

Registered Number: OC310386

**HBOS SOCIAL HOUSING COVERED BONDS LLP
MEMBERS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

**HBOS SOCIAL HOUSING COVERED BONDS LLP
MEMBERS AND LLP INFORMATION**

DESIGNATED MEMBERS

Bank of Scotland plc
Addison Social Housing Limited, as Liquidation Member

MANAGEMENT COMMITTEE

J Howarth (Bank of Scotland plc)
F Kenny (Addison Social Housing Limited)

REGISTERED OFFICE

Charterhall House
Charterhall Drive
Chester
CH88 3AN

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

**HBOS SOCIAL HOUSING COVERED BONDS LLP
MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013**

Registered Number OC310386

On behalf of the designated members (the "Members") of HBOS Social Housing Covered Bonds LLP (the "LLP"), the Management Committee present their annual report and financial statements for the year ended 31 December 2013.

The LLP is a limited liability partnership domiciled in England. The LLP is registered in England & Wales.

PRINCIPAL ACTIVITY

The LLP is a special purpose entity whose business is the acquisition and management of Housing Association loans and their related security to guarantee the Social Housing Covered Bonds issued by Bank of Scotland plc ("BOS") a subsidiary of Lloyds Banking Group ("LBG").

The activities of the LLP are conducted primarily by reference to a series of transaction documents (the "Transaction Documentation") for the sale of the Housing Association loans. The structure has been established as a means of raising finance for BOS and no business activities will be undertaken by the LLP beyond those set out in the Transaction Documentation.

In consideration for the beneficial interest in the Housing Association loans, the LLP is required to give a combination of:

- i) a cash payment to BOS from the proceeds of a term loan;
- ii) a record of a capital contribution in kind being made by BOS; and
- iii) deferred consideration which will be paid by the LLP on each LLP payment date in accordance with the relevant priority of payments.

The programme allows a maximum Covered Bond issuance of £3bn, providing that the Housing Association loans acquired and other assets available meet the Asset Coverage Test ("the ACT") per the Transaction Documentation, which states that the adjusted aggregate amounts of the Housing Association loans and other assets (primarily cash) must be of an amount equal to or greater than the total amount of Social Housing Covered Bonds in issue after taking into account other deductions. More information on the Asset Coverage Test is provided in Note 13(a).

On 11 February 2013 the LLP re-paid £600,000,000 to Bank of Scotland Plc per the intercompany loan agreement. This repayment was made in line with the maturity of the 2008-1 (Tranche 1) covered bond issuance (2012: £nil).

DESIGNATED MEMBERS

The Members during the year and up to the date of signing of the financial statements were as follows:

Bank of Scotland plc
Addison Social Housing Limited, as Liquidation Member

MEMBERS' INTERESTS

The policy regarding the allocation of profits to Members and the treatment of capital contributions is set out in note 1 'Significant accounting policies'.

HBOS SOCIAL HOUSING COVERED BONDS LLP
MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Registered Number OC310386

STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 (the "Regulations") requires the Members to prepare financial statements for each financial year. Under that law the Members have prepared the partnership financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law as applied to limited liability partnerships the Members 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 partnership and of the profit or loss of the partnership for that period. In preparing these financial statements, the Members 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; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the partnership will continue in business.

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

RISK MANAGEMENT

The LLP's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments: Presentation".

The LLP's financial instruments principally comprise a deemed loan (the "Deemed Loan") to BOS (the "Originator") (equivalent to the value of the LLP's investment in BOS loans), cash and cash equivalents, 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 BOS.

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

Further discussion of the LLP's approach to financial instruments are set out in note 1 'Significant accounting policies' and in note 13 'Management of risk'.

**HBOS SOCIAL HOUSING COVERED BONDS LLP
MEMBERS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

Registered Number OC310386

EMPLOYEES

The LLP has employed no staff during the year ended 31 December 2013 or the previous year.

INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Pursuant to section 487 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 auditors duly appointed by the Members of the LLP shall, subject to any resolution to the contrary, be deemed to be reappointed for the next financial year. Having indicated their willingness to do so, PricewaterhouseCoopers LLP will therefore continue in office.

So far as the Members are each aware, there is no relevant audit information of which the LLP's auditors are unaware. The Members have each taken all the steps that they ought to have taken as a member in order to make themselves aware of any relevant audit information and to establish that the LLP's auditors are aware of that information.

STATEMENT OF GOING CONCERN

As set out in the statement of compliance in the significant accounting policies section of the notes to the financial statements, the Members are satisfied that the LLP has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the financial statements.

The LLP holds minimal reserves because all available profits are distributed each year to the Members.

By Order of the Members

A handwritten signature in dark ink, appearing to read 'J Howarth', is written over a light blue horizontal line.

J Howarth on behalf of
Bank of Scotland plc
Designated Member

29 April 2014

Independent auditors' report to the members of HBOS Social Housing Covered Bonds LLP

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by HBOS Social Housing Covered Bonds LLP, comprise:

- the statement of financial position as at 31 December 2013;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the members have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 limited liability partnership's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the designated members; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Members' Report (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 as applicable to limited liability partnerships we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

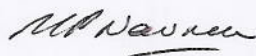
Responsibilities for the financial statements and the audit

Our responsibilities and those of the members

As explained more fully in the Members' Responsibilities Statement set out on page 3, the members 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the members of the partnership as a body in accordance with the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 and for no other purpose. We do not, in giving this opinion, 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.



Michael Newman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 April 2014

HBOS SOCIAL HOUSING COVERED BONDS LLP
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Note	£000	£000
Interest receivable and similar income	2	10,065	23,019
Interest payable and similar charges	3	(9,906)	(22,872)
Net interest income		159	147
Operating expenses	4	(159)	(147)
Profit for the year		-	-

There are no items of comprehensive income which have not already been presented in arriving at the profit for the year. Accordingly, the profit for the year is the same as total comprehensive income for the year.

The profit shown above is derived from continuing operations. The LLP operates in a single business segment and all of the LLP's activities are in the UK.

There was no income or expense recognised directly in equity in the current year or preceding years.

The notes on pages 11 to 33 form an integral part of these financial statements.

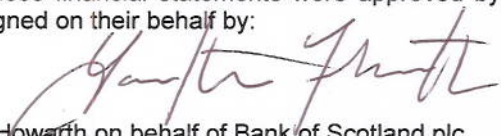
HBOS SOCIAL HOUSING COVERED BONDS LLP
BALANCE SHEET
AS AT 31 DECEMBER 2013

Registered Number OC310386

	Note	2013 £000	2012 £000
Assets			
Cash and cash equivalents	5	203,908	27,022
Deemed Loan to Originator	6	1,596,501	2,373,466
Other receivables	7	-	4
Total assets		1,800,409	2,400,492
Members' other interests and liabilities			
Loans and borrowings	8	(1,800,310)	(2,400,408)
Other payables	9	(99)	(84)
Total liabilities		(1,800,409)	(2,400,492)
Retained earnings	12	-	-
Total Members' other interests		-	-
Total Members' other interests and liabilities		(1,800,409)	(2,400,492)
Total Members' interests			
Retained earnings	12	-	-
Deemed Loan to Originator	6	(1,596,501)	(2,373,466)
Loans and borrowings	8	1,800,310	2,400,408
	12	203,809	26,942

The notes on pages 11 to 33 form an integral part of these financial statements

These financial statements were approved by the Members on 29 April 2014 and were signed on their behalf by:


J Howarth on behalf of Bank of Scotland plc
Designated Member

HBOS SOCIAL HOUSING COVERED BONDS LLP
STATEMENT OF CHANGES IN MEMBERS' EQUITY INTERESTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Retained Earnings £000
Balance at 1 January 2013		-
Total comprehensive income for the year		-
Balance at 31 December 2013	12	-

	Note	Retained Earnings £000
Balance at 1 January 2012		-
Total comprehensive income for the year		-
Balance at 31 December 2012	12	-

The notes on pages 11 to 33 form an integral part of these financial statements

HBOS SOCIAL HOUSING COVERED BONDS LLP
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
Operating Activities			
Audit fees paid		-	(26)
Administration expenses		(140)	(119)
Net cash flows used in operating activities		(140)	(145)
Investing Activities			
Principal receipts / (repayments) on Deemed Loan to Originator		772,565	(56,129)
Interest on Deemed Loan to Originator		13,877	18,733
Bank interest received		588	807
Net cash flows generated from / (used in) investing activities		787,030	(36,589)
Financing Activities			
Interest on term loan		(9,992)	(21,991)
Principal repayments on term loan		(600,000)	-
Interest paid to Members		(12)	(12)
Net cash flows used in financing activities		(610,004)	(22,003)
Net increase / (decrease) in cash and cash equivalents		176,886	(58,737)
Cash and cash equivalents at 1 January		27,022	85,759
Cash and cash equivalents at 31 December	5	203,908	27,022

The cashflow statement is presented using the direct method to improve the transparency of the financial statements.

The notes on pages 11 to 33 form an integral part of these financial statements.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements were authorised for issue by the Members on 29 April 2014. The financial statements for the year ended 31 December 2013 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 LLP has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2013. Neither of these standards or amendments to standards has had a material impact on these financial statements.

Changes in accounting policy

(i) IFRS 13 *Fair Value Measurement*

IFRS 13 has been applied with effect from 1 January 2013. IFRS 13 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the LLP has access at that date. IFRS 13 requires that the fair value of a non-financial asset is determined based on the highest and best use of the asset, and that the fair value of a liability reflects its non-performance risk. These changes had no significant impact on the measurement of the LLP's assets and liabilities. The IFRS 13 disclosures are given in note 13 'Management of risk' to the financial statements.

Other presentation and disclosure changes

In addition to the accounting policy change discussed above, on 1 January 2013 the LLP adopted the following new standards and amendments to standards which impact the presentation and disclosures in these financial statements; none of these has had a material impact on the primary financial statements.

- **Amendments to IAS 1 *Presentation of Financial Statements – 'Presentation of Items of Other Comprehensive Income'***
The amendments to IAS 1 require entities to group items presented in other comprehensive income on the basis of whether they may potentially be reclassified to profit or loss subsequently. The Company has no items of comprehensive income which have not already been presented in arriving at the profit for the year. Therefore no revision is required to the statement of other comprehensive income in these financial statements as a result of the new requirements.
- **Amendments to IFRS 7 *Financial Instruments: Disclosures – 'Disclosures – Offsetting Financial Assets and Financial Liabilities'***
The amendments to IFRS 7 require entities to disclose information to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on the balance sheet. These disclosures are given in note 13 'Management of risk' to the financial statements.

**HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Statement of compliance (continued)

Other presentation and disclosure changes (continued)

- *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 requires an entity to disclose information that enables users of the 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. These disclosures are made in the notes to these financial statements.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006, as applying to Limited Liability Partnerships.

The LLP is reliant on support provided by BOS. The Members are satisfied that it is the current intention of LBG to ensure that its subsidiaries, including BOS and the LLP, shall have at all times in the foreseeable future (being the period until at least 31 December 2015) access to adequate capital and liquidity resources to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements are presented in Sterling which is the LLP's functional and presentation currency and have been prepared on the historical cost basis.

The accounting policies set out below have been applied consistently throughout the year under review.

(b) Revenue recognition

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 cashflows are estimated after considering all the contractual terms of the instrument but not future credit losses.

(c) Accrued interest

Accrued interest has been incorporated within the Deemed Loan to Originator and outstanding balance of loans and borrowings in issue on the Balance Sheet. A split between principal and accrued interest can be found in note 6 and 8.

(d) Financial instruments

The LLP's financial instruments principally comprise a Deemed Loan to BOS (equivalent to the value of the LLP's investment in BOS loans), cash and cash equivalents, 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 BOS. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d)(i) Deemed Loan to Originator

Under IAS 39, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Members of the LLP have concluded that the Originator has retained substantially all the risks and rewards of the portfolio of Housing Association loans sold to the LLP and as a consequence, the LLP does not recognise the Housing Association loans on its Balance Sheet but rather a Deemed Loan to Originator, where recourse to BOS is limited to the cash flows from the Housing Association loans and any additional credit enhancement provided by BOS.

The initial amount of the Deemed Loan to Originator corresponds to the consideration paid by the LLP for the Housing Association loans. The LLP recognises principal and interest cash flows from the underlying portfolio of Housing Association loans only to the extent that it is entitled to retain such cash flows. Cash flows attributable to the Originator are not recognised by the LLP.

The Deemed Loan is classified within "loans and receivables". The initial measurement is at fair value with subsequent measurement being at amortised cost using the effective interest method. The effective interest on the Deemed Loan is calculated with reference to the interest earned on the beneficial interest in the Housing Association portfolio less the residual interest due to the Originator. Under the terms of the loan sale agreement, the Originator retains the right to receive excess income arising on those loans, after certain higher priority payments have been met by the LLP.

Impairment of financial assets

The Deemed Loan is subject to impairment reviews in accordance with IAS 39. A charge for impairment would be recognised where there is a risk that the income on the Deemed Loan will be significantly reduced. This could occur if the credit quality of the Housing Association assets that are pledged as collateral for the loan significantly deteriorated. Currently the Management Committee consider that no impairment exists.

Derivative financial instruments

IAS 39 requires all derivative financial instruments to be recognised initially at fair value on the Balance Sheet and to be re-measured to fair value at subsequent reporting dates. Where the value of the derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability.

The LLP uses derivative financial instruments to manage its exposure to interest rate risk arising from operational, financing and investing activities. In accordance with its treasury policy, the LLP does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

**HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d)(i) Deemed Loan to Originator (continued)

Derivative financial instruments (continued)

Interest rate risk associated with the Deemed Loan is managed by means of an interest rate swap with BOS, which requires the LLP to pay the effective yield on the beneficial interest in the loan portfolio and receive payments based on a rate linked to the three-month Sterling LIBOR.

This swap is not recognised separately as a financial instrument as the amounts payable under the swap reflect interest flows from the Housing Association loans which are not recognised by the LLP for accounting purposes. Instead, the Deemed Loan to BOS is recognised with an effective interest rate which reflects the amount received or paid under the swap.

Interest receivable or payable on the interest rate swap is accounted for on an accruals basis within interest on the Deemed Loan.

(d)(ii) Cash and cash equivalents

The LLP holds deposits with the provider of a guaranteed investment contract ("GIC") and a transaction bank account with the same provider, being BOS. These accounts are held in the LLP's name and meet the definition of cash and cash equivalents. All cash disclosed on the face of the Balance Sheet is restricted by a detailed priority of payments set out in the Transaction Documentation. As the cash can only be used to meet specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

(d)(iii) Loans and borrowings

Loans and borrowings are recognised initially at fair value plus directly related incremental transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis. The term loans (equivalent to the proceeds of the covered bonds issued) which are received from BOS are accounted for on this basis.

Capital contributions from Members are non-interest-bearing but a nominal profit share amount is paid out in accordance with the priority of payments (see 1(e) below) and included as part of interest payable and similar charges.

**HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Contributions and drawings

Under the terms of the LLP Deed, the Originator is treated as having made a capital contribution to the LLP in an amount equal to the difference between the current balance of the loans sold at transfer date and the cash payment made by the LLP for the loans and relevant security on that transfer date. The outstanding capital contributions are not reflected in the financial statements of the LLP as there has been no sale of loans for accounting purposes.

If so requested by the Management Committee, the Members (other than the Liquidation Member) may from time to time make cash contributions to the LLP which will constitute cash capital contributions. Addison Social Housing Limited will not make any capital contributions to the LLP. No interest is paid on the Members' capital balances. Capital distributions may only be made in accordance with the LLP Deed, where sufficient principal receipts are available and higher priority payments have been made.

The LLP has no control over the repayment of the capital contributions, which are driven by actual repayments on the underlying loans in the portfolio which make cash available to be paid in accordance with the priority of payments. These loans may be repaid by the borrowers at any time.

Under the priority of payments, payment *pro rata* and *pari passu* to the Members of the sum of £3,000 in aggregate (or such other sum as may be agreed by Members from time to time) is allocated and paid to each member in proportion to their respective capital contribution balances as at each quarterly calculation date, subject to a minimum of £1 each, as their profit for their respective interests as Members in the LLP.

(f) 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 is subject to risks and returns that are different from those segments operating in other economic environments.

The Members of the LLP consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Critical accounting estimates and judgements

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 accounting 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 but not future credit losses. The calculation includes all amounts expected to be paid or received by the LLP including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return. 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.

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. Fair value is based upon cash flow models which use, wherever possible, independently sourced market parameters, such as interest yield curves. Other factors are also considered, such as counterparty credit quality and liquidity.

Impairment of Deemed Loan

The LLP's accounting policy for losses arising on the Deemed Loan classified as loans and receivables is described in note 1(d)(i). The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the Balance Sheet date. Impairment allowances are established to recognise incurred impairment losses in the LLP's loan portfolios carried at amortised cost. In determining whether impairment has occurred at the Balance Sheet date the LLP considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

At 31 December 2013, impairment allowances against the Deemed Loan totalled £nil (2012: £nil).

(h) Taxation

Taxation on all partnership profits is solely the personal liability of individual Members. Consequently, neither taxation nor related deferred taxation in the LLP are accounted for in these financial statements.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Related parties

In accordance with the provisions of IAS 24 "Related Party Disclosures", the LLP has disclosed details of transactions with its related parties (note 14).

(j) Other payables

Other payables are stated at cost, or at amortised cost if deemed to be a financial liability.

(k) Value added tax

Value added tax is not recoverable by the LLP and is included with the related costs.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £000	2012 £000
Interest receivable on Deemed Loan	9,477	20,907
Interest receivable from BOS on collateral	-	1,305
Bank interest receivable	588	807
	10,065	23,019

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £000	2012 £000
Interest payable to BOS on term loans	9,894	21,555
Interest payable to BOS on collateral	-	1,305
Interest payable to Members	12	12
	9,906	22,872

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

4. OPERATING EXPENSES

	2013 £000	2012 £000
Administration charges	146	134
Audit fees	13	13
	159	147

Audit fees relate to the statutory audit. The LLP has also accrued an audit fee of £1,200 (2012: £1,200) on behalf of Addison Social Housing Limited and Addison Social Housing Holdings Limited. There are no fees payable to the auditors and their associates for services other than the statutory audit.

5. CASH AND CASH EQUIVALENTS

The LLP has placed its deposit account with a provider of a GIC, BOS, a subsidiary undertaking of LBG. Withdrawals from this account are restricted by the detailed priority of payments set out in the Transaction Documentation. The LLP is contractually entitled to a variable rate of interest of 0.25 per cent per annum below LIBOR for three-month Sterling deposits, which is recorded as interest receivable in the Statement of Comprehensive Income.

	2013 £000	2012 £000
Bank deposit account	203,908	27,022

6. DEEMED LOAN TO ORIGINATOR

Income on the Deemed Loan to Originator, arising on the underlying loans, reflects fixed, variable and tracker rates. Deferred consideration is deducted from this income in order to arrive at the effective yield on the Deemed Loan.

	2013 £000	2012 £000
Non-current assets		
Deemed Loan to Originator	1,609,183	2,381,748
Current assets		
Deemed Loan to Originator	(12,682)	(8,282)
TOTAL	1,596,501	2,373,466

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

6. DEEMED LOAN TO ORIGINATOR (CONTINUED)

The current asset balance above includes accrued swap interest payable and further consideration due to the Originator in-line with the accounting policy in note 1(d)(i), which has resulted in a net credit position as at 31 December 2013 and 31 December 2012.

7. OTHER RECEIVABLES

	2013 £000	2012 £000
Prepayments and accrued income	-	4

8. LOANS AND BORROWINGS

This note provides information about the contractual terms of the LLP's loans and borrowings. For more information about the LLP's exposure to interest rate risk, see note 13.

Loans and borrowings comprise a series of term loans from BOS, equivalent to the amounts raised under its Covered Bonds Programme. Each term advance bears interest at a rate equal to LIBOR for three-month Sterling deposits.

BOS will not be relying on repayment of any term loan by the LLP nor the interest thereon in order to meet its repayment or interest obligations under the Covered Bonds Programme. The term loans will not be repaid by the LLP until all amounts payable under the corresponding series of Covered Bonds have been repaid in full. Amounts owed by the LLP will be subordinated to amounts owed under the Covered Bond Guarantee described below.

The Covered Bonds are unconditionally guaranteed by BOS (the "Group Guarantor"). Under the terms of the Trust Deed, the LLP has also provided a guarantee as to payments of interest and principal under the Covered Bonds Programme, where amounts would otherwise be unpaid by BOS or the Group Guarantor. The obligations of the LLP under its guarantee constitute direct obligations of the LLP secured against the assets from time to time of the LLP and recourse against the LLP is limited to such assets. The principal asset is the beneficial interest in the Housing Association loans acquired from BOS.

Where the LLP enters into financial guarantee contracts to guarantee the indebtedness of BOS, the LLP treats the above guarantee contract as a contingent liability until such time as it becomes probable that the LLP will be required to make a payment under the guarantee.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

8. LOANS AND BORROWINGS (CONTINUED)

	2013 £000	2012 £000
Non-current liabilities		
Term loans with BOS	1,800,000	1,800,000
Current liabilities		
Term loan with BOS	-	600,000
Interest due on term loans	310	408
TOTAL	1,800,310	2,400,408

The collateral pledged by BOS is repayable to the swap counterparty unless there is a default event under the terms of the Covered Bonds Swap Agreement where the cash will be utilised by the LLP. For further information see note 10.

The term loans due to BOS mature following repayment of the Covered Bonds on the following dates:

Covered Bond issuance	Maturity date	2013 £000	2012 £000
Non-current liabilities			
2004-1	20 December 2024	500,000	500,000
2006-1	8 November 2016	500,000	500,000
2008-1 (Tranche 2)	8 November 2019	100,000	100,000
2008-2 (Tranche 1)	8 November 2016	100,000	100,000
2008-2 (Tranche 2)	8 November 2019	500,000	500,000
2008-2 (Tranche 3)	8 November 2022	100,000	100,000
Current liabilities			
2008-1 (Tranche 1)	11 February 2013	-	600,000
		1,800,000	2,400,000

9. OTHER PAYABLES

	2013 £000	2012 £000
Accruals and deferred income	73	71
Audit fee accrual	26	13
	99	84

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

10. COVERED BONDS SWAP AGREEMENT

The LLP has entered into a Covered Bonds Swap Agreement with BOS. This agreement provides a hedge against interest rate, currency and/or other risks in respect of amounts received by the LLP from the Housing Association loans and the interest rate swap and amounts payable by the LLP under the Covered Bonds Guarantee in respect of the Covered Bonds.

The Covered Bonds Swap Agreement provides a hedge against risks the LLP is exposed to following a BOS event of default and the service on the LLP of a notice to pay. As such, no payments of interest or exchanges of principal are due and payable under this agreement prior to these events. In accordance with the terms of this swap, the swap provider will pay to the LLP amounts equivalent to the amounts that would be payable by the LLP under the Covered Bonds guarantee in respect of interest and principal payable under the Covered Bonds and, in return, the LLP will pay to the Covered Bonds swap provider on each LLP payment date an amount equal to three-month Sterling LIBOR for the relevant interest period plus a spread.

Following amendments to the Covered Bonds Swap Agreement in December 2012 it has been agreed that BOS is only required to post collateral should its credit rating fall below A (long term) or A-1 (short term) from S&P, or P-1 (short term) by Moody's. The collateral posted would only have been utilised by the LLP in the event of a default occurring as referred to in the Transaction Documentation.

11. FINANCIAL GUARANTEE FROM BOS

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. BOS have provided a financial guarantee to the LLP, the terms of which, as detailed in the Transaction Documentation, are described below.

BOS is required to buy back all defaulting Housing Association loans from the LLP once they reach more than 60 days in arrears. There is no loss suffered by the LLP, as this buy-back includes all outstanding amounts, including all arrears on the Housing Association loans. There were no such buy backs in the current or prior years.

The maximum potential amount payable to the LLP under the guarantee is equal to the non-current amount outstanding on the Deemed Loan to Originator. This amounted to £1,609,183,415 at 31 December 2013 (2012: £2,381,748,055).

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. TOTAL MEMBERS' INTERESTS

2013

	Members' Other Interests				
	Members' Capital	Retained Earnings	Total	Loans due to/(from) Members	Total
	£000	£000	£000	£000	£000
Members' interests as at 1 January 2013	-	-	-	26,942	26,942
Profit for the year available for division among Members	-	-	-	-	-
Loans repaid by BOS	-	-	-	(600,098)	(600,098)
Movements in other intercompany amounts	-	-	-	776,965	776,965
Members' interests as at 31 December 2013	-	-	-	203,809	203,809

The loans and other debts due to/(from) Members can be analysed as follows:

	Members' interests as at 31 December 2013 £'000
Amounts due to Members	1,800,310
Amounts due from Members	(1,596,501)
	203,809

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. TOTAL MEMBERS' INTERESTS (CONTINUED)

2012

	Members' Other Interests				
	Members' Capital	Retained Earnings	Total	Loans due to/(from) Members	Total
	£000	£000	£000	£000	£000
Members' interests as at 1 January 2012	-	-	-	85,681	85,681
Profit for the year available for division among Members	-	-	-	-	-
Loans repaid by BOS	-	-	-	(266,165)	(266,165)
Movements in other intercompany amounts	-	-	-	207,426	207,426
Members' interests as at 31 December 2012	-	-	-	26,942	26,942

The loans and other debts due to/(from) Members can be analysed as follows:

	Members' interests as at 31 December 2012 £'000
Amounts due to Members	2,400,408
Amounts due from Members	(2,373,466)
	26,942

**HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

13. MANAGEMENT OF RISK

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

The LLP's financial instruments principally comprise a Deemed Loan to Originator (equivalent to the value of the LLP's investment in Bank of Scotland plc Housing Association loans), cash and cash equivalents, loans and borrowings and various other receivables and payables that arise directly from its operations.

The principal risks arising from the LLP's financial instruments are credit risk; interest rate risk; liquidity risk and prepayment risk. Further detailed analysis of the risks facing the LLP in relation to its financial instruments is provided below.

The activities of the LLP are conducted primarily by reference to the Transaction Documentation which covers the purchase of the Housing Association loans. The structure was established as a means of raising finance for BOS and no business activities are undertaken by the LLP beyond those set out in the Transaction Documentation.

The LLP's exposure to risk on its financial instruments and the management of such risk is largely determined at the initial set-up of the LLP. The LLP's activities and the role of each party to the transaction is clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction, and is required by the rating agencies.

In addition, an interest rate swap is entered into with the Originator as part of the transaction to hedge against interest rate risk arising in the transaction including the obligations under the term loans. The derivative counterparty is selected as a regulated financial institution and this reduces the risk of default and loss for the LLP. Additional credit protection may be afforded by the requirement for the derivative counterparties to post collateral in the event of a downgrade to a counterparty's credit rating.

Following initial set-up, the Members monitor the LLP's performance, reviewing monthly reports on the performance of the Housing Association loans and the quarterly investor reports. Such review is designed to ensure that the terms of the Transaction Documentation have been complied with, that no unforeseen risks have arisen and that the interest and principal on the term loans have been paid on a timely basis. Where necessary, the Members also make appropriate enquiries of the LLP's professional advisers concerning specific matters which may affect the nature and extent of particular risks to the LLP.

**HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

13. MANAGEMENT OF RISK (CONTINUED)

13(a) Credit risk

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the LLP.

The LLP has a concentration of risk to the Originator of the Housing Association loans as the LLP's bank accounts, including those covered by the GIC, are also held with BOS. BOS also acts as swap counterparty, servicer of the Housing Association loans ("the Servicer") and cash manager.

Credit risk arises on the individual loans within the Housing Association loan portfolio. The ability of the LLP to pay the term loan interest and principal to BOS will depend on the amount and timing of payment of interest on the Housing Association loans by the borrowers as well as timely receipts from the swap counterparty.

In terms of arrears management, the LLP has engaged BOS as the Servicer of the loans in the portfolio to help reduce the risk of loss. The Servicer is required to monitor repayments on the Housing Association loans in accordance with its usual credit policies. The Servicer is also responsible for ensuring Housing Association loans in the portfolio meet the eligibility criteria set out in the Transaction Documentation.

Credit enhancement is provided to the LLP by BOS. The income on the Housing Association loan portfolio is expected to exceed the LLP's expenses and the interest payable on the term loans. Any excess income, known as excess spread, that is not required to meet expenses or interest payments is returned to the Originator as a deferred consideration payment.

Credit risk for the LLP is mitigated by the amount of overcollateralisation of the beneficial interest in loans which is provided by BOS and which is monitored using an asset coverage test. The overcollateralisation is available in full for the benefit of the LLP. The Transaction Documentation provides that the LLP and its Members should ensure that the adjusted aggregate loan amount of the loan portfolio asset is at least equal to or greater than the aggregate amount outstanding on the Covered Bonds on each calculation date. The adjusted loan amount is the balance of the Housing Association loans after adjusting for various set-offs and adjustments unique to particular groups of loans, together with allowances for loan defaults.

In the event that there is a breach of the ACT, the Members (excluding the Liquidation Member) are required to take steps to make good the deficit by providing either the necessary capital contributions to enable further Housing Association loans to be acquired or in cash, as a cash capital contribution, in order that the ACT breach is cured before the next ACT calculation. If there is a breach at the following calculation date, this will constitute a BOS Event of Default, which will entitle the Bond Trustee to serve a BOS Acceleration Notice on the Issuer of the Covered Bonds and the Group Guarantor, BOS. Upon service of such notice, the Bond Trustee will serve a Notice to Pay on the LLP under the Covered Bonds guarantee. This would require the LLP to repay all amounts outstanding on the Covered Bonds, including principal and accrued interest amounts.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

13. MANAGEMENT OF RISK (CONTINUED)

13(a) Credit risk (continued)

The total loan portfolio made available to the LLP at 31 December 2013 amounted to £1,609,183,415 (2012: £2,381,748,055). As noted in the accounting policies section, the LLP does not recognise the loan portfolio but rather a Deemed Loan to Originator to the extent of the cash consideration paid to BOS.

To the extent that the income on the Deemed Loan does not provide sufficient funds to recover the LLP's investment in the Housing Association loan portfolio, the LLP has no claim on the assets of BOS. During the current year, sufficient cash has been received from the Deemed Loan to enable the LLP to make all necessary payments on the term loans following repayment of the related series of Covered Bonds by BOS.

On 11 February 2013 the LLP re-paid £600,000,000 to Bank of Scotland Plc per the intercompany loan agreement. This repayment was made in line with the maturity of the 2008-1 (Tranche 1) covered bond issuance (2012: £nil).

The LLP assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Covered Bonds issued by BOS and by association the term loans received by the LLP, the Transaction Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached. A key trigger which would indirectly impact the LLP is the short term rating of BOS.

	Rating as at 31 December 2013	Rating as at date of approval of financial statements
	Moody's/S&P	Moody's/S&P
BOS as provider of:		
Covered bonds swap, interest rate swap and bank accounts	Short term: P-1/A-1 Long term: A2/A	Short term: P-1/A-1 Long term: A2/A

In the event that a swap counterparty is downgraded by a rating agency below the ratings specified in the relevant swap agreement, the relevant swap provider will be required to take certain remedial measures as defined in that agreement which may include providing collateral for its obligations under the relevant swap, arranging for its obligations to be transferred to an entity with a sufficient rating, procuring another entity with a sufficient rating to become co-obligor for its obligations, or taking such other action as it may agree with the relevant rating agency.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

13. MANAGEMENT OF RISK (CONTINUED)

13(a) Credit risk (continued)

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the LLP's financial assets at the reporting date is disclosed in the table below and equates to carrying value.

	Notes	2013 £000	2012 £000
Assets held at amortised cost:			
Cash and cash equivalents	5	203,908	27,022
Deemed Loan to Originator	6	1,596,501	2,373,466
Other receivables	7	-	4
		1,800,409	2,400,492

At the Balance Sheet date all financial assets subject to credit risk were neither past due nor impaired. A financial asset is "past due" if a counterparty has failed to make a payment when contractually due. BOS is required to buy back all defaulting Housing Association loans from the LLP once they reach more than 60 days in arrears. There is no loss suffered by the LLP, as this buy-back includes all outstanding amounts, including all arrears on the Housing Association loans. Accordingly the Members consider the credit risk to be sufficiently mitigated. As at 31 December 2013 no loan accounts were considered past due (2012: nil).

13(b) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The LLP minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar; where this is not possible the LLP uses derivative financial instruments to mitigate interest rate risk. The Deemed Loan, the term loans and the cash and cash equivalents are exposed to cash flow interest rate risk caused by floating interest rates that are reset periodically.

An interest rate swap has therefore been entered into with BOS to manage the LLP's exposure to interest rate risk associated with the Deemed Loan and the term loans.

The underlying loan portfolio comprises loans which are subject to variable rates of interest set by the Servicer, loans which track the Bank of England Base Rate and loans which bear fixed rates of interest. Under the terms of the swap, the LLP pays the interest received from the loan portfolio and receives interest on a LIBOR rate set with reference to three-month Sterling deposits.

The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised in the financial statements as it forms part of the Deemed Loan.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

13. MANAGEMENT OF RISK (CONTINUED)

13(c) Liquidity risk

Liquidity risk is the risk that the LLP is not able to meet its financial obligations as they fall due.

The LLP's ability to meet payments on the term loans as they fall due is dependent on the amounts and timing of the interest and principal repayments on the loans which underlie the Deemed Loan to Originator and timely receipts from BOS in their capacity as the swap counterparty. The timely receipt of funds from the Deemed Loan may be delayed due to slow repayment on the loan portfolio (see 13(a) Credit risk above and 13(d) Prepayment risk below).

Principal repayments are made on the term loans with BOS in accordance with the LLP's principal priority of payments and reflect the amount of principal collections on the underlying Housing Association loans. The LLP will seek to accumulate funds from its share of the loan portfolio in order to repay the term loans in accordance with the expected maturity dates of the Covered Bonds issued by BOS.

In the event that the LLP does not have sufficient cash flows from the underlying Housing Association loans in order to be able to repay the term loans as and when they fall due, the Members may be required to make cash capital contributions in accordance with the terms of the Transaction Documentation.

The liquidity tables below reflect the undiscounted cash payments which will fall due if the structure continues until the contractual maturity date (see note 8) as set out in the Transaction Documentation. It is anticipated that the interest and principal received on the Deemed Loan to Originator will be sufficient to allow repayment of the term loans.

2013	Carrying Value	Contractual repayment value	Not later than one month	Later than one month 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
	£000	£000	£000	£000	£000	£000	£000
Principal							
Term loans with BOS	1,800,000	1,800,000	-	-	-	600,000	1,200,000
Other payables	99	99	-	72	27	-	-
Interest payable							
Term loans with BOS	310	61,088	2,360	-	7,079	31,099	20,550
	<u>1,800,409</u>	<u>1,861,187</u>	<u>2,360</u>	<u>72</u>	<u>7,106</u>	<u>631,099</u>	<u>1,220,550</u>

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

13. MANAGEMENT OF RISK (CONTINUED)

13(c) Liquidity risk (continued)

2012	Carrying Value	Contractual repayment value	Not later than one month	Later than one month 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
	£000	£000	£000	£000	£000	£000	£000
Principal							
Term loans with BOS	2,400,000	2,400,000	-	600,000	-	600,000	1,200,000
Other payables	84	84	66	-	13	5	-
Interest payable							
Term loans with BOS	408	70,052	-	2,780	6,986	33,795	26,491
	<u>2,400,492</u>	<u>2,470,136</u>	<u>66</u>	<u>602,780</u>	<u>6,999</u>	<u>633,800</u>	<u>1,226,491</u>

13(d) Prepayment risk

Cash flows on the Deemed Loan to Originator are dependent on the underlying Housing Association loans which have a final legal maturity of December 2024. However, in the normal course of business, a proportion of borrowers repay their loans in advance of their contractual maturity. As a result the weighted average life of the Deemed Loan and of the term loans may be significantly less than that implied by the contractual maturity dates of the Housing Association loans.

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates, the availability of alternative financing, local and regional economic conditions.

Prepayment on the Housing Association loans will not impact the weighted average life of the term loans as the Covered Bonds will only be repaid in line with contractual maturity dates.

The Constant Prepayment Rate ("CPR") rate for the underlying loan portfolio is as follows:

	Monthly CPR %	1-month annualised %	3-month annualised %	12-month annualised %
31 December 2013	4.58	43.05	23.85	22.16
31 December 2012	0.62	7.22	18.05	18.29

**HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

13. MANAGEMENT OF RISK (CONTINUED)

13(e) Fair values

The LLP's financial statements have been prepared under the historical cost convention.

Estimation of fair values

The manner in which financial instruments are designated for measurement purposes is set out in the accounting policies. The main methods and assumptions used in estimating the fair value of financial instruments are summarised therein.

Other financial instruments held at amortised cost

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

13(f) Offsetting

The LLP has no financial assets or financial liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements.

14. RELATED PARTIES

The LLP is a special purpose entity controlled by BOS, one of the two Designated Members. The second Designated Member is Addison Social Housing Limited. BOS is a subsidiary undertaking of LBG.

Structured Finance Management Offshore Limited, a company incorporated and registered in Jersey, Channel Islands, is the parent company of Addison Social Housing Holdings Limited, the majority shareholder of Addison Social Housing Limited. The LLP pays corporate services fees to Structured Finance Management Limited and Structured Finance Management Offshore Limited in connection with its provision of corporate management services. In 2013 this amounted to an expense in the Statement of Comprehensive Income of £12,562 (2012: £8,297) and £4,669 (2012: £6,167) respectively.

The LLP pays cash management and administration servicing fees to BOS in connection with its provision of services defined under the Covered Bonds agreements. In 2013, such fees amounted to £500,000 (2012: £501,370). BOS is the counterparty to the interest rate swap agreement, on which there is an associated interest benefit.

BOS has provided a series of term advances to the LLP, on which the LLP pays a variable rate of interest, equivalent to LIBOR for three-month Sterling deposits.

The LLP has placed its deposit account with BOS, as a provider of a GIC, and it is contractually entitled to a variable rate of interest of 0.25 per cent per annum below LIBOR for the three-month Sterling deposits.

During the year, the LLP undertook the transactions set out below with companies within the LBG:

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

14. RELATED PARTIES (CONTINUED)

	LBG and Subsidiary Undertakings 2013 £000	LBG and Subsidiary Undertakings 2012 £000
Interest receivable and similar income		
Income from Deemed Loan to Originator	9,477	20,907
Interest receivable on collateral	-	1,305
Bank interest receivable	588	807
Interest payable and similar charges		
Interest payable to BOS on term loans	(9,894)	(21,555)
Interest payable on collateral	-	(1,305)
Interest payable to Members	(12)	(12)
Assets		
Cash and cash equivalents	203,908	27,022
Deemed Loan to Originator	1,596,501	2,373,466
Liabilities		
Term loans from BOS	(1,800,310)	(2,400,408)

15. FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncements may have a significant effect on the LLP's financial statements but are not applicable for the year ending 31 December 2013 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the LLP.

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 32 <i>Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'</i>	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.
Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement – 'Novation of Derivatives and Continuation of Hedge Accounting'</i> ¹	Provides relief from discontinuing hedge accounting in circumstances where a derivative designated as a hedging instrument is novated to a central counterparty as a consequence or introduction of laws or regulations.	Annual periods beginning on or after 1 January 2014.

HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

15. FUTURE ACCOUNTING DEVELOPMENTS (CONTINUED)

Pronouncement	Nature of change	IASB effective date
IFRIC 21 <i>Levies</i> ¹	Clarifies that the obligating event that gives rise to a liability to pay a government levy is the activity that triggers the payment of the levy as set out in the relevant legislation. An entity does not have a constructive obligation to pay a levy that will be triggered by operating in future periods.	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 and hedge accounting. IFRS 9 requires financial assets to be classified into two measurement 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 derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Date yet to be determined.

⁽¹⁾ As at the date of this report, these pronouncements are awaiting EU endorsement.

⁽²⁾ IFRS 9 is the initial stage of the project to replace IAS 39. Further changes to IFRS 9 are expected dealing with impairment of financial assets measured at amortised cost, which will be based on expected rather than incurred credit losses, and limited amendments to classification and measurement which include the introduction of a third measurement category, fair value through other comprehensive income. Until all stages of the replacement project are complete, it is not possible to determine the overall impact on the financial statements.

**HBOS SOCIAL HOUSING COVERED BONDS LLP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

16. PARENT UNDERTAKING AND CONTROLLING PARTY

As at 31 December 2013, the LLP's designated Members were BOS and Addison Social Housing Limited (as Liquidation Member). LBG, a public limited company registered and domiciled in Scotland, was regarded by the Members as the ultimate parent company. LBG is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the LLP is a member. BOS is the parent undertaking of the smallest such group of undertakings. Copies of the group financial statements of both companies may be obtained from the Group Secretariat, Lloyds Banking Group plc, The Mound, Edinburgh, EH1 1YZ.