

Registered number: 03331871

BOS (Shared Appreciation Mortgages) No. 3 PLC

2022 Half Year Results

Review of Performance

Principal activities

The principal activity of the BOS (Shared Appreciation Mortgages) No.3 plc ("Company") is to originate and finance mortgage lending. In 1998 the Company issued £46,600,000 fixed rate notes (the "Notes"). The interest payable on the Notes is set at 4.50% per annum until February 2028. Thereafter, the interest rate applicable to the Notes will be 5.50% per annum until 2073 when the Notes become due. The Notes are secured on the mortgage portfolio. The capital appreciation arising on the sale of a mortgage holder's property is shared between the mortgage holder and the Company as set out in the original loan agreement. The Company pays its entire share of the appreciation to Note holders.

The activities of the Company are conducted primarily by reference to a series of transaction documents under the offering circular for BOS (Shared Appreciation Mortgages) No.3 plc (the "Programme Documentation").

Business review and performance

No new mortgages were originated by the Company in the period or previous period and no new notes were issued. There is no seasonality in the activities of the Company.

The Company has recognised a loss for the half year to 30 June 2022 of £17,899 (half year to 30 June 2021: loss of £129,188). The higher loss for the half year to 30 June 2021 was due to a change in the discount factor and the effects of HPI on assets and liabilities held at fair value. Total equity at 30 June 2022 was £2,958,209 (30 June 2021: £3,027,243, 31 December 2021: £2,976,108).

The mortgage portfolio is subject to the economic factors relating to the housing market. The underlying profits are determined by a margin earned between the interest received on the mortgage portfolio and the interest paid to the Noteholders. The Notes are listed on the London Stock Exchange.

Principal Risks and uncertainties

The significant risks faced by the Company are detailed below. There has been no change to the definition of these risks from those disclosed in the Company's Annual Report and Financial Statements.

The external risks faced by the Company include but are not limited to supply chain and socio-economic pressures arising from the war between Russia and Ukraine, which are contributing to cost of living increases and associated implications for UK consumers. The directors' assessment is that no adverse impact is expected for the Company.

Credit risk

This 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. The Company has a maximum loan-to-value for the original advances of 75.00% and the mortgage portfolio has a weighted average current loan-to-value of 15.16% at 30 June 2022, therefore the credit risk exposure is low. An assessment of the risks faced by the company can be found in the annual report and financial statement for 31 December 2021. There has been no material change in our assessment since then.

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. 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 Noteholder and there are no guarantees within the terms of the Notes for expected increases in value.

Review of Performance (continued)

Principal Risks and uncertainties (continued)

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at a different time. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar.

Liquidity risk

The Company holds a reserve account of £1,397,900 to assist the Company should it not be able to meet its obligations. The Company has not drawn on this facility since inception.

Regulatory risk

The regulatory risk to the Company is non-compliance due to changes in regulation or listing rules that are not identified. To mitigate this risk the Company undertakes horizon scanning to identify and ensure compliance with any such changes.

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 it is in a position to meet all necessary payments.

Statement of comprehensive income (unaudited)

		Half year to 30 June 2022 £	Half year to 30 June 2021 £
Interest receivable and similar income	3	5,032	-
Net interest income on financial assets and liabilities at fair value through profit or loss	4	82,144	78,278
Net fair value movements on financial assets and liabilities at fair value through profit or loss	5	(63,978)	(191,622)
Other operating income		200	350
Operating expenses	6	(45,496)	(25,284)
Loss before tax		(22,098)	(138,278)
Taxation	7	4,199	9,090
Loss for the period		(17,899)	(129,188)

Balance sheet

		At 30 June 2022 (unaudited) £	At 31 Dec 2021 (audited) £
	Note		
Assets			
Cash and cash equivalents		2,300,326	2,109,322
Financial assets held at fair value through profit or loss	8	24,957,908	25,268,762
Current tax asset		25,286	26,814
Total assets		27,283,520	27,404,898
Liabilities			
Bank overdraft		158	400
Financial liabilities designated at fair value through profit or loss	9	23,898,210	24,145,084
Deferred tax liabilities	10	80,180	85,907
Trade and other payables	11	346,763	197,399
Total liabilities		24,325,311	24,428,790
Equity			
Share capital		50,001	50,001
Retained earnings		2,908,208	2,926,107
Total equity		2,958,209	2,976,108
Total liabilities and equity		27,283,520	27,404,898

Statement of changes in equity (unaudited)

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2022	50,001	2,926,107	2,976,108
Loss for the period	-	(17,899)	(17,899)
Balance at 30 June 2022	50,001	2,908,208	2,958,209
	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2021	50,001	3,106,430	3,156,431
Loss for the period	-	(129,188)	(129,188)
Balance at 30 June 2021	50,001	2,977,242	3,027,243
	Share capital £	Retained earnings £	Total equity £
Balance at 1 July 2021	50,001	2,977,242	3,027,243
Loss for the period	-	(51,135)	(51,135)
Balance at 31 December 2021	50,001	2,926,107	2,976,108

Cash Flow Statement (unaudited)

	Half year to 30 June 2022 £	Half year to 30 June 2021 £
Operating activities		
BOS administration fees paid	(9,913)	(7,522)
Administration expenses paid	(18,665)	(17,764)
Tax paid	-	122,110
Net cash flows used in operating activities	(28,578)	96,824
Investing activities		
Repayments on mortgage portfolio	261,591	1,444,671
Income earned on mortgage portfolio	290,660	527,955
Shared appreciation rights received	748,388	1,638,789
Bank interest received	5,032	-
Net cash flows generated from investing activities	1,305,671	3,611,415
Financing activities		
Repayment of borrowings	(250,467)	(1,536,480)
Interest paid on borrowings	(197,508)	(228,703)
Shared appreciation rights paid to Note holders	(637,872)	(1,583,870)
Net cash flows used in investing financing activities	(1,085,847)	(3,349,053)
Net (decrease) / increase in Cash and cash equivalents	191,246	359,186
Cash and cash equivalents at start of year	2,108,922	2,727,088
Cash and cash equivalents per Cash flow statement at end of year	2,300,168	3,086,274
Cash and cash equivalents comprise		
Cash at bank	2,300,326	3,087,920
Bank overdraft	(158)	(1,646)
Cash and cash equivalents per Cash flow statement	2,300,168	3,086,274

Notes to the condensed half-year results

1. Basis of preparation and accounting policy

These condensed half-year financial statements as at and for the period to 30 June 2022 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (FCA) and with International Accounting Standard 34 (IAS 34), Interim Financial Reporting as adopted by the United Kingdom and comprise the results of BOS (Shared Appreciation Mortgages) No. 3 plc. They do not include all of the information required for full annual report and should be read in conjunction with the BOS (Shared Appreciation Mortgages) No. 3 PLC annual report and financial statements as at and for the year ended 31 December 2021 which complied with international accounting standards in conformity with the requirements of the Companies Act 2006, were prepared in accordance with International Financial Reporting Standards (IFRS) and were compliant with the relevant provisions of part 15 of the Companies Act 2006. Copies of the 2021 Annual report and financial statements are available on the Lloyds Banking Group's website.

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.

Changes in accounting policy

The Company's accounting policies are consistent with those applied by the Company in its 2021 Annual Report and financial statements and there have been no changes in the Company's methods of computation.

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Company.

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.

2. Critical accounting judgements and estimates

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of estimates. These judgements 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.

Notes to the condensed half-year results (continued)

2. Critical accounting judgements and estimates (continued)

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. 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.

The Company has considered the impact of the legal action on the carrying amount of the Company's mortgage assets which are measured at Fair Value through profit or loss ("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 £24,957,908 at 30 June 2022 (31 December 2021: £25,268,762). 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 £23,898,210 at 30 June 2022 (31 December 2021: £24,145,084). This assessment had £nil impact on the Company's result for the half year to 30 June 2022 (half year to 31 December 2021: £nil).

3. Interest receivable and similar income

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
Bank interest receivable	5,032	-

Bank interest is now receivable as a result of increased interest rates.

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

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
Interest receivable on financial asset FVTPL	277,635	305,905
Interest payable on financial liabilities FVTPL	(195,491)	(227,627)
	82,144	78,278

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

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
Fair value movement on financial assets at FVTPL	(310,853)	17,208
Fair value movement on financial liabilities at FVTPL	246,875	(208,830)
	(63,978)	(191,622)

Notes to the condensed half-year results (continued)

6. Operating expenses

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
Intercompany fees	9,913	7,522
Administration fees	35,583	17,762
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	45,496	25,284
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7. Taxation

In accordance with IAS 34, the Company's income tax credit for the half-year to 30 June 2022 is based on the best estimate of the weighted-average annual income tax rate expected for the full financial year. The tax effects of one-off items are not included in the weighted-average annual income tax rate, but are recognised in the relevant period.

(a) Analysis of credit for the period

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
UK Corporation tax		
- Current tax on taxable loss for the period	(1,528)	20,546
	<hr/>	<hr/>
Current tax charge/credit	(1,528)	20,546
UK Deferred tax		
- Origination and reversal of timing differences	5,727	5,727
- Impact of deferred tax rate change	-	(17,183)
	<hr/>	<hr/>
Deferred tax credit/(charge)	5,727	(11,456)
	<hr/>	<hr/>
Tax credit	4,199	9,090
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Corporation tax is calculated at a rate of 19% (2021: 19%) of the taxable profit for the year.

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

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
Loss before tax	(22,098)	(138,278)
UK Corporation tax thereon at 19% (2021: 19%)	4,199	26,273
Factors affecting credit		
- Effect of change in tax rate and related impacts	-	(17,183)
	<hr/>	<hr/>
Tax credit	4,199	9,090
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The Finance Act 2021, which was substantively enacted on 24 May 2021, increases the rate of corporation tax from 19 per cent to 25 per cent with effect from 1 April 2023.

Notes to the condensed half-year results (continued)

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

	£
At 1 January 2022	25,268,762
Principal mortgage redemptions	(250,000)
Fair value adjustment	687,535
Shared appreciation receivable movement	(748,389)
At 30 June 2022	<u>24,957,908</u>
At 1 January 2021	27,750,786
Principal mortgage redemptions	(1,518,145)
Fair value adjustment	3,174,142
Shared appreciation receivable movement	(1,638,789)
At 30 June 2021	<u>27,767,994</u>
At 1 July 2021	27,767,994
Principal mortgage redemptions	(339,750)
Fair value adjustment	(1,480,301)
Shared appreciation receivable movement	(679,181)
At 31 December 2021	<u>25,268,762</u>

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. 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.

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

	£
At 1 January 2022	24,145,084
Accrued interest	(2,016)
Principal note repayments	(250,000)
Fair value adjustment	753,530
Shared appreciation payable movement	(748,388)
At 30 June 2022	<u>23,898,210</u>
At 1 January 2021	26,314,406
Accrued interest	(1,075)
Principal note repayments	(1,471,297)
Fair value adjustment	3,319,991
Shared appreciation payable movement	(1,638,789)
At 30 June 2021	<u>26,523,236</u>
At 1 July 2021	26,523,236
Accrued interest	(5,846)
Principal note repayments	(339,750)
Fair value adjustment	(1,353,375)
Shared appreciation payable movement	(679,181)
At 31 December 2021	<u>24,145,084</u>

Notes to the condensed half-year results (continued)

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

The mortgage-backed fixed rate Notes are due to redeem in 2072. The interest rate payable on the Notes up to and including the interest period ending in the quarter to 31 August 2027 is 4.50% per annum. Thereafter, the interest rate payable on the Notes will be 5.50% per annum until 2072 when the Notes are due to redeem. At 30 June 2022 the Notes, as rated by S&P, had a rating of A+ (31 December 2021: rating of A+).

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

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

10. Deferred Tax Liability

Movement in the Deferred Tax Liability is as follows:

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
Brought forward at 1 January 2022	(85,907)	(85,907)
Credit for the year	5,727	-
	<hr/>	<hr/>
Balance as at 30 June 2022	(80,180)	(85,907)
	<hr/>	<hr/>
Deferred tax credit/charge in the period comprises the following temporary differences:		
Other temporary differences	5,727	-
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Deferred tax liability comprises:		
Other temporary differences	(80,180)	(85,907)
	<hr/>	<hr/>

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.

11. Trade and other payables

	At 30 June 2022 £	At 31 Dec 2021 £
Shared appreciation payable	110,721	205
Note redemptions payable	50,259	467
Accruals and deferred income	185,783	196,727
	<hr/>	<hr/>
	346,763	197,399
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Notes to the condensed half-year results (continued)

12. Fair Valuation

All the financial assets and liabilities held at fair value are classified as level 3 instruments and there have been no transfers into or out of level 3. Refer to the year end financial statements where necessary for further information.

13. Related party transactions

	Half-year to 30 June 2022 £	Half-year to 30 June 2021 £
Statement of comprehensive income		
Interest receivable and similar income	5,032	-
Operating expenses	(9,913)	(7,522)
	At 30 June 2022 £	At 31 Dec 2021 £
Balance sheet		
Assets		
Cash and cash equivalents	2,300,326	2,109,322
Current tax asset	25,286	26,814
Liabilities		
Bank overdraft	(158)	(400)
Trade and other payables	(58,320)	(58,320)

Statement of Directors' Responsibilities

The Directors listed below (being all the Directors of BOS (Shared Appreciation Mortgages) No.3 plc) confirm that to the best of their knowledge these condensed consolidated half-year financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, Interim Financial Reporting, and that the half-year management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the six months ended 30 June 2022 and their impact on the condensed consolidated half-year financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 30 June 2022 and any material changes in the related party transactions described in the last annual report.

Signed on behalf of the Board by



Johan Robin Charles Von Schmidt Auf Altenstadt
Director
30 September 2022

BOS (Shared Appreciation Mortgages) No.3 plc board of directors:

Johan Robin Charles Von Schmidt Auf Altenstadt
Lavanya Menon