Registered Number 3110558

BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 December 2012

BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

Ian Gordon Stewart
Tracey Anne Hill

COMPANY SECRETARY

Paul Gittins

REGISTERED OFFICE

Trinity Road
Halifax
West Yorkshire
HX1 2RG

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered Number 3110558

BOS (SHARED APPRECIATION MORTGAGES) NO 1 PLC
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

The directors present their annual report and the audited financial statements for BOS (Shared Appreciation Mortgages) NO 1 PLC (the "Company") for the year ended 31 December 2012

PRINCIPAL ACTIVITY

The principal activity of the Company is to finance mortgage lending In 1997 the Company issued £27 2m fixed rate notes (the "Notes") The interest payable on the Notes is set at 4 20% per annum until August 2027 Thereafter, the interest rate applicable to the Notes will be 5 20% per annum until 2072 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 (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")

RESULTS AND DIVIDENDS

No new mortgages were acquired or generated by the Company in the year and no new Notes were issued

The profit after taxation for the year amounted to £76,106 (2011 £78,281 profit) During the year the directors recommended payment of a dividend at a rate of £17 per £1 ordinary share The total dividend paid was £850,000 (2011 £nil)

BUSINESS REVIEW AND 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

The principal asset in the Company is a mortgage portfolio which is subject to an annual impairment review The mortgage portfolio is subject to the economic factors relating to the housing market (see "Credit Risk" below) However, these factors did not have any significant bearing on the Company's arrears levels (see note 17) and no impairment provision was deemed necessary as at 31 December 2012 or 31 December 2011

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS (CONTINUED)

Under International Financial Reporting Standards ("IFRSs") the mortgages and Notes are recognised at fair value with an appropriate effective yield adjustment recognised in the income statement

The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual cash flows against planned cash flows on the Notes The Company's performance is addressed in the quarterly management accounts provided to the directors

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Company follows the 'Prompt Payment Code' published by the Department for Business Innovation and Skills (BIS), regarding the making of payments to suppliers Information about the 'Prompt Payment Code' may be obtained by visiting www promptpaymentcode org uk

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performed according to the terms of the contract

The Company owed no money to trade creditors at 31 December 2012 or at 31 December 2011

DIRECTORS

The directors who served during the year and up to the date of signing the financial statements were as follows

Ian Gordon Stewart
Tracey Anne Hill

THIRD PARTIES INDEMNITIES

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the directors' report and financial statements

RISK MANAGEMENT

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments Presentation"

The Company's financial instruments comprise a mortgage portfolio, cash and liquid resources, an embedded derivative, interest-bearing loans and borrowings and various other receivables and payables that arise directly from its operations The principal purpose of these financial instruments is to raise finance for the Company's operations

RISK MANAGEMENT (CONTINUED)

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments is undertaken

The principal risks arising from the Company's financial instruments are credit risk and interest rate risk These 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 17

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, the maximum loan-to-value of the original advances was 75% and the credit risk is considered to be low

The extent to which the Company can meet its obligations to pay interest and ultimately repay the Notes will be dependent upon the receipt of funds earned on the mortgage portfolio and the Letter of Credit issued by BOS (see "Liquidity Risk" below) To the extent that this income does not provide sufficient funds to cover the interest due on the Notes or 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 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

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") This may provide a return on the Notes below initial expectations Any expected increase in value cannot be guaranteed

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 Both the mortgage portfolio and the Notes issued by the Company are exposed to fair value interest rate risk as they carry fixed interest rates

Liquidity risk

The Company has an unconditional and irrevocable 364-day revolving Letter of Credit provided by BOS The Letter of Credit is for a maximum aggregate principal amount of £890,000 to assist the Company should it not be able to meet its obligations under the Notes The reliance on this facility is therefore dependent upon the creditworthiness of BOS The Company has not drawn on the Letter of Credit since inception

Operational risk

In accordance with the Programme Documentation the Company is bound to make payments to meet third party expenses BOS has been appointed to act as account bank and servicer of the mortgage book on behalf of the Company The Company also uses the Bank of New York Mellon to provide all corporate services in respect of the Notes in issue

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,

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

Statement of disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information This confirmation is given, and should be interpreted, in accordance with the provisions of section 418(2) of the Companies Act 2006

EMPLOYEES

The Company has employed no staff during the year ended 31 December 2012 or the previous year

INDEPENDENT AUDITORS

A resolution will be proposed at the 2013 Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as auditors of the Company

STATEMENT OF GOING CONCERN

The directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future and is financially sound For this reason, they continue to adopt the going concern basis in preparing the accounts

POST BALANCE SHEET EVENT

The proposed further reduction in the rate of corporation tax by 2% to 21% from 1 April 2014 is expected to be enacted separately The effect of this further change upon the company's deferred tax balances cannot be reliably quantified at this stage

By Order of the Board

Paul Gittins
Secretary

Trinity Road
Halifax
West Yorkshire
HX1 2RG

DATE 22 March 2013

BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC
INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC

We have audited the financial statements of BOS (Shared Appreciation Mortgages) NO 1 PLC for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities 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 Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Scott Berryman

Scott Berryman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date 22 March 2013

BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Interest receivable and similar income	2	510,821	575,181
Interest payable and similar charges	3	(387,071)	(437,851)
Net interest income		123,750	137,330
Other operating income	5	225	1,055
Operating expenses	6	(25,537)	(35,054)
Profit before tax		98,438	103,331
Taxation	7	(22,332)	(25,050)
Profit / total comprehensive income attributable to equity holders		76,106	78,281

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

There were no gains or losses other than those in the statement of comprehensive income

The accompanying notes on pages 13 to 31 are an integral part of the financial statements

BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC
BALANCE SHEET AS AT 31 DECEMBER 2012

	Notes	2012 £	2011 £
Assets			
Cash and cash equivalents	8	400,207	1,313,979
Mortgage portfolio	9	7,119,486	7,461,637
Shared appreciation rights receivable	10	11,735,862	12,248,930
Trade and other receivables	11	794	794
Total assets		19,256,349	21,025,340
Equity and liabilities			
Bank overdraft	8	358	1,931
Interest-bearing loans and borrowings	12	6,885,549	7,200,378
Shared appreciation rights payable	13	11,735,862	12,248,930
Current tax liability	7	65,511	34,663
Deferred tax liability	14	18,952	27,467
Trade and other payables	15	16,054	204,014
Total liabilities		18,722,286	19,717,383
Share capital	16	50,001	50,001
Retained profits		484,062	1,257,956
Shareholders' equity		534,063	1,307,957
Total equity and liabilities		19,256,349	21,025,340

The directors approved the financial statements on 22 March 2013

Ian Gordon Stewart
Director

The accompanying notes on pages 13 to 31 are an integral part of the financial statements

Registered Number 3110558

BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Share Capital £	Retained Profits £	Total £
Balance at 1 Jan 2012	50,001	1,257,956	1,307,957
Profit / total comprehensive income for the year	-	76,106	76,106
Dividends paid in the year	-	(850,000)	(850,000)
Balance at 31 Dec 2012	50,001	484,062	534,063

	Share Capital £	Retained Profits £	Total £
Balance at 1 Jan 2011	50,001	1,179,675	1,229,676
Profit / total comprehensive income for the year	-	78,281	78,281
Balance at 31 Dec 2011	50,001	1,257,956	1,307,957

The accompanying notes on pages 13 to 31 are an integral part of the financial statements

BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £	2011 £
Operating Activities			
Inter-company fees paid		(14,373)	(15,185)
External audit fees paid		(3,300)	(6,444)
Administration expenses paid		(7,714)	(15,878)
Tax paid		-	(43,020)
Net cash flows from operating activities		(25,387)	(80,527)
Investing Activities			
Repayments on mortgage portfolio		376,707	752,170
Income earned on mortgage portfolio		452,265	485,839
Shared appreciation rights received		486,119	1,055,071
Net cash flows from investing activities		1,315,091	2,293,080
Financing Activities			
Bank interest received		12,516	20,279
Repayment of borrowings		(467,016)	(623,499)
Interest paid on borrowings		(332,884)	(358,759)
Shared appreciation rights paid		(564,519)	(976,671)
Dividends paid		(850,000)	-
Net cash flows from financing activities		(2,201,903)	(1,938,650)
Net (decrease) / increase in cash and cash equivalents		(912,199)	273,903
Cash and cash equivalents at start of year		1,312 048	1,038,145
Cash and cash equivalents at end of year	8	399,849	1,312,048

The cash flow statement is presented using the direct method of preparation

The accompanying notes on pages 13 to 31 are an integral part of the financial statements

1 SIGNIFICANT ACCOUNTING POLICIES

BOS (Shared Appreciation Mortgages) NO 1 PLC is a company domiciled and incorporated in the United Kingdom

(a) Statement of compliance

The financial statements for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board All accounting policies have been consistently applied in the financial statements

The financial statements also comply with the relevant provisions of Part XV of the Companies Act 2006

The Company is reliant on funding provided by BOS which is a subsidiary of LBG The Directors are satisfied that it is the intention of LBG that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis

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 that derivative financial instruments are stated at fair value)

(b) Interest income and interest payable

Interest receivable and similar income have been calculated using the effective interest method The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Taxation

Income tax recognised in the income statement comprises both current and deferred tax Current income tax, which is payable on taxable profits, is recognised as an expense in the period in which the profits arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

The Company's tax charge is calculated on an IFRS basis and disclosed in accordance with IAS 12

(d) Financial instruments

The Company's financial instruments comprise a mortgage portfolio, cash and liquid resources, an embedded derivative, interest-bearing loans and borrowings and various other receivables and payables that arise directly from its operations

The main purpose of these financial instruments is to raise finance for the Company's operations These financial instruments are classified in accordance with the principles of IAS 39 as described below

(d)(i) Mortgage portfolio

The Company's mortgage portfolio comprises mortgage loans with no fixed maturity date The individual mortgage loans terminate on the earlier of the date of sale of the property or the death of the mortgage account holder

Under IAS 39, the mortgage portfolio is classified within "loans and receivables" The initial measurement is at fair value (excluding amounts for the shared appreciation referred to in (d)(iv) below) Subsequent measurement is at amortised cost with revenue being recognised using the effective interest method The discount arising on initial recognition is being amortised over the expected life of the mortgages

At each reporting period end, the Company assesses whether there is any objective evidence that mortgage loans within the portfolio are impaired The directors do not consider that a provision for impaired assets is currently required

(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 within "loans and receivables" in accordance with IAS 39 and income is being recognised using the effective interest method

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(d)(iii) Interest-bearing loans and borrowings

The Company's interest-bearing loans and borrowings comprise mortgage-backed fixed rate Notes that have been issued in the capital market

Interest-bearing loans and borrowings are recognised initially at fair value less directly related incremental transaction costs Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis

(d)(iv) Embedded derivatives

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the income statement Depending on the classification of the host instrument, the host is then measured in accordance with IAS 39

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 not viewed as being closely related to those arising on the mortgages and Notes, respectively The shared appreciation rights receivable and payable have therefore been valued separately from the mortgages and Notes using current HPI There is uncertainty regarding the timing of any future shared appreciation As a borrower could sell immediately the directors consider that spot price is the best estimate of shared appreciation and therefore current HPI is used

The resulting fair value movements of these embedded derivatives are recorded in net fair value gains and losses on derivatives in the income statement and the embedded derivatives are shown separately on the face of the balance sheet The host instruments are valued at amortised cost, as noted above in (d)(i) and (d)(iii)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments

The directors of the Company consider that the entity has only one geographical and one business segment and therefore does not produce segmental disclosure

(f) 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 are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors The most significantly affected components of the financial statements and associated critical judgements are as follows

Effective interest rate method

The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument The calculation includes all amounts expected to be paid or received by the Company including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account in the calculation Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

For the purpose of the effective yield calculation on the Notes, an average expected life has been calculated based on prepayment expectations for the mortgages This is revised on a regular basis in light of actual redemption experience

Fair value calculations

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 value of the embedded derivative has been calculated separately from the host contract using current HPI All inputs into the valuation models are obtained from observable market data No assumption for future HPI has been included as the directors do not consider it is possible to make a reliable estimate on this basis As a borrower could sell immediately, spot price is deemed more appropriate to use

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fees and commissions

Fees and commissions receivable for the continuing service of loans and advances are recognised on the basis of work done Other fees are recognised when receivable

(h) Dividends

Dividends on ordinary shares are recognised in equity in the year in which they are paid

(i) Trade and other payables

Trade and other payables are stated at cost or at amortised cost if deemed to be a financial liability

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £	2011 £
Interest receivable on mortgage portfolio	498,305	554,902
Bank interest receivable	12,516	20,279
	510,821	575,181

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £	2011 £
Interest payable on Notes	379,270	426,150
Amortisation of issue costs	7,801	11,701
	387,071	437,851

4. NET FAIR VALUE GAINS AND LOSSES ON DERIVATIVES

	2012 £	2011 £
Fair value movement on shared appreciation rights receivable	(513,068)	(2,302,570)
Fair value movement on shared appreciation rights payable	513,068	2,302,570
	-	-

5. OTHER OPERATING INCOME

	2012 £	2011 £
Fees and commissions receivable	225	1,055
Shared appreciation receivable	486,119	1,055,071
Shared appreciation payable	(486,119)	(1,055,071)
	225	1,055

6. OPERATING EXPENSES

	2012 £	2011 £
Inter-company fees	14,297	15,109
Administration fees	7,940	16,945
Audit fees	3,300	3,000
	25,537	35,054

The Company has no employees (2011 nil) 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

The audit fee for the current year, net of VAT, was £2,750 (2011 £2,500)

7. TAXATION

	2012 £	2011 £
Current Tax		
Corporation tax charge for the year at a rate of 24 5% (2011 26 5%)	30,847	34,663
Deferred Tax		
Deferred tax change in tax rate – credit	(1,785)	(2,334)
Deferred tax credit for the year at a rate of 24 5% (2011 26 5%)	(6,730)	(7,279)
Total tax charge	22,332	25,050

Reconciliation of effective tax rate The tax assessed for the year is lower (2011 lower) than the standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	2012 £	2011 £
Profit before tax	98,438	103,331
Profit before tax multiplied by the standard rate of corporation tax in the UK of 24 5% (2011 26 5%)	24,117	27,384
Effects of		
Deferred tax change in tax rate – credit	(1,785)	(2,334)
Total tax charge	22,332	25,050

The current tax liability of £65,511 (2011 £34,663 liability) represents the net amount of income tax payable in respect of the current and prior year

The standard rate of Corporation Tax in the UK changed from 26% to 24% with effect from 1 April 2012 Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 24 5% In addition, the Finance Act 2012, which passed into law on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013

8. CASH AND CASH EQUIVALENTS

	2012 £	2011 £
Bank accounts	400,207	1,313,979
Bank overdraft	(358)	(1,931)
Cash and cash equivalents per the cash flow statement	399,849	1,312,048

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

9. MORTGAGE PORTFOLIO

	2012 £	2011 £
At 1 January	7,461,637	8,149,069
Mortgage redemptions in the year	(388,193)	(756,495)
Amortisation of discount	46,042	69,063
At 31 December	7,119,486	7,461,637

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

10. SHARED APPRECIATION RIGHTS RECEIVABLE

The right for the Company to receive a share of the capital appreciation arising on the individual mortgages, as set out in the original loan agreements, is classified as an embedded derivative, in accordance with the principles of IAS 39 The embedded derivative has been valued separately from the host contract using current HPI No estimate has been made of the effect of future HPI as the directors do not consider it possible to provide a reliable estimate As a borrower could sell immediately, spot price is deemed more appropriate to use

The Company is contractually obliged to pay to the Note holders any amounts received from mortgage customers for the shared appreciation A corresponding embedded derivative liability has therefore been recognised in the balance sheet (note 13)

11. TRADE AND OTHER RECEIVABLES

	2012 £	2011 £
Other debtors	794	794

12. INTEREST-BEARING LOANS AND BORROWINGS

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 17

	2012 £	2011 £
Non-current liabilities		
Notes	6,967,510	7,288,473
Deferred issue costs	(101,933)	(109,214)
	6,865,577	7,179,259
Current liabilities		
Accrued interest payable to Note holders	27,253	28,920
Deferred issue costs	(7,281)	(7,801)
	19,972	21,119
At 31 December	6,885,549	7,200,378

The mortgage-backed fixed rate Notes are due in 2072 The interest rate applicable 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 applicable to the Notes will be 5 20% per annum until 2072 when the Notes become due At the end of the year the Notes, as rated by S&P, had a rating of A (2011 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

13 SHARED APPRECIATION RIGHTS PAYABLE

The Company is contractually obliged to pay to the Note holders any amounts received from mortgage customers for the shared appreciation arising on the sale of the property An embedded derivative liability has therefore been recognised in the balance sheet for the same value as the embedded derivative asset (note 10)

14. DEFERRED TAX LIABILITY

	2012 £	2011 £
At 1 January	27,467	37,080
Credit for year	(6,730)	(7,279)
Change in Tax Rate – credit	(1,785)	(2,334)
At 31 December	18,952	27,467

The deferred tax liability was recognised for the fair value adjustments that arose on transition to IFRS and is being released to the income statement over a period of ten years from adoption

Legislation to reduce the main rate of corporation tax from 26% to 24% with effect from 1 April 2012 was substantively enacted on 26 March 2012 This has resulted in a decrease in the Company's provision for deferred tax at 31 December 2012 of £1,785 (2011 £2,334)

15. TRADE AND OTHER PAYABLES

	2012 £	2011 £
Shared appreciation payable	-	78,400
Accruals and deferred income	14,867	124,351
Amounts owed to BOS	1,187	1,263
	16,054	204,014

16. SHARE CAPITAL

	2012	2011
	£	£
Authorised		
50,000 ordinary shares of £ 1 each	50,000	50,000
1 deferred share of £1	1	1
Allotted and paid up		
50,000 ordinary shares of £1 each	50,000	50,000
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 (formerly Bankers 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% of the number of votes attached to all other issued shares of the Company

17. MANAGEMENT OF RISK

The principal risks arising from the Company's financial instruments are credit risk and interest rate risk However, considerable resource is given to maintaining effective controls to manage, measure and mitigate these risks Further detailed analysis of the 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

17(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 75% 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 the Letter of Credit issued by BOS (see "Liquidity Risk") To the extent that this income does not provide sufficient funds to cover the interest due on the Notes or 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 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 In terms of the shared appreciation, in accordance with the Programme Documentation, amounts received by the Company from the borrower are required to be paid over to the Note holders

In terms of arrears management, the Company has engaged BOS as servicer of the loans in the portfolio to help reduce the risk of loss The servicer is required to monitor repayments on the mortgage loans in accordance with its usual credit policies

The mortgage balances are monitored as part of the LBG impairment process At each reporting period end, the Company assesses whether there is any objective evidence that mortgage loans within the portfolio are impaired All loans in the mortgage portfolio pay a fixed rate of interest of 5 75%

The total value of interest arrears at 31 December 2012 was £9,549 (2011 £40,495) All accounts in the mortgage portfolio had a maximum loan-to-value of 75% and those accounts in interest arrears have a current loan-to-value ratio of less than 40% (2011 30%) Credit risk is considered to be low There are no properties in possession or bad debts within the Company No impairment provision was deemed necessary at 31 December 2012 or 31 December 2011

17. MANAGEMENT OF RISK (CONTINUED)

17(a) Credit risk (continued)

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 2012 £	Maximum Exposure 2012 £	Carrying Amount 2011 £	Maximum Exposure 2011 £
Assets held at amortised cost:					
Cash and cash equivalents	8	400,207	400,207	1,313,979	1,313,979
Mortgage portfolio	9	7,119,486	7,764,081	7,461,637	8,152,272
Trade and other receivables	11	794	794	794	794
Assets held at fair value:					
Shared appreciation rights receivable	10	11,735,862	11,735,862	12,248,930	12,248,930
Total Assets		19,256,349	19,900,944	21,025,340	21,715,975

17(b) 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 Both the mortgage portfolio and the Notes issued by the Company are exposed to fair value interest rate risk as they carry fixed interest rates

At 31 December 2012, if interest rates had been 100 basis points higher or lower with all other variables held constant, the net effect on the Company's income statement would be insignificant All items remain unaffected by interest rate changes except for interest earned on bank accounts but a 100 basis points change would not give rise to a significant impact on bank interest

17. MANAGEMENT OF RISK (CONTINUED)

17(c) 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 extent to which the Company can meet its obligations to pay interest and ultimately repay the Notes will be dependent upon the receipt of funds earned on the mortgage portfolio and the Letter of Credit issued by BOS

The Company has an unconditional and irrevocable 364-day revolving Letter of Credit provided by BOS The Letter of Credit is for a maximum aggregate principal amount of £890,000 to assist the Company should it not be able to meet its obligations under the Notes The reliance on this facility is therefore dependent upon the creditworthiness of BOS, which currently has a long term rating from Standard and Poor's (S&P) of A (2011 S&P long-term rating A)

The Company has not drawn on the Letter of Credit 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 The Note repayment profile mirrors the repayment of the mortgages, and based on current modelling assumptions, it is not anticipated that any mortgages will still be outstanding beyond the step-up date of August 2027

2012	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
	£	£	£	£	£	£	£
Principal							
Notes	6,967,510	7,640,216	-	-	-	-	7,640,216
Shared appreciation payable	11,735,862	11,735,862	-	-	-	-	11,735,862
Trade and other payables	16,054	16,054	-	16,054	-	-	-
Interest payable							
Interest payable on Notes	27,253	4,735,971	-	79,123	241,766	1,284,435	3,130,647
	18,746,679	24,128,103	-	95,177	241,766	1,284,435	22,506,725

17. MANAGEMENT OF RISK (CONTINUED)

17(c) Liquidity risk (continued)

2011	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
	£	£	£	£	£	£	£
Principal							
Notes	7,288,473	8,009,232	-	-	-	-	8,009,232
Shared appreciation payable	12,248,930	12,248,930	-	-	-	-	12,248,930
Trade and other payables	204,014	204,014	-	204,014	-	-	-
Interest payable							
Interest payable on Notes	28,920	5,298,394	-	83,809	253,269	1,345,551	3,615,765
	19,770,337	25,760,570	-	287,823	253,269	1,345,551	23,873,927

17(d) Fair values

The fair values of the Company's principal financial instruments, together with the carrying amounts shown in the balance sheet are as follows

	Note	Carrying Amount 2012 £	Fair Value 2012 £	Carrying Amount 2011 £	Fair Value 2011 £
Loans and Receivables at amortised cost					
Mortgage portfolio	9	7,119,486	5,122,277	7,461,637	5,347,410
Financial liabilities at amortised cost					
Interest-bearing loans and borrowings	12	(6,885,549)	(5,427,686)	(7,200,378)	(5,786,794)

The embedded derivatives for shared appreciation receivable and payable are recognised in the balance sheet at fair value

17. MANAGEMENT OF RISK (CONTINUED)

17(d) Fair values (continued)

The following comments summarise the main methods and assumptions used in estimating the fair value of financial instruments

The fair value of the mortgage portfolio and interest-bearing loans and borrowings have been calculated by discounting future cash flows at an appropriate market rate The fair value of the shared appreciation rights receivable and shared appreciation rights payable have been calculated using current HPI The valuation method is consistent with commonly used market techniques All significant inputs into the valuation models are obtained from observable market data

For this reason, in accordance with "IFRS 7 Financial Instruments Disclosures", the fair value measurement for the shared appreciation is deemed to be Level 2 in the Fair Value Hierarchy The change in fair value that has been calculated using this valuation technique has been recognised in the income statement for the year ended 31 December 2012

The cash and cash equivalents, trade and other receivables and trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value

18 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 During the year there was a dividend paid to BOS for £850,000 (2011 £nil)

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

	LBG and subsidiary undertakings	LBG and subsidiary undertakings
	2012	2011
Statement of Comprehensive Income	£	£
Interest receivable and similar income	12,516	20,279
Operating expenses	(14,297)	(15,109)
Balance Sheet		
Assets		
Cash and cash equivalents	400,207	1,313,979
Liabilities		
Bank overdraft	(358)	(1,931)
Other payables	(1,187)	(1,263)
Equity		
Dividends paid in the year	(850,000)	-

19 FUTURE ACCOUNTING PRONOUNCEMENTS

The following pronouncements will be relevant to the Company but are not applicable for the year ending 31 December 2012 and have not been applied in preparing these financial statements The full impact of these accounting changes is being assessed by the Company

Pronouncement	Nature of change	IASB effective date
Amendments to IAS 1 Presentation of Financial Statements – *'Presentation of Items of other Comprehensive Income'*	Requires entities to group items presented in other income on the basis of whether they are potentially reclassified to profit or loss subsequently	Annual periods beginning on or after 1 July 2012
Amendments to IFRS 7 *Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities (1)*	Requires an entity to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's balance sheet	Annual periods beginning on or after 1 January 2013
IFRS 10 *Consolidated Financial Statements (1)*	Supersedes IAS 27 *Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities* and establishes the principles for when the Group controls another entity and therefore is required to consolidate the other entity in the Group's financial statements	Annual periods beginning on or after 1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities (1)*	Requires an entity to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows	Annual periods beginning on or after 1 January 2013

19. FUTURE ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Pronouncement	Nature of change	IASB effective date
IFRS 13 *Fair Value Measurement*	Defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements	Annual periods beginning on or after 1 January 2013
Amendment to IAS 32 *Financial Instruments Presentation – 'Offsetting Financial Assets and Financial Liabilities' (1)*	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement	Annual periods beginning on or after 1 January 2014
IFRS 9 *Financial Instruments (1), (2)*	Replaces those parts of IAS 39 *Financial Instruments Recognition and Measurement* relating to the classification, measurement and derecognition of financial assets and liabilities IFRS 9 requires financial assets to be classified into two measurements categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments and eliminated the available-for-sale financial asset and held-to-maturity investment categories in IAS 39 The requirements for financial liabilities and derecognition are broadly unchanged from IAS 39	Annual periods beginning on or after 1 January 2015

(1) As at 28 February 2013, these pronouncements with the exception of IFRS 9 have all received EU endorsement

(2) IFRS 9 is the initial stage of the project to replace IAS 39 Future stages are expected to result in amendments to IFRS 9 to deal with changes to the impairment of financial assets measured at amortised cost and hedge accounting, as well as a reconsideration of classification and measurement Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements of the replacement of IAS 39

20. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Bank of Scotland plc The company regarded by the directors as the ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member Bank of Scotland plc is the parent undertaking of the smallest such group of undertakings Copies of the group accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN

21. DIVIDENDS

	2012 £	2011 £
Ordinary shares		
£17 per £1 share	850,000	-
Deferred shares		
£nil per £1 share	-	-
	850,000	-