

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**

**ANNUAL REPORT & FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2020**

**COMPANY NUMBER: 11102482**

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**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**  
**ANNUAL REPORT & FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

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**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED****STRATEGIC REPORT**

The Directors present their strategic report on the Company for the year ended 30 June 2020.

**Review of the business**

Bluestone Mortgage Finance No. 4 Limited ('the Company') was set up to raise funding through warehouse facilities and to apply the proceeds to acquire the beneficial interest in a portfolio of residential mortgage loans.

The Company has completed the following significant transaction during the year:

- The Company raised funding via a warehouse facility to acquire mortgages originated by its immediate parent company. During the year, the Company acquired the beneficial interest of £10.0m of such mortgages.
- On 28 August 2019 Bluestone Mortgages Limited, the Company's immediate parent undertaking, completed its first UK RMBS issuance (Genesis 2019-1), backed by £36,658,521 of originated mortgages in which the Company held the beneficial interest. The cash received was used to pay down the warehouse funding lines.
- In September 2019 Bluestone Mortgages Limited sold a £15,237,657 portfolio of mortgages it had previously acquired, realising a profit of £52,000. This is a sale of loans in which the Company held the beneficial interest.

**Results of the business**

The audited financial statements of the Company for the year ended 30 June 2020 are set out on pages 9 to 17. The Company recorded a profit and total comprehensive income for the financial year of £972 (2019: £972).

**Key performance indicators**

Management and Directors use a number of key performance indicators to manage the business, including:

	Year ended 30 June 2020	Period ended 30 June 2019
Net Interest Margin %	0.51%	0.73%

**Principal risks and uncertainties**

The Company is exposed to and manages a variety of risks, with credit risk, liquidity risk and interest rate risk being of particular significance. For further details see note 14.

On 31 December 2019, the World Health Organisation ("WHO") was informed that a limited number of cases of pneumonia, of an unknown cause, were detected in Wuhan, Hubei. On 7 January 2020, Chinese authorities identified a new type of coronavirus (COVID-19) as the cause. The first cases of COVID-19 were confirmed in the United Kingdom in late January 2020.

With Covid-19 continuing to spread aggressively, in March 2020 the WHO declared the coronavirus outbreak as a pandemic. On 23 March 2020 the United Kingdom government announced a lockdown for the United Kingdom, which prohibited all non-essential travel. As a result several businesses have reduced, or in the worst cases, ceased their operations.

During the initial lockdown period the Company followed the UK Government and FCA requirements to provide payment holidays and forbearance to borrowers whose income was affected by the pandemic. Under the lockdown restrictions the Company was not able to continue taking mortgage applications as it was not possible to undertake an on site valuation for properties.

Following easing of the lockdown restrictions in late May the Company resumed taking new applications. We have also seen 89.5% of borrowers who took a payment holiday return to making payments on their mortgages and there is now less than 1% of the total portfolio on payment holidays or related forbearance measures. The extent and duration of the effect of the coronavirus outbreak on businesses does however remain unclear and there remains a risk of financial instability for the Company. For example a detrimental effect on the UK economy may ultimately impact the underlying borrowers' ability to repay their mortgages. The Directors continue to actively monitor the situation and are ready to take further action if required to combat any ongoing impact the pandemic may have.

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**

**STRATEGIC REPORT (continued)**

The Directors have responsibility for the overall system of internal controls within the Company and for reviewing its effectiveness.

On behalf of the board

A. Voss  
Director

Date: 29 January 2021



S. Seal  
Director

Date:

29 January 2021



## **BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**

### **DIRECTORS' REPORT**

The Directors present their report on the affairs of the Company, together with the audited financial statements, for the financial year ended 30 June 2020.

#### **Directors**

The names of the Directors of the Company who served during the financial year and up to the date of signing the financial statements are:

Mr P. McGuinness (resigned 11 August 2020)

Mr A. Voss

Mr S. Seal (appointed 11 August 2020)

No Director had a material interest at any time during the year in any contract of significance with the Company.

#### **Principal Activities**

See details within Strategic Report.

#### **Going Concern**

The financial statements have been prepared on a going concern basis as the Directors are of the opinion that the Company will be able to continue in operation and meet its debts as they fall due for the foreseeable future.

The Company's lending operations are funded by warehouse loan facilities which consist of Senior, Mezzanine and Junior facilities. The warehouse loan facilities totalling £84,776,020, (of which £10,259,227 was utilised as at the balance sheet date), have maturity dates within 12 months of the date of approving the financial statements. In prior periods, regular extensions have been obtained from the facility providers at the expiry of term of each facility on terms consistent with each previous extension. The Directors expect further extensions to be available at the end of the current expiry period and are currently engaged in final documentation of a long term extension for one of the facilities.

In the event that extensions of the facilities were not available and the company was not able to source alternative funding, then under the terms of the facility documents, the portfolio would be placed into run off. The terms of the run off run scenario are documented within the facility agreements and the company would still continue to operate as a going concern until the facilities had been repaid from repayments in the loan portfolio.

The Directors have undertaken a going concern assessment considering factors in relation to Covid-19 including credit performance, asset and origination related stresses and do not expect any of the facilities' covenants to be breached. If any of the covenants were breached then the facility would be placed into run off as described above.

Taking into account the above the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

#### **Directors' and Officers' Liability Insurance**

The Company has arranged Directors' and Officers' liability insurance which covers all the Directors and Officers of the Company and its controlled entities against certain liabilities they may incur in carrying out their duties.

#### **Employees**

All employee services were provided by employees from other group companies.

#### **Dividends**

The Directors are not proposing any dividend in respect of the financial year ending 30 June 2020 (2019: Nil).

#### **Financial Risk Management**

The Company is exposed to and manages different risks, with credit risk, liquidity risk and interest rate risk being of particular significance. Note 14 provides further information on how these risks are managed.

#### **Post balance sheet events**

No post balance sheet events affecting the Company, have occurred since the date of signing the financial statements.

**BLUESTONE MORTGAGE FINANCE NO:4 LIMITED**

**DIRECTORS' REPORT (continued)**

**Provision of Information to Auditors**

Each Director of the Company at the date the Directors' Report is signed confirms that:

- (a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) the Director has taken all of 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.

Signed in accordance with a resolution of the Directors made on 8 January 2021.

On behalf of the board



A. Voss  
Director  
29/1/2021



S. Seal  
Director  
29/1/2021

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed in accordance with a resolution of the Directors made on 8 January 2021.

On behalf of the board



A. Voss  
Director

29/1/2021



S. Seal  
Director

29/1/2021

## **Independent auditor's report to the directors of Bluestone Mortgage Finance No.4 Limited**

### **Opinion**

We have audited the financial statements of Bluestone Mortgage Finance No.4 Limited (the 'company') for the year ended 30 June 2020, which comprises of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' applicable in the UK and Republic of Ireland. (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **The impact of macro-economic uncertainties on our audit**

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with these particular events.

### **Conclusions relating to going concern**

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

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

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.



However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

*In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.*

We have nothing to report in this regard.

#### **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.

#### **Matter on which we are required to report under the Companies Act 2006**

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 material misstatements in the strategic report or the directors' report.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures or directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors for the financial statements**

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

#### **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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **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.

*Grant Thornton UK LLP*

**William Pointon**  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
London  
29/1/2021

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED****STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 30 JUNE 2020**

	<b>Note</b>	<b>2020</b>	<b>2019</b>
		<b>£</b>	<b>£</b>
Interest income	3	687,458	1,038,653
Interest expense	3	<u>(656,204)</u>	<u>(946,860)</u>
<b>Net interest income</b>		<b>31,254</b>	<b>91,793</b>
Fee and commission expense	3	(45,031)	(46,190)
Other income	3	<u>42,860</u>	<u>-</u>
<b>Total income net of interest and other expenses</b>		<b>29,083</b>	<b>45,603</b>
Operating expenses	4	<u>(27,883)</u>	<u>(44,403)</u>
<b>Profit before income tax</b>		<b>1,200</b>	<b>1,200</b>
Income tax expense	5	<u>(228)</u>	<u>(228)</u>
<b>Profit and total comprehensive income for the year</b>		<b>972</b>	<b>972</b>

The above statement of comprehensive income should be read in conjunction with the accompanying notes on pages 12 to 17.

## BLUESTONE MORTGAGE FINANCE NO.4 LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2020 £	2019 £
<b>ASSETS</b>			
Cash and cash equivalents		140,678	5,010,223
Receivables	6	1,549,155	1,495,074
Deemed loan	7	9,981,608	48,204,202
<b>Total assets</b>		<b>11,671,441</b>	<b>54,709,499</b>
<b>LIABILITIES</b>			
Payables	8	(59,514)	(143,829)
Current tax liabilities		(513)	(285)
Interest bearing liabilities	9	(10,259,227)	(53,214,170)
<b>Total liabilities</b>		<b>(10,319,254)</b>	<b>(53,358,284)</b>
<b>NET ASSETS</b>		<b>1,352,187</b>	<b>1,351,215</b>
<b>EQUITY</b>			
Contributed equity	10	1,350,000	1,350,000
Retained earnings		2,187	1,215
<b>Total equity</b>		<b>1,352,187</b>	<b>1,351,215</b>

The above statement of financial position should be read in conjunction with the accompanying notes on pages 12 to 17.

The financial statements on pages 9 to 17 were authorised for issue by the board of Directors on 8 January 2021 and were signed on its behalf.



A. Voss  
Director

Company Number: 11102482  
29/1/2021

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED****STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 30 JUNE 2020**

	<b>Contributed Equity £</b>	<b>Retained earnings £</b>	<b>Total Equity £</b>
<b>Balance at 30 June 2018</b>	<u>1,300,000</u>	<u>243</u>	<u>1,300,243</u>
Profit for the financial year	<u>-</u>	<u>972</u>	<u>972</u>
<b>Total comprehensive income for the financial year</b>	<u>-</u>	<u>972</u>	<u>972</u>
<b>Transactions with owners in their capacity as owners</b>			
Equity issued	<u>50,000</u>	<u>-</u>	<u>50,000</u>
	<u>50,000</u>	<u>-</u>	<u>50,000</u>
<b>Balance at 30 June 2019</b>	<u>1,350,000</u>	<u>1,215</u>	<u>1,351,215</u>
Profit for the financial year	<u>-</u>	<u>972</u>	<u>972</u>
<b>Total comprehensive income for the financial year</b>	<u>-</u>	<u>972</u>	<u>972</u>
<b>Transactions with owners in their capacity as owners</b>			
Equity issued	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Balance at 30 June 2020</b>	<u>1,350,000</u>	<u>2,187</u>	<u>1,352,187</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 12 to 17.

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 30 JUNE 2020**

Bluestone Mortgage Finance No. 4 Limited (the "Company") was incorporated on 7 December 2017 in England and Wales to raise funding through warehouse facilities and to apply the proceeds to acquire the beneficial interest to a portfolio of residential mortgage loans.

The Company is a wholly-owned subsidiary company and is included within the audited consolidated financial statements of Bluestone Consolidated Holdings Limited, which is the ultimate parent company and is incorporated in England and Wales.

The Company is a private company limited by shares which is domiciled and incorporated in England. The address of the registered office is: 1 Station Square, Cambridge, England, CB1 2GA

**Directors:**

Mr P. McGuinness (resigned 11 August 2020)  
Mr A. Voss  
Mr S. Seal (appointed 11 August 2020)

**1. Summary of accounting policies**

The principal accounting policies adopted in the financial statements are set out below.

**(a) Basis of Preparation**

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purpose of FRS 101. Note 15 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements in accordance with FRS 101:

- not disclosing information in relation to a new standard that has been issued but is not yet effective;
- not presenting a cash flow statement;
- not disclosing details of related party transactions entered into between two or more members of a group; and
- not disclosing compensation for key management personnel.

**Early adoption of standards**

The Company has not elected to apply any standards or pronouncements before their operative date in the annual reporting period to year ended 30 June 2020.

The Company has adopted the measurement principals of IFRS 9 for the first time in the year ended 30 June 2019.

**Going Concern**

The Company's lending operations are funded by warehouse loan facilities which consist of Senior, Mezzanine and Junior facilities. The warehouse loan facilities totalling £84,776,020, (of which £10,259,227 was utilised as at the balance sheet date), have maturity dates within 12 months of the date of approving the financial statements. In prior periods, regular extensions have been obtained from the facility providers at the expiry of term of each facility on terms consistent with each previous extension. The Directors expect further extensions to be available at the end of the current expiry period and are currently engaged in final documentation of a long term extension for one of the facilities.

In the event that extensions of the facilities were not available and the company was not able to source alternative funding, then under the terms of the facility documents, the portfolio would be placed into run off. The terms of the run off run scenario are documented within the facility agreements and the company would still continue to operate as a going concern until the facilities had been repaid from repayments in the loan portfolio.

The Directors have undertaken a going concern assessment considering factors in relation to Covid-19 including credit performance, asset and origination related stresses and do not expect any of the facilities' covenants to be breached. If any of the covenants were breached then the facility would be placed into run off as described above.

Taking into account the above the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2020**

**1. Summary of accounting policies (continued)**

**Historical Cost Convention**

These financial statements have been prepared under the historical cost convention.

**(b) Interest Bearing Liabilities**

These represent borrowings (warehouse loan facilities) initially recognised at fair value, net of transaction costs incurred. These borrowings are subsequently measured at amortised cost. Any difference between the proceeds and redemption amount is recognised in profit or loss over the period of borrowings using the effective interest method.

**(c) Receivables**

Receivables are non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market. Receivables are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest and, for financial assets, less any write-down for incurred impairment losses.

**(d) Income Tax**

The income tax expense or revenue for the year is the tax payable/receivable on the current year's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted at the reporting date for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible temporary differences to measure the deferred tax asset and liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for the deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(e) Interest Income**

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding.

**(f) Payables**

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(g) Dividends**

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

**(h) Deemed loan**

The purchase of mortgage receivables from Bluestone Mortgages Limited fails the recognition criteria due to Bluestone Mortgages Limited's entitlement to residual cash flows in the form of deferred purchase consideration. As a result of this, the Company cannot recognise these mortgage receivables in its statement of financial position. Instead the Company has recognised a deemed loan due from Bluestone Mortgages Limited, which is secured on and only has recourse to the cash flows arising from the mortgage receivables. The deemed loan is classified as a financial asset.

The deemed loan has been recognised at the amount corresponding to the mortgage receivables originated during the year and adjusted for principal receipts from the underlying mortgage receivables.

**2. Critical accounting estimates and judgements**

The Directors believe that there are no critical estimates or judgements that may have an impact on the financial statements.

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2020**

**3. Profit for the year before income tax**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Profit from ordinary activities before income tax includes the following items:		
Interest on the deemed loan	682,454	1,029,916
On cash balances	<u>5,004</u>	<u>8,737</u>
	687,458	1,038,653
Interest payable on borrowings	(656,204)	(946,860)
Net interest income	<u>31,254</u>	<u>91,793</u>
Fee and commission expense	(45,031)	(46,190)
Profit on disposal of mortgages	42,860	-
	<u><b>29,082</b></u>	<u><b>45,603</b></u>

**4. Operating expenses**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Professional fees	12,583	29,853
Audit fees	<u>15,300</u>	<u>14,550</u>
	<u>27,883</u>	<u>44,403</u>

**5. Income tax expense**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
(a) Tax on profit		
Current Tax	228	228
Total tax	<u>228</u>	<u>228</u>
(b) Reconciliation of tax on profit		
Profit before income tax	<u>1,200</u>	<u>1,200</u>
Income tax charge at current rate - 19% (2019: 19%)	228	228
Tax charge for the year	<u>228</u>	<u>228</u>

**6. Receivables**

	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Prepayments	4,650	3,750
Accrued income	90,320	38,837
Receivables from related parties	1,454,185	1,451,487
Other	-	1,000
	<u>1,549,155</u>	<u>1,495,074</u>

Amounts receivable from related parties are unsecured and interest free.

**(a) Fair values**

The fair values of the receivables balances are not materially different to their carrying amount in the financial statements.

**(b) Effective interest rates and credit risk**

The Company is not exposed to any significant credit risk on receivables as these amounts are short term in nature or represent prepaid expenses or accrued income. None of the receivables are interest bearing.

**(c) Maturity of receivables**

All receivables are due within 12 months.



**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2020**

**7. Deemed loan**

The deemed loan is secured by first charges over residential properties in the United Kingdom. Interest is charged at 5.06% (2019: 4.69%)

The maturity profile of the deemed loan at 30 June 2019 was as follows:

	2020 £	2019 £
Loan due within one year	727,992	2,895,667
Loan due after more than one year	9,253,616	45,308,535
	<u>9,981,608</u>	<u>48,204,202</u>

**8. Payables**

	2020 £	2019 £
Accrued interest payable on borrowings	10,015	56,081
Payables to other related parties	-	48,860
Accruals	47,400	34,637
Other payables	2,099	4,251
	<u>59,514</u>	<u>143,829</u>

Payables are all due within 12 months.

Payable to other related parties are unsecured and interest free.

**9. Interest bearing liabilities****Borrowings**

These are made up of warehouse loan facilities of £9,746,266 (2019: £53,214,170) which have terms that expired on 15 of January 2020 and pay interest at one month libor plus an average margin of 2.25% (2019: 2.25%).

The warehouse loan facilities are wholly secured against the underlying mortgage assets of the relevant warehouse.

Borrowings also include an amount due to the parent company of £512,961 (2019: £1,378,209) which represents a junior loan facility. The junior loan facility is repayable within 12 months of the date of approving the financial statements. The junior loan facility is interest free.

**10. Contributed equity****Share Capital**

	Issued and Fully Paid		Issued and Fully Paid	
	2020 No.	2020 £	2019 No.	2019 £
<b>Ordinary Shares of £1 each</b>				
At 1 July	1,350,000	1,350,000	1,300,000	1,300,000
Issued in the year	-	-	50,000	50,000
At 30 June	<u>1,350,000</u>	<u>1,350,000</u>	<u>1,350,000</u>	<u>1,350,000</u>

**11. Directors' emoluments**

The Directors are not remunerated via the Company but rather via Bluestone Consolidated Holdings Limited. Details of their remuneration can be obtained from the Bluestone Consolidated Holdings Limited group financial statements.

**12. Employees**

No employees (2019: Nil) were directly employed by the Company during the financial year. All employee services were provided by employees from other group companies.

**13. Auditors' remuneration**

Audit fees of £15,300 (2019: £14,550) were accrued for the year.

## BLUESTONE MORTGAGE FINANCE NO.4 LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

**14. Financial risk management**

The Company's activities expose it to credit risk, liquidity risk and interest rate risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Company.

**(a) Credit risk**

The ability of the Company to meet its obligations to make principal and interest payments on the warehouse facilities and to meet its operating expenses is dependent on the extent that it has such amounts available to it.

The Company's maximum exposure to credit risk arising on the Company's financial assets at the reporting date is as follows:

	Carrying amount 2020 £	Maximum exposure 2020 £	Carrying amount 2019 £	Maximum exposure 2019 £
Cash and cash equivalents	140,678	140,678	5,010,223	5,010,223
Receivables	1,549,155	1,549,155	1,495,074	1,495,074
Deemed loan	9,981,608	9,981,608	48,204,202	48,204,202
	<u>11,671,441</u>	<u>11,671,441</u>	<u>54,709,499</u>	<u>54,709,499</u>

**(b) Liquidity risk**

Liquidity risk reflects the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial instruments should the actual cash flows from its assets differ from those expected. The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the warehouse facilities.

**Warehouse facilities**

Warehouse facilities are typically short term funding facilities that are renewable annually. All of the facilities expire at 15 December 2020.

The wider Bluestone group's Treasury department aims at maintaining flexibility in funding by keeping surplus un-drawn warehouse facilities available. At 30 June 2020 the Company had £75,029,754 (2019: £32,940,059) of undrawn warehouse facilities.

If a warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Company would be the loss of future income streams from excess spread, being the difference between our mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transaction costs and loss of equity and retained notes.

The maturity analysis for the Company's financial liabilities is as follows:

	Total	< 1 year	1 - 2 years	2 - 3 years	> 3 years
30 June 2020	£	£	£	£	£
Payables	59,514	59,514	-	-	-
Warehouse loan facility	9,746,266	710,828	658,985	610,923	7,765,532
Junior loan facility	512,961	37,412	34,683	26,496	414,370
	<u>10,318,741</u>	<u>807,754</u>	<u>693,668</u>	<u>637,419</u>	<u>8,179,902</u>

The above analysis is based on the remaining period at the reporting date to the expected maturity date, assuming renewal of warehouse and junior loan facilities. The amounts disclosed in the table are undiscounted cash flows based on the earliest date at which repayment is required, however it should be noted that funding is arranged on a 'pass through' basis and therefore there is an element of principal amortisation in each funding facility prior to repayment. The expected principal-pass-through to the funders is based on the expected principal receipts from the deemed loan. Calculations of expected principal receipts on the underlying mortgage loans have been derived using prepayment assumptions that are based on historic actual experience.

**BLUESTONE MORTGAGE FINANCE NO.4 LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 30 JUNE 2020**

**14. Financial risk management (continued)**

**(c) Interest rate risk**

The Group's main interest rate risk arises from mortgage loans. Borrowings are issued at variable rates and expose the Company to interest rate risk. Mortgage loans that are written at variable rates also expose the Company to interest rate risk, however the risk is naturally hedged by the variable rate borrowings. Mortgages written at fixed interest rates are hedged with interest rate swaps to match the borrowings used to fund the mortgages. It is company policy to hedge 100% of the outstanding balance of fixed rate loans. Such interest rate swaps have the economic effect of converting mortgage loans from fixed rates to floating rates.

**(d) Capital risk management**

The Company is not subject to any external capital requirements.

**15. Parent undertaking and ultimate controlling party**

The immediate parent undertaking is Bluestone Mortgages Limited, a company registered in England & Wales. The ultimate parent undertaking and controlling party is Bluestone Consolidated Holdings Limited, incorporated in England & Wales.

The consolidated financial statements of Bluestone Consolidated Holdings Limited are available from 1 Station Square, Cambridge, England, CB1 2GA.