death of the mortgage account holder, transfer into long term care, the date of sale of property or early repayment by the borrower. The maximum exposure to credit risk is the outstanding principal and interest of the mortgage loans as noted in the table below. The table below sets out the cost of the mortgage loans and the value of the collateral offered as security on the mortgage loans.

	2023 £000	2023 £000	2022 £000	2022 £000
	Cost of mortgage loans	Fair value of collateral	Cost of mortgage loans	Fair value of collateral
Mortgage loans	309,546	905,220	302,663	905,874

The Notes retained by RGA companies and the Reverse Repurchase Agreement (Note 9) offer further credit enhancement to the structure. The Reverse Repurchase Agreement is resized on every Interest Payment Date (IPD) to ensure that there is sufficient cash when needed. The initial repo deposit of £28m was funded by RGA.

None of the mortgage loans are past due nor impaired (2022: none) because of their nature as described above. The table below is an analysis of Loans, by cost to collateral value ratio ("LTV") as an indication of the credit quality:

LTV	Percentage	Number of properties	Value of loans associated with properties £000**
31 Dec 2023			
65%	2.8%	66	17,544
>55% <65%	7.3%	174	33,067
>45% <55%	23.1%	552	93,362
>35% <45%	37.7%	903	107,988
>25% <35%	22.1%	530	47,793
<25%	7.1%	169	9,792
	100.0%	2394	309,546

31 Dec 2022			
>65%	1.3%	33	7,769
>55% <65%	5.8%	145	30,696
>45% <55%	16.8%	417	66,881
>35% <45%	37.9%	942	119,364
>25% <35%	29.1%	722	65,457
<25%	9.1%	226	12,496
	100.0%	2,485	302,663

** The value above differs from the Statement of Financial Position amount because it does not include fair value adjustments.

ERM FUNDING PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. MORTGAGE LOANS REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. For the purposes of managing this risk, the cash manager ensures that all monies received are paid in accordance with an agreed Series waterfall. The long term credit rating of the cash manager using Moody's credit rating, is Aa3 (2022:Aa3).

Credit enhancement is provided to the A1 and A2 Notes by way of the Reserve Fund and Series Liquidity Facility. The Company will utilise the Reverse Repurchase Agreement first before it utilises the liquidity facility. Both facilities are only available to fund the Company expenses, the Loan Notes interest and the principal on the A1 and A2 Notes.

Any excess cash can be deposited by way of the Reverse Repurchase Agreement to earn interest at a fixed rate of 0.5%. The value of the Reverse Repurchase Agreement at 31 December 2023 is £35,670,000 (2022: £36,560,000). The Reverse Repurchase Agreement is resized every IPD to ensure there is sufficient cash when needed.

Liquidity risks generated by delinquencies and any ultimate credit losses are managed through the limited recourse nature of the Loan Notes.

The table below shows undiscounted expected cash flows of the mortgage loans and debt securities at the statement of the financial position date. Due to the limited recourse nature of the Loan Notes, the cash outflows on the debt securities are equal to the inflows on the mortgage loans less any series expenses.

31 Dec 2023

	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Total £'000
Mortgage loans	11,640	10,138	33,686	746,590	802,054
Debt securities	(20,177)	(19,904)	(59,766)	(512,948)	(612,795)

31 Dec 2022

	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Total £'000
Mortgage loans	21,272	16,828	40,421	631,935	710,457
Debt securities	(15,561)	(15,217)	(37,835)	(567,299)	(635,912)

The mortgage loans can repay early at the option of the individual borrowers.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. MORTGAGE LOANS REVERSE REPO AND DEBT SECURITIES INCLUDING THEIR FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The table below shows undiscounted cashflows if all the mortgage loans repaid early. This value differs from the fair value presented on the Statement of Financial Position.

31 Dec 2023

	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Total £'000
Mortgage loans	309,546	-	-	-	309,546
Debt securities	(309,546)	-	-	-	(309,546)

31 Dec 2022

	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000	Total £'000
Mortgage loans	302,663	-	-	-	302,663
Debt securities	(302,663)	-	-	-	(302,663)

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest risks by ensuring that the characteristics of assets and liabilities are similar. The mortgage loans and Notes issued by the Company are both at fixed interest rates. Interest rates increased during the year and this resulted in a decrease in the fair values of the fixed rate mortgage loans and loan notes.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its seller, or factors affecting similar financial instruments traded in the market. The Company is exposed to price risk because of changes in the market values of the mortgage loans. As the Notes issued by the Company are limited recourse in nature, the Company is only expected to pay its Noteholders to the extent of the income it receives.

ERM FUNDING PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 FINANCIAL INSTRUMENTS

The Company's financial instruments are summarised in the table below including their classification in accordance with FRS 102. It is and has been throughout the year the Company's policy that no trading in financial instruments shall be undertaken.

	Financial assets/liabilities at amortised cost	Financial assets/liabilities at fair value through profit and loss
31 Dec 2023	£000	£000
Financial assets		
Reverse Repurchase Agreement	-	35,709
Trade and other receivables	149	-
Cash and cash equivalents	4,802	-
	<u>4,951</u>	<u>35,709</u>
Financial liabilities		
Trade and other payables	<u>4,977</u>	<u>-</u>
	Financial assets/liabilities at amortised cost	Financial assets/liabilities at fair value through profit and loss
31 Dec 2022	£000	£000
Financial assets		
Reverse repurchase agreement	-	36,587
Trade and other receivables	1,036	-
Cash and cash equivalents	7,599	-
	<u>8,635</u>	<u>36,587</u>
Financial liabilities		
Trade and other payables	<u>3,834</u>	<u>-</u>
	<u>3,834</u>	<u>-</u>

The mortgage loans and loan notes have been excluded from the above table because they are not considered to be financial instruments under FRS 103.

Fair Value

The reverse repo is carried at the amount at which the securities were acquired plus accrued interest, which approximates fair value. Further details of the reverse repo can be found in Note 9 above. The reverse repo falls within level 2 of the fair value hierarchy.

ERM FUNDING PLC
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. RELATED PARTY TRANSACTIONS

Under the terms of a corporate service agreement Law Debenture Corporate Services Limited is contracted to provide certain corporate services including a registered office, administration and directors among other things for which it charges a corporate service fee.

All transactions with related parties are at arm's length, payable on demand and are not secured.

The table below shows all transactions with related parties during the year:

Service	Counterparty	Year ended 31 Dec 2023 £000	Year ended 31 Dec 2022 £000
Statement of comprehensive income			
Corporate service fee	Law Debenture	24	28
Statement of financial position			
Corporate service fee payable	Law Debenture	(9)	(13)
Other debtors*	The Law Debenture Intermediary Corporation Plc	50	50

*Other debtors relate to the cash held by the Share Trustee in relation to the paid-up share capital of the Company.

16. ULTIMATE PARENT UNDERTAKING

The shares of the company are held by The Law Debenture Intermediary Corporation plc as Share Trustee under a declaration of trust for discretionary charitable purposes. The Law Debenture Intermediary Corporation plc is a wholly owned subsidiary of The Law Debenture Corporation P.L.C. As the Share Trustee is not entitled to any economic benefit and the beneficiaries do not have any decision-making power, they are not considered to control the Company. The directors do not consider the Company to have a controlling party.

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events requiring disclosure since the date of the Statement of Financial Position.