

Registered number: 03331873

**BOS (SHARED APPRECIATION MORTGAGES) NO. 4 PLC**

Annual report and financial statements  
for the year ended 31 December 2021

## **DIRECTORS AND COMPANY INFORMATION**

### **Directors**

Johan Robin Charles Von Schmidt Auf Altenstadt  
Lavanya Menon (Appointed: 17 August 2021)

### **Company secretary**

Alyson Elizabeth Mulholland

### **Registered office**

Trinity Road  
Halifax  
HX1 2RG

### **Independent Auditor**

Deloitte LLP  
Statutory Auditor  
1 New Street Square  
London

## Strategic report

For the year ended 31 December 2021

The directors present their Strategic report for BOS (Shared Appreciation Mortgages) No.4 plc (the "Company") for the year ended 31 December 2021.

### Principal activities

The principal activity of the Company is to originate and finance mortgage lending. In 1998 the Company issued £203,700,000 floating rate notes (the "Notes"). Following a business restructure on 28 February 2011 the terms of the Notes were modified and bear a zero rate of interest until 2073. The Notes are secured on the mortgage portfolio. The capital appreciation realised 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.4 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 originated by the Company in the current year and the previous year and no new Notes were issued.

The loss for the financial year amounted to £397,619 (2020: £277,767). Total equity at 31 December 2021 amounted to £2,153,376 (2020: £2,550,995). The company has recognised loss during the year as compared to the current year and the prior year profit this is mainly due to increase in the fair valuation of the liabilities during the year. This change due to a change in HPI and discount factor within the year.

The mortgage portfolio is subject to the economic factors relating to the housing market (see "Credit risk" below). The Company's results are not impacted by changes in interest rates as the mortgage loans and Notes bear a zero rate of interest.

The Notes are listed on the London Stock Exchange.

### Key performance indicators

The board is responsible for assessing the risk of irregularities, where caused by fraud or error in the financial reporting and ensuring that the 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 the movements in fair value of the mortgage portfolio.

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 2021 and 31 December 2020.

### Risk management

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IFRS 9 "Financial Instruments". The Company's financial instruments comprise a mortgage portfolio with an embedded derivative (Financial assets held at fair value through profit or loss ("financial assets at FVTPL")), cash and other liquid resources, loan notes in issue 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 risk arising from the Company's financial instruments is credit risk. This 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 25.00% and with the mortgage portfolio having a weighted average current loan-to-value of 5.70% at 31 December 2021, the credit exposure is low.

The Company recently went through a restructure in September 2021 to review and modify the Programme Documentation with all relevant parties subject to the securitisation arrangement. The restructure updated the terms and conditions around various items including events of default and other various trigger events to ensure the Company's exposure to credit risk was minimised in such scenarios, as well updating terms for the LIBOR reform to move to Sterling Overnight Interbank Average ("SONIA").

The extent to which the Company can meet its obligations to repay the Notes will be dependent upon the principal receipts on the mortgage loans. If this income does not provide sufficient funds, 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, however there is a clause in the agreement that allows the trustees to retain ownership if they choose. 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.

#### 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. The LIBOR reform has no material impact on this Company as it uses a fixed rate of interest.

## Strategic report (continued)

For the year ended 31 December 2021

### Risk management (continued)

#### Liquidity risk

The Company holds a reserve account for £2,197,370 to assist the Company should it not be able to meet its obligations. The reliance on this facility is therefore dependent upon the creditworthiness of BOS. The rating requirement under the Programme Documentation for the Reserve Account to remain with BOS is a short term rating with Standard and Poor's (S&P) of A-1. At 31 December 2021, BOS met this requirement with a short term rating of A-1 (2020: S&P short term rating: A-1). The Company has not drawn on this facility 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 uses the Bank of New York Mellon to provide all corporate services in respect of the Notes in issue.

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

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

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

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2021, 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 financial statements for 2021 on pages 26 - 29. Further details of how to obtain access to the LBG annual report and financial statements for 2021 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 are satisfied that there is 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 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 28 of the LBG annual report and financial statements for 2021.

#### 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 financial statements for 2021.

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



**Johan Robin Charles Von Schmidt Auf Altenstadt**  
Director

Trinity Road  
Halifax  
HX1 2RG

DATE: 24 June 2022

## **Directors' report**

**For the year ended 31 December 2021**

The directors present their annual report and the audited financial statements for BOS (Shared Appreciation Mortgages) No.4 plc for the year ended 31 December 2021.

### **Directors**

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

Emma Louise Lawrence (Resigned: 16 August 2021)  
Johan Robin Charles Von Schmidt Auf Altenstadt  
Lavanya Menon (Appointed: 17 August 2021)

### **Company Secretary**

Alyson Elizabeth Mulholland

### **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 elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the 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.

### **Disclosure of information to auditors**

In accordance with Section 418(2) of the Companies Act 2006, in the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's 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**

LBG has granted to the directors of the Company, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements. The deed for existing directors is available for inspection at the registered office of LBG, details of which can be found in note 18. The indemnity remains in force for the duration of the directors' period of office. The deed indemnifies the directors to the maximum extent permitted by law. In addition LBG 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 unemployment rates remain low but interest rates are starting to increase and there are inflationary pressures, which may put further pressure on household incomes, this all 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.

Despite a resilient recovery, 2021 has been another year of significant uncertainty and 2022 continues to be, with COVID-19 impacting global and domestic economies, the company is monitoring the situation.

The current conflict between Russia and Ukraine, which has led to sanctions being imposed on Russia, also has the potential to affect UK and world economies in the coming months, this situation is being monitored.

In January 2021, a litigation claim was brought by, or on behalf of, a small number of customers against BOS and its subsidiary undertakings which had issued shared appreciation mortgage products, including the Company. The claim was issued in the County Court and is brought under the unfair relationship provisions of the Consumer Credit Act 1974. The claimants claim that the relationship between the Company and the mortgage customers was and is (as applicable) unfair to the claimants. The claim value is unquantified at this stage. The Company has carried out an assessment of the likelihood that the Company will be required to make a payment to settle the matter with the assistance of external professional advisers, and has concluded that no provision is required against that litigation on the basis that a payment to the claimants is not probable.

### **Dividends**

The directors did not recommend the payment of a dividend during the year ended 31 December 2021 (2020: £Nil).

## Directors' report (continued)

For the year ended 31 December 2021

### 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 2021 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2021 Annual Report of LBG can be found in note 18.

### 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 2021 (2020: Nil).

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

### Independent auditors

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

### Statement of going concern

As at 31 December 2021, the Company is showing a net assets position in the financial statements. The Company has continued to perform in line with the Programme Documentation. There are certain issues included in the Programme Documentation as referred to in the annual report and financial statements in KPIs (Strategic Report) and explained in the note on Management of risk (note 13). In the course of their regular monitoring of these KPIs and review of risk, the directors are confident that these will have no issues for the period of at least twelve months from when the financial statements are authorised for issue. This is despite the economic uncertainty due to COVID-19 and the war in Ukraine that could impact the cash flows on the mortgage receivables due to the high rate of inflation and likely increase in interest rates. The directors have also considered the credit enhancement features of the transaction and the limited recourse nature of the issued notes.

As previously discussed a litigation claim has been commenced against the Company but is at a very early stage with a number of customers signed up to the claim. Consequently the directors are confident that the future viability of the Company and its principal activity will not be severely impacted regardless of the outcome. As a result, the Company is considered to be a going concern.

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



**Johan Robin Charles Von Schmidt Auf Altenstadt**  
Director

Trinity Road  
Halifax  
HX1 2RG

DATE: 24 June 2022

## Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £	2020 £
Interest receivable and similar income	2	130	4,214
Net fair value movements on financial assets and liabilities at fair value through profit or loss	3	(419,997)	406,751
Other operating income	4	1,450	1,489
Operating expenses	5	(80,183)	(73,727)
<b>(Loss)/Profit before tax</b>		<b>(498,600)</b>	<b>338,727</b>
Taxation	6	100,981	(60,960)
<b>(Loss)/Profit for the financial year being total comprehensive (expense)/income</b>		<b>(397,619)</b>	<b>277,767</b>

The 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 17 are an integral part of the financial statements.

## Balance sheet

As at 31 December 2021

	Note	2021 £	2020 £
<b>Assets</b>			
Cash and cash equivalents	7	3,941,709	5,277,359
Financial assets held at fair value through profit or loss	8	100,351,683	149,299,928
Current tax asset	6	98,899	-
Deferred tax asset	9	31,235	29,153
<b>Total assets</b>		<b>104,423,526</b>	<b>154,606,440</b>
<b>Liabilities</b>			
Bank overdraft	7	9,173	3,000
Financial liabilities designated at fair value through profit or loss	10	100,333,550	148,861,798
Trade and other payables	11	1,927,427	3,137,562
Current tax liability	6	-	53,085
<b>Total liabilities</b>		<b>102,270,150</b>	<b>152,055,445</b>
<b>Equity</b>			
Share capital	12	50,001	50,001
Retained earnings		2,103,375	2,500,994
<b>Total equity</b>		<b>2,153,376</b>	<b>2,550,995</b>
<b>Total liabilities and equity</b>		<b>104,423,526</b>	<b>154,606,440</b>

The accompanying notes on pages 10 to 17 are an integral part of the financial statements

The financial statements on pages 6 to 17 were approved by the board of directors on 24 June 2022 and were signed on behalf of the board by:



**Johan Robin Charles Von Schmidt Auf Altenstadt**  
Director  
24 June 2022



## Statement of changes in equity

For the year ended 31 December 2021

	Share capital £	Retained earnings £	Total equity £
<b>Balance at 1 January 2021</b>	<b>50,001</b>	<b>2,500,994</b>	<b>2,550,995</b>
Profit for the financial year / total comprehensive income for the year	-	(397,619)	(397,619)
<b>Balance at 31 December 2021</b>	<b>50,001</b>	<b>2,103,375</b>	<b>2,153,376</b>
	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2020	50,001	2,223,227	2,273,228
Profit for the financial year / total comprehensive expense for the year	-	277,767	277,767
Balance at 31 December 2020	50,001	2,500,994	2,550,995

The accompanying notes on pages 10 to 17 are an integral part of the financial statements.

## Cash flow statement

For the year ended 31 December 2021

	Note	2021 £	2020 £
<b>Operating activities</b>			
BOS administration fees paid		(37,589)	(32,452)
Administration expenses paid		(27,474)	(26,874)
Tax paid		(53,085)	-
<b>Net cash flows used in operating activities</b>		<b>(118,148)</b>	<b>(59,326)</b>
<b>Investing activities</b>			
Repayments on mortgage portfolio		3,427,034	1,601,879
Shared appreciation rights received		15,478,038	9,862,937
Bank interest received		130	4,214
<b>Net cash flows generated from investing activities</b>		<b>18,905,202</b>	<b>11,469,030</b>
<b>Financing activities</b>			
Repayment of borrowings		(3,604,959)	(1,384,956)
Shared appreciation rights paid to Note holders		(16,523,918)	(8,725,422)
<b>Net cash flows used in financing activities</b>		<b>(20,128,877)</b>	<b>(10,110,378)</b>
Net increase in cash and cash equivalents		(1,341,823)	1,299,326
Cash and cash equivalents at start of year		5,274,359	3,975,033
<b>Cash and cash equivalents per Cash flow statement at end of year</b>		<b>3,932,536</b>	<b>5,274,359</b>
<b>Cash and cash equivalents per Cash flow statement comprise:</b>			
Cash at bank		3,941,709	5,277,359
Bank overdraft		(9,173)	(3,000)
<b>Cash and cash equivalents per Cash flow statement</b>	7	<b>3,932,536</b>	<b>5,274,359</b>

The Cash flow statement is presented using the direct method.

The accompanying notes on pages 10 to 17 are an integral part of the financial statements.

## Notes to the financial statements

For the year ended 31 December 2021

### 1. Significant accounting policies

The Company is a public limited liability company domiciled, registered and incorporated in England and Wales under the Companies Act 2006.

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

#### (a) Basis of preparation

The financial statements for the period ended 31 December 2021 have been prepared in accordance with United Kingdom adopted international accounting standards.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS and comply with the relevant provisions of Part 15 of the Companies Act 2006.

There are a number of minor amendments to IFRSs effective at or after 31 December 2021 and in later years. These amendments are not expected to have a significant impact on the Company. There are no other accounting pronouncements that will be relevant to the Company, but which were not effective at 31 December 2021.

The financial statements have been prepared on a going concern basis. On behalf of the directors the programme managers have reviewed the expected future cash flows and believe that the Company has access to adequate liquidity and capital resources for the foreseeable future. The Company's reserves provide sufficient coverage against potential losses in the foreseeable future and, accordingly, the directors of the Company are satisfied that the going concern basis is appropriate in preparation of these financial statements.

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

#### (b) Interest receivable and interest payable

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

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

#### (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 for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

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

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

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

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

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

#### (d) Financial instruments

The Company's financial instruments comprise cash liquid resources, interest-bearing loan notes with an embedded derivative (Financial liabilities designated at fair value through profit or loss ("Financial liabilities at FVTPL")) and various other receivables and payables that arise directly from its operations.

The main purpose of these financial instrument is to originate the mortgage loans to retail customers and to finance such origination either through the capital markets or by way of bilateral arrangements with third party institutions.

#### (d)(i) Mortgage portfolio

The Company has lifetime mortgage portfolio, where contract for these loans contain a No Negative Equity Guarantee ('NNEG') clause where if the funds at the time of settlement of mortgage are insufficient to cover all amounts owed in respect of the mortgage and any portion of the loan amount remains outstanding, a provision will be made for such outstanding amount, and the Company cannot pursue a borrower. Therefore, the lifetime mortgages meet the definition of an insurance contract under IFRS 4. The Company has made an accounting policy choice to not un-bundle the contract and to account for the whole amount of the lifetime mortgage (including both the NNEG and the loan excluding NNEG) as one instrument and to recognise this at fair value on origination and subsequent measurements.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 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 financial assets held at amortised cost 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 separated from the host instrument with changes in fair value of the embedded derivative recognised in the Statement of comprehensive income in accordance with IFRS 9.

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

The economic characteristics and risks of the shared appreciation rights receivable and payable are viewed as being closely related to those arising on the mortgages and Notes, respectively. There is uncertainty regarding the timing of any future shared appreciation, and therefore the shared appreciation rights receivable and payable have been valued with the mortgages and Notes using discounted cash flow valuation techniques for a number of accounting estimates including HPI forecasts. Further details can be found in note 1(e)(ii).

#### (e) Critical accounting judgements and key sources of estimation uncertainty

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

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

##### (e)(i) Critical accounting judgements

###### Litigation

In January 2021, a litigation claim was brought by, or on behalf of, a number of customers against BOS and its subsidiary undertakings which had issued shared appreciation mortgage products, including the Company. The claim was issued in the County Court and was brought under the unfair relationship provisions of the Consumer Credit Act 1974, further details of which can be found in note 14. The directors have used their judgement and considered the wider implication of this action on the Company by assessing the likelihood of various legal outcomes and the impact on the Company's assets and liabilities, as discussed in more detail per note 1(e)(ii) below.

##### (e)(ii) Key sources of estimation uncertainty

###### Deferred tax

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

###### Fair value of financial assets and financial liabilities

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

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

The NNEG clause within the lifetime mortgages has not been valued due to the immaterial nature. There are no other derivative financial instruments.

The table below shows the impact on the Company's financial instruments carried at fair value from a decrease ('favourable') or increase ('unfavourable') of 1% in the dilapidation rate of 20.1% (2020: 15.8%):

	Favourable 2021 £	Unfavourable 2021 £	Favourable 2020 £	Unfavourable 2020 £
Financial assets held at fair value through profit or loss	1,655,630	(1,655,630)	2,187,103	(2,187,103)
Financial liabilities designated at fair value through profit or loss	(1,655,630)	1,655,630	(2,187,103)	2,187,103

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

	Favourable 2021 £	Unfavourable 2021 £	Favourable 2020 £	Unfavourable 2020 £
Financial assets held at fair value through profit or loss	9,905,312	(9,055,551)	15,824,443	(14,318,292)
Financial liabilities designated at fair value through profit or loss	(9,905,312)	9,055,551	(15,824,443)	14,318,292

###### Fair value assessment following the Claim

The Company has considered the impact of the legal action, as discussed in note 1(e)(i) above, on the carrying amount of the Company's mortgage assets which are measured at FVTPL. The company has carried out a probability based assessment for a variety of potential legal outcomes discussed with external professional advisors. Based on this assessment, the Company has determined that the fair value of these assets has a carrying amount of £100,351,683 at 31 December 2021 (2020: £149,299,928). The Company has loan notes in issue that are classified as financial liabilities measured at FVTPL. The fair value of the notes are intrinsically linked to the fair value of the mortgage assets. Accordingly, based on this assessment, the Company has determined that the fair value of the notes has a carrying amount of £100,333,550 at 31 December 2021 (2020: £148,861,798). This assessment had £nil impact on the Company's result for the year (2020: £nil).

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 1. Significant accounting policies (continued)

#### (f) Fees and commissions

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

#### (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 amortised 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

	2021 £	2020 £
Bank interest receivable	130	4,214

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

	2021 £	2020 £
Fair value movement on financial assets at FVTPL	(48,948,245)	(20,788,413)
Fair value movement on financial liabilities at FVTPL	48,528,248	21,195,164
	(419,997)	406,751

Out of the above, the fair value movement of (£30,083,010) (2020: (£9,342,985)) towards the financial assets held at fair value through profit or loss and (£29,657,626) (2020: (£9,749,736)) towards the financial liabilities held at fair value through profit or loss is attributable to the change in unrealised gains or losses for those financial assets and financial liabilities held at fair value through profit or loss.

### 4. Other operating income

	2021 £	2020 £
Fees and commissions receivable	1,450	1,489
	1,450	1,489

### 5. Operating expenses

	2021 £	2020 £
Intercompany fees	37,589	32,452
Administration fees	27,474	26,875
Audit fees	15,120	14,400
	80,183	73,727

The Company has no employees (2020: 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 (2020: £nil).

The audit fee for the 2021, net of VAT, was £12,600 (2020: £12,000).

### 6. Taxation

#### (a) Analysis of (charge)/credit for the year

	2021 £	2020 £
<b>UK Corporation tax</b>		
Current tax on taxable loss/(profit) for the year	98,899	(60,194)
Current tax credit/(charge)	98,899	(60,194)
<b>UK Deferred tax</b>		
Origination and reversal of timing differences	(4,165)	(4,163)
Impact of deferred tax rate change	6,247	3,397
Deferred tax credit/(charge)	2,082	(766)
<b>Tax credit/(charge)</b>	<b>100,981</b>	<b>(60,960)</b>

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable (loss)/profit for the year.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 6. Taxation (continued)

#### (b) Factors affecting the tax credit/(charge) for the year

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

	2021 £	2020 £
(Loss)/Profit before tax	(498,600)	338,727
Tax credit/(charge) thereon at UK corporation tax rate of 19% (2020: 19%)	94,734	(64,357)
Factors affecting credit/charge:		
- Effect of change in tax rate and related impacts	6,247	3,397
Tax credit/(charge) on (loss)/profit on ordinary activities	100,981	(60,960)
Effective rate	-20.25%	-18.00%

### 7. Cash and cash equivalents

	2021 £	2020 £
Cash at bank	3,941,709	5,277,359
Bank overdraft	(9,173)	(3,000)
Cash and cash equivalents per the Cash flow statement	3,932,536	5,274,359

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

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

	Note	2021 £	2020 £
At 1 January		149,299,928	170,088,341
Principal mortgage redemptions during the year	3	(3,387,197)	(1,582,491)
Fair value adjustment	3	(30,083,010)	(9,342,985)
Movement in shared appreciation receivable during the year	3	(15,478,038)	(9,862,937)
At 31 December		100,351,683	149,299,928

The mortgage loans advanced by the Company have no fixed maturity date but would terminate on the earlier of, the date of sale of the property, or the death of the mortgage account holder. Therefore, all mortgage loans are considered to be non-current as maturity cannot be reasonably determined.

As the shared appreciation rights receivable are intrinsically linked to the maturity of the mortgage loans which have no fixed maturity, the balance is considered to be non-current.

The Notes carry 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.

### 9. Deferred tax asset

	2021 £	2020 £
At 1 January	29,153	29,919
Credit/(charge) of the year	2,082	(766)
At 31 December	31,235	29,153
The deferred tax credit/(charge) in the year comprises the following temporary differences:		
Other temporary differences	2,082	(766)
The deferred tax asset comprises:		
Other temporary differences	31,235	29,153

Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

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

At the balance sheet date, a deferred tax asset of £31k has been recognised (2020: £29k) based on the expectation that the company will be able to benefit from group relief with connected companies.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

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

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

	Note	2021 £	2020 £
At 1 January		148,861,798	170,056,962
Principal note repayments during the year	3	(3,392,584)	(1,582,491)
Fair value adjustment	3	(29,657,626)	(9,749,736)
Change in shared appreciation payable during the year	3	(15,478,038)	(9,862,937)
At 31 December		100,333,550	148,861,798

The mortgage-backed fixed rate Notes are due to redeem in 2073. On 28 February 2011, the interest rate applicable to the Notes was changed as part of the restructure and the Notes now bear a zero rate of interest until 2073. At the end of the year the Notes, as rated by S&P, had a rating of AA+ (2020: rating of AA+).

The Notes carry 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 and are considered to be non-current.

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.

### 11. Trade and other payables

	2021 £	2020 £
Shared appreciation payable	1,197,544	2,214,075
Note redemptions payable	167,614	379,989
Accruals and deferred income	562,269	543,498
	1,927,427	3,137,562

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

### 12. Share capital

	2021 £	2020 £
<b>Allotted, called up and fully paid</b>		
50,000 (2020: 50,000) ordinary shares of £1 each	50,000	50,000
1 (2020: 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 34.00% of the number of votes attached to all other issued shares of the Company.

### 13. Management of risk

The principal risk arising from the Company's financial instruments is credit risk. However, considerable resource is given to maintaining effective controls to manage, measure and mitigate this risk. Further detailed analysis of this risk and other 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.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 13. Management of risk (continued)

#### 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 25.00% 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 monies deposited in the Reserve Account with BOS (see "liquidity risk"). To the extent that this income does not provide sufficient funds to cover the 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 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 all other circumstances, in accordance with the Programme Documentation, amounts received by the Company from the borrower are required to be paid over to the Note holders.

All loans in the mortgage portfolio pay a zero rate of interest. As a result, there are no arrears of interest, properties in possession or bad debts within the Company. With this combined with the low loan-to-value of the properties no impairment provision is considered to be necessary at 31 December 2021 or 31 December 2020.

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 2021 £	Maximum exposure 2021 £	Carrying amount 2020 £	Maximum exposure 2020 £
<b>Assets held at amortised cost:</b>					
Cash and cash equivalents	7	3,941,709	3,941,709	5,277,359	5,277,359
<b>Assets held at fair value</b>					
Financial assets held at fair value through profit or loss	8	100,351,683	100,351,683	149,299,928	149,299,928
<b>Total Assets</b>		<b>104,293,392</b>	<b>104,293,392</b>	<b>154,577,287</b>	<b>154,577,287</b>

#### 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

On 28 February 2011, with the closure of the Guaranteed Investment Contract (the "GIC") and partial repayment of the Notes on which the GIC account was a guarantee for their repayment, the Company's exposure to interest rate risk is limited to interest earned on its bank accounts, as both the mortgage loans and the remaining Notes pay a zero rate of interest. Therefore, it is not considered to be a significant risk with no impact if there was a 100 basis points movement in interest rates.

#### 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 Company holds a reserve account of £2,197,370 to assist the Company should it not be able to meet its obligations. The reliance on this facility is therefore dependent upon the creditworthiness of BOS. The rating requirement under the Programme Documentation for the Reserve Account to remain with BOS is a short term rating with Standard and Poor's (S&P) of A-1. As at 31 December 2021, BOS met this requirement with a short term rating of A-1 (2020: S&P short term rating: A-1). The Company has not drawn on this facility 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. However, the actual Note repayment profile mirrors the repayment of the mortgages and based on current modelling assumptions, which use mortality rates sourced from industry wide metrics, it is anticipated that not all of the mortgages will have been settled by the earliest contractual maturity date used for the maturity analysis in these tables.

2021	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 £
Financial liabilities designated at fair value through profit or loss	100,333,550	100,333,550	-	-	-	-	100,333,550
Trade and other payables	1,927,427	1,927,427	-	1,927,427	-	-	-
	<b>102,260,977</b>	<b>102,260,977</b>	<b>-</b>	<b>1,927,427</b>	<b>-</b>	<b>-</b>	<b>100,333,550</b>



## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 13. Management of risk (continued)

#### 13(d) Liquidity risk (continued)

2020	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
	£	£	£	£	£	£	£
Financial liabilities designated at fair value through profit or loss	148,861,798	148,861,798	-	-	-	-	148,861,798
Trade and other payables	3,137,562	3,137,562	-	3,137,562	-	-	-
	151,999,360	151,999,360	-	3,137,562	-	-	148,861,798

#### 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

The table below analyses the fair values of the financial assets and liabilities of the Company which are carried at fair value.

	2021 £ Level 3	2020 £ Level 3
Financial assets held at fair value through profit or loss	100,351,683	149,299,928
Financial liabilities designated at fair value through profit or loss	(100,333,550)	(148,861,798)
	18,133	438,130

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

##### Financial assets and liabilities carried at amortised cost

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

### 14. Contingent liabilities

The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £2,082k (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

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

In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant balance sheet date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed properly to assess the merits of the case, and no provisions are held in relation to such matters. In these circumstances, specific disclosure in relation to a contingent liability will be made where material.

In January 2021, a litigation claim was brought by, or on behalf of, a number of customers against BOS and its subsidiary undertakings which had issued shared appreciation mortgage products, including the Company. The claim was issued in the County Court and is brought under the unfair relationship provisions of the Consumer Credit Act 1974. The claimants claim that the relationship between the Company and the mortgage customers was and is (as applicable) unfair to the claimants. The claim value is unquantified at this stage. The Company has carried out an assessment of the likelihood that the Company will be required to make a payment to settle the matter with the assistance of external professional advisers, and has concluded that no provision is required against that litigation on the basis that a payment to the claimants is not probable.

## Notes to the financial statements (continued)

For the year ended 31 December 2021

### 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 (2020: £nil).

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

	Parent and its subsidiary undertakings 2021 £	Parent and its subsidiary undertakings 2020 £
<b>Statement of comprehensive income</b>		
Interest receivable and similar income	130	4,214
Operating expenses	(37,589)	(32,452)
Audit fee	(15,200)	(14,400)
<b>Balance sheet</b>		
<b>Assets</b>		
Cash and cash equivalents	3,941,709	5,277,359
Current tax asset	98,899	-
<b>Liabilities</b>		
Bank overdraft	(9,173)	(3,000)
Trade and other payables	(58,320)	(43,200)
Current tax liability	-	(53,085)

### 16. Future accounting pronouncements

The following pronouncement is not applicable for the year ending 31 December 2021 and has not been applied in preparing these financial statements.

#### *Minor amendments to other accounting standards*

There have been a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.

### 17. Post balance sheet event

There are no post balance sheet events which require disclosure in the financial statements.

### 18. Parent undertaking and controlling party

The Company's immediate parent company is Bank of Scotland plc.

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

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOS (SHARED APPRECIATION MORTGAGES) NO. 4 PLC

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of BOS (Shared Appreciation Mortgages) No. 4 plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 18.

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

### 2. Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to 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

<b>Key audit matters</b>	The key audit matter that we identified in the current year was the valuation of financial assets held at fair value through profit or loss.
<b>Materiality</b>	The materiality that we used in the current year was £1.5 million which was determined on the basis of 1.5% of the forecasted financial assets held at fair value through profit or loss.
<b>Scoping</b>	All audit procedures to respond to risks of material misstatement were performed by the audit engagement team, including our valuation specialists.
<b>Significant changes in our approach</b>	This is the first year we have been appointed as auditor to the company.

### 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:

- specific consideration of the impact of the litigation claims, in order to understand, challenge and assess the key judgements made by management;
- considering the limited recourse features of the notes;
- reviewing the minutes of meetings of the company's board of directors for periodic discussion of the performance of the company;
- reviewing post year end performance; and
- evaluating 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.

The matter was 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 the matter.

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

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### Key audit matter description

The company issued lifetime mortgage loans, which included terms that entitled the company to a share of the capital appreciation of the property collateral, on which the mortgage loans are secured. The company's share of appreciation is determined in accordance with a formula agreed at the time of the origination of the mortgage loans, including the 'loan-to-value' ratio on the principal amount borrowed. The company is entitled to the share of appreciation in the event of a sale of the property or the death of the borrower. Due to these terms, the mortgage loans failed the 'solely payment of principal and interest' test under IFRS 9 'Financial Instruments', and accordingly have been recognised at fair value through profit or loss.

The valuation model involves management judgement in determining the fair valuation methodologies. It involves the estimate of future HPI ('House Price Index') growth using Lloyds Banking Group's own economic growth assumptions, together with an estimated dilapidation rate which has been determined based upon the actual impact to date of previous redemption activity. The fair value calculation also factors in mortality rates which are based on an analysis of the average age of borrowers in the portfolio. The model also includes an estimation of future cash flows discounted at an appropriate market rate for a regular standard variable mortgage product. As explained in note 1(e)(ii), the fair valuation model also factors in the probabilities of the legal outcomes to calculate a litigation adjustment to the fair value of the financial assets.

Due to the complexity involved in the valuation process, we consider that the above judgements and estimates carry a risk of management bias and therefore give rise to a potential risk of fraud.

As of 31 December 2021, the company has recognised the fair value of financial assets held at fair value through profit or loss amounting to £100.4 million (2020: £149.3 million).

Refer to notes 1(d)(i), 1(e)(i) and (ii), 8 and 13(e) in the financial statements.

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### How the scope of our audit responded to the key audit matter

We obtained an understanding of the valuation process and identified relevant controls.

We involved internal valuation specialists, who performed an independent recalculation of the valuation model at the year end. As part of this we assessed the reasonableness of the HPI growth rates and dilapidation rates and the use of alternate age and corresponding mortality assumptions by reference to Office for National Statistics ("ONS") mortality tables. For the discount rates, we checked whether the standard variable rates are consistent with the UK market average. We have also performed sensitivity analysis on the underlying assumptions.

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In addition, we have considered the impact of the litigation adjustment and recalculated the amounts, including the probabilities used in the model for the different scenarios regarding how the litigation may be settled. To challenge these probabilities, we performed inquiries with both in-house legal counsel and external legal counsel.

On a sample basis, we tested the accuracy of the mortgages data used within the fair valuation models through verification of the mortgage origination documents.

We have also assessed the relevant financial statements disclosures against the requirements of IFRS 7 and IFRS 13.

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#### Key observations

We identified a control deficiency over the process to update inputs within the fair valuation model and the formula used within the calculations. As at the year end date the fair valuation model was updated to remediate the findings and subsequent to the year end, management continue to implement control improvements to remediate the deficiencies noted.

From the work performed, we are satisfied that the judgements and estimates involved in the fair valuation are reasonable and the fair valuation of the financial assets held at fair value through profit or loss as at 31 December 2021 is appropriate.

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## 6. Our application of materiality

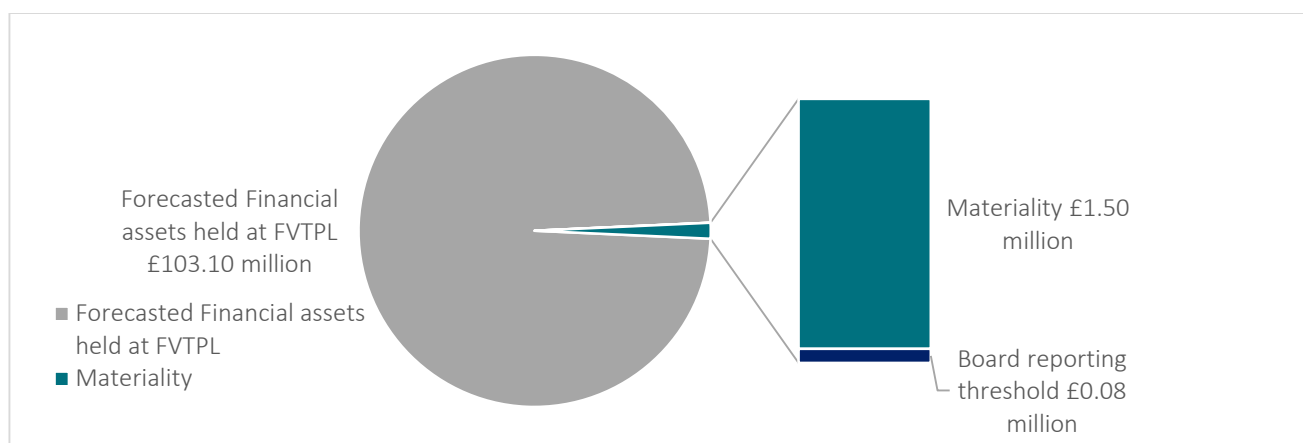
### 6.1. Materiality

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:

<b>Materiality</b>	£1.5 million (Predecessor auditor for 2020: £0.9 million)
<b>Basis for determining materiality</b>	1.5% of forecasted financial assets held at fair value through profit or loss (predecessor auditor for 2020: 1% of total assets)
<b>Rationale for the benchmark applied</b>	The noteholders 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 the share of appreciation and collections on the underlying mortgage loan 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 2021 audit (predecessor auditor for 2020: 75%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the company's overall control environment;
- Our understanding of the business processes and complexity involved in the preparation of financial statements; and
- Ongoing litigation claims in relation to the mortgages issued by the company.

## 6.3. Error reporting threshold

We agreed with those charged with governance that we would report to them all audit differences in excess of £0.08 million (predecessor auditor 2020: £0.07 million), 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 scope was determined through obtaining an understanding of the entity and its environment, including internal controls, and assessing risks of material misstatements. Audit procedures to respond to risks of material misstatement were performed by the valuation team and the audit engagement team.

## 7.2. Our consideration of the control environment

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

We took a control reliance approach over the preparation and review of the cash waterfalls as part of our testing.

## 8. Other information

The other information comprises the information included in the annual report which includes the Strategic report and the Directors' report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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



Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

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

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and those charged with governance about their own identification and assessment of the risks of irregularities;
- 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 valuation specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, tax legislation and listing rules.

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

#### **11.2. Audit response to risks identified**

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

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

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

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

## Report on other legal and regulatory requirements

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

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

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

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

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

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

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

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

We have nothing to report in respect of these matters.

#### 13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

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

### 14.1. Auditor tenure

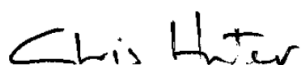
Following the recommendation of the audit committee of the ultimate controlling party as defined in note 18, we were appointed by the shareholders of the ultimate controlling party at its annual general meeting on 20 May 2021 to audit the financial statements for the period ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement of the firm is one year.

### 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.



Chris Hunter, CA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
24 June 2022