

# BOS (Shared Appreciation Mortgages) No. 3 plc

## 2023 Half-Year Results

Member of the Lloyds Banking Group

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## REVIEW OF PERFORMANCE

### Principal activities

The principal activity of BOS (Shared Appreciation Mortgages) No. 3 plc (the "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 current or previous period and no new Notes were issued.

The Company has recognised a profit for the half-year to 30 June 2023 of £73,718 (half-year to 30 June 2022: loss of £17,899). Total equity at 30 June 2023 amounted to £3,030,671 (31 December 2022: £2,956,953). The Company has recognised a profit during the half-year to 30 June 2023 as compared to the loss in the half-year to 30 June 2022, mainly due to a net increase in the valuation of the Company's financial assets and liabilities that are measured at fair value through profit or loss. This change is due to a combination of more favourable house price expectations, partly offset by higher discount factors.

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 Note holders. 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 for 31 December 2022, copies of which are available on the Lloyds Banking Group's website.

The external risks faced by the Company include but are not limited to macroeconomic uncertainty; high interest rates and high inflation which are contributing to the cost of living increases and associated implications for UK consumers and businesses.

### 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 15.96% at 30 June 2023 (30 June 2022: 15.13%), therefore the credit exposure is considered to be low as the value is payable on the earlier of the death of the customer or the sale of property. The monthly interest income is considered a low credit risk as it is a short term receivable. Further details on the Company's exposure to credit risk can be found in the Company's Annual Report and Financial Statements for 31 December 2022.

### 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.

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.

**REVIEW OF PERFORMANCE** (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 £1,401,995 to assist the Company should it not be able to meet its obligations. The reliance on this facility is therefore dependent on the creditworthiness of Bank of Scotland plc. The rating requirements under the Programme Documentation for the reserve account to remain with Bank of Scotland plc is a short term rating with Standard and Poor's ("S&P") of A-1, with Bank of Scotland plc currently having a long-term rating from S&P of A+ (31 December 2022: S&P long-term rating: A+). The Company has not drawn on this facility since inception.

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.

**Operational risk**

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

The Company is exposed to the risk of failure to comply with changes to applicable statutory and regulatory requirements. To mitigate this risk the Company undertakes systematic horizon scanning to identify and ensure compliance with any future regulatory changes.

**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

	Note	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
Interest receivable and similar income	3	44,444	5,032
Net interest income on financial assets and liabilities at fair value through profit or loss	4	78,695	82,144
Net fair value movements on financial assets and liabilities at fair value through profit or loss	5	16,184	(63,978)
Other operating income		50	200
Operating expenses	6	(43,010)	(45,496)
<b>Profit/(loss) before tax</b>		<b>96,363</b>	<b>(22,098)</b>
Tax (expense)/credit	7	(22,645)	4,199
<b>Profit/(loss) for the period, being total comprehensive income/(expense) for the period</b>		<b>73,718</b>	<b>(17,899)</b>

The accompanying notes are an integral part of the half-year financial statements.

**BALANCE SHEET (UNAUDITED)**

	Note	At 30 June 2023 £	At 31 December 2022 £
<b>Assets</b>			
Cash and cash equivalents		2,280,960	2,466,618
Financial assets held at fair value through profit or loss	8	22,935,865	22,534,790
<b>Total assets</b>		<b>25,216,825</b>	<b>25,001,408</b>
<b>Liabilities</b>			
Bank overdraft		100	376
Trade and other payables	9	150,859	416,419
Financial liabilities designated at fair value through profit or loss	10	21,931,136	21,546,246
Current tax liability		36,690	6,961
Deferred tax liability	11	67,369	74,453
<b>Total liabilities</b>		<b>22,186,154</b>	<b>22,044,455</b>
<b>Equity</b>			
Share capital		50,001	50,001
Retained earnings		2,980,670	2,906,952
<b>Total equity</b>		<b>3,030,671</b>	<b>2,956,953</b>
<b>Total liabilities and equity</b>		<b>25,216,825</b>	<b>25,001,408</b>

The accompanying notes are an integral part of the half-year financial statements.

**STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

	Share capital £	Retained earnings £	Total equity £
<b>Balance at 1 January 2023</b>	<b>50,001</b>	<b>2,906,952</b>	<b>2,956,953</b>
Profit for the period, being total comprehensive income for the period	-	73,718	73,718
<b>Balance at 30 June 2023</b>	<b>50,001</b>	<b>2,980,670</b>	<b>3,030,671</b>

  

	Share capital £	Retained earnings £	Total equity £
Balance at 1 January 2022	50,001	2,926,107	2,976,108
Loss for the period, being total comprehensive expense for the period	-	(17,899)	(17,899)
Balance at 30 June 2022	50,001	2,908,208	2,958,209
Loss for the period, being total comprehensive expense for the period	-	(1,256)	(1,256)
Balance at 31 December 2022	50,001	2,906,952	2,956,953

The accompanying notes are an integral part of the half-year financial statements.

**CASH FLOW STATEMENT (UNAUDITED)**

	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
<b>Operating activities</b>		
Intercompany fees paid	(6,762)	(9,913)
Administration expenses paid	(20,763)	(18,665)
<b>Net cash flows used in operating activities</b>	<b>(27,525)</b>	<b>(28,578)</b>
<b>Investing activities</b>		
Repayments on mortgage portfolio	60,000	261,591
Income earned on mortgage portfolio	225,122	290,660
Shared appreciation rights received	95,555	748,388
Bank interest received	44,444	5,032
<b>Net cash flows generated from investing activities</b>	<b>425,121</b>	<b>1,305,671</b>
<b>Financing activities</b>		
Repayment of borrowings	(148,992)	(250,467)
Interest paid on borrowings	(187,218)	(197,508)
Shared appreciation rights paid to Note holders	(246,768)	(637,872)
<b>Net cash flows used in investing financing activities</b>	<b>(582,978)</b>	<b>(1,085,847)</b>
Net (decrease)/increase in Cash and cash equivalents	(185,382)	191,246
Cash and cash equivalents at start of period	2,466,242	2,108,922
<b>Cash and cash equivalents at end of period</b>	<b>2,280,860</b>	<b>2,300,168</b>
<b>Cash and cash equivalents per Cash flow statement comprise:</b>		
Cash at bank	2,280,960	2,300,326
Bank overdraft	(100)	(158)
<b>Cash and cash equivalents per Cash flow statement</b>	<b>2,280,860</b>	<b>2,300,168</b>

The accompanying notes are an integral part of the half-year financial statements.



## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policy

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 periods presented, unless otherwise stated.

These condensed half-year financial statements as at and for the half-year to 30 June 2023 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 a 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 2022 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.

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 2022 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 2024 and in later periods, including IAS 1 *Classification of liabilities as current and non-current*. These amendments are not expected to have a significant impact on the Company.

#### Ultimate controlling party

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).

The financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 December 2022 were approved by the directors on 26 April 2023 and were delivered to the Registrar of Companies on 13 May 2023. the auditors' report on those accounts was unqualified and did not include a statement under sections 498(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Act.

### 2. 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.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS** (continued)**2. Critical accounting judgements and key sources of estimation uncertainty** (continued)**Litigation**

In January 2021, a litigation claim was brought by, or on behalf of, a number of customers against Bank of Scotland plc 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 £22,935,865 at 30 June 2023 (31 December 2022: £22,534,790). The Company has loan notes in issue that are classified as financial liabilities measured at FVTPL. The fair value of the notes is 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 £21,931,136 at 30 June 2023 (31 December 2022: £21,546,246). This assessment had £nil impact on the Company's result for the half-year to 30 June 2023 (year ended 31 December 2022: £nil).

**3. Interest receivable and similar income**

	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
Bank interest receivable	<u>44,444</u>	<u>5,032</u>

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

	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
Interest receivable on Financial assets at FVTPL	264,668	277,635
Interest payable on Financial liabilities FVTPL	<u>(185,973)</u>	<u>(195,491)</u>
	<u>78,695</u>	<u>82,144</u>

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

	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
Fair value movement on Financial assets at FVTPL	401,075	(310,853)
Fair value movement on Financial liabilities at FVTPL	<u>(384,891)</u>	<u>246,875</u>
	<u>16,184</u>	<u>(63,978)</u>

There are net fair value gains of £14,939 (half-year to 30 June 2022: net fair value losses of £65,993) attributable to changes in unrealised gains and losses in the Company's financial assets and liabilities at fair value through profit or loss. Included in the fair value movement on Financial assets at FVTPL are unrealised gains of £556,630 (half-year to 30 June 2022: unrealised gains of £687,536) and included in the fair value movement on Financial liabilities at FVTPL are unrealised losses of £541,691 (half-year to 30 June 2022: unrealised losses of £753,529).

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS** (continued)**6. Operating expenses**

	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
Intercompany fees	6,762	9,913
Administration fees	20,763	20,463
Audit fees	15,485	15,120
	<b>43,010</b>	<b>45,496</b>

**7. Taxation****7(a) Analysis of (charge)/credit for the period**

	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
<b>UK corporation tax</b>		
Current tax on taxable profit for the period	(29,729)	(1,528)
Current tax charge	<b>(29,729)</b>	<b>(1,528)</b>
<b>UK Deferred tax</b>		
Origination and reversal of timing differences	7,084	5,727
Deferred tax credit	7,084	5,727
<b>Total tax (charge)/credit</b>	<b>(22,645)</b>	<b>4,199</b>

Corporation tax is calculated at a rate of 23.50% (half-year to 30 June 2022: 19.00%) of the taxable profit/(loss) for the period.

**7(b) Factors affecting the tax (charge)/credit for the period**

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

	Half-year to 30 June 2023 £	Half-year to 30 June 2022 £
Profit/(loss) before tax	96,363	(22,098)
Tax (charge)/credit thereon at UK corporation tax in the UK of 23.50% (half-year to 30 June 2022: 19.00%)	(18,309)	4,199
<b>Tax (charge)/credit</b>	<b>(18,309)</b>	<b>4,199</b>
Effective rate	<b>(23.50%)</b>	<b>(19.00%)</b>

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS** (continued)**8. Financial assets held at fair value through profit or loss**

	Note	At 30 June 2023 £
At 1 January		22,534,790
Principal mortgage redemptions during the period		(60,000)
Fair value adjustment		556,630
Shared appreciation receivable movements in the period		(95,555)
	5	<u>401,075</u>
At 30 June		<u>22,935,865</u>
		At 31 December 2022 £
At 1 January		25,268,762
Principal mortgage redemptions during the period		(250,000)
Fair value adjustment		687,535
Shared appreciation receivable movements in the period		(748,388)
		<u>(310,853)</u>
At 30 June		<u>24,957,909</u>
At 1 July		24,957,909
Principal mortgage redemptions during the period		(310,595)
Fair value adjustment		(1,418,468)
Shared appreciation receivable movements in the period		(694,056)
		<u>(2,423,119)</u>
At 31 December		<u>22,534,790</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. Trade and other payables**

	At 30 June 2023 £	At 31 December 2022 £
Shared appreciation payable	—	148,283
Note redemption payable	—	90,806
Accruals and deferred income	150,859	177,330
	<u>150,859</u>	<u>416,419</u>

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

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS** (continued)**10. Financial liabilities designated at fair value through profit or loss**

	Note	At 30 June 2023 £
At 1 January		21,546,245
Accrued interest		(1,245)
Principal mortgage redemptions during the period		(60,000)
Fair value adjustment		541,691
Shared appreciation receivable movements during the period		(95,555)
	5	384,891
At 30 June		<u>21,931,136</u>
		At 31 December 2022 £
At 1 January		24,145,084
Accrued interest		(2,016)
Principal mortgage redemptions during the period		(250,000)
Fair value adjustment		753,529
Shared appreciation receivable movements during the period		(748,388)
		<u>(246,875)</u>
At 30 June		<u>23,898,209</u>
At 1 July		23,898,209
Accrued interest		(126)
Principal mortgage redemptions during the period		(310,595)
Fair value adjustment		(1,347,185)
Shared appreciation receivable movements during the period		(694,057)
		<u>(2,351,963)</u>
At 31 December		<u>21,546,246</u>

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 4.20% per annum. Thereafter, the interest rate payable on the Notes will be 5.20% per annum until 2072 when the Notes are due to redeem. At 30 June 2023 the Notes, as rated by S&P, had a rating of A+ (31 December 2022: 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.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS** (continued)**11. Deferred tax liability**

	At 30 June 2023 £	At 31 December 2022 £
At 1 January	(74,453)	(85,907)
Credit for the period	7,084	11,454
At 30 June	<u>(67,369)</u>	<u>(74,453)</u>

The deferred tax credit in the period comprises the following temporary differences:

Other temporary differences	<u>7,084</u>	<u>11,454</u>
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The Deferred tax liability comprises:

Other temporary differences	<u>(67,369)</u>	<u>(74,453)</u>
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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.

**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 financial statements for the year ended 31 December 2022 where necessary for further information.

**13. Related parties**

The Company is a subsidiary undertaking of Bank of Scotland plc and ultimately Lloyds Banking Group plc.

The Company receives bank interest from Bank of Scotland plc on its bank deposits. Bank of Scotland plc administers the mortgage portfolio on behalf of the Company, for which quarterly service fees are paid. No dividends were paid during the half-year to 30 June 2023 (year to 31 December 2022: £nil).

The Company undertook the following transactions with companies in the Lloyds Banking Group:

	Parent and its subsidiary undertakings At 30 June 2023 £	Parent and its subsidiary undertakings At 31 December 2022 £
<b>Statement of comprehensive income</b>		
Interest receivable and similar income	44,444	27,602
Operating expenses	<u>(6,762)</u>	<u>(17,624)</u>
	<u>37,682</u>	<u>9,978</u>
<b>Balance sheet</b>		
<b>Assets</b>		
Cash and cash equivalents	<u>2,280,960</u>	<u>2,466,618</u>
<b>Liabilities</b>		
Bank overdraft	(100)	(376)
Trade and other payables	<u>(103,301)</u>	<u>(87,816)</u>
	<u>(103,401)</u>	<u>(88,192)</u>

**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 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 2023 and their impact on the 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 2023 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

20 September 2023

**BOS (Shared Appreciation Mortgages) No. 3 plc Board of Directors:**

Johan Robin Charles Von Schmidt Auf Altenstadt  
Lavanya Menon

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