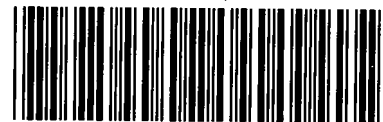


Registered Number 03149607

BOS (SHARED APPRECIATION MORTGAGES) NO.2 PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2013

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BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

Ian Gordon Stewart
Marc Page
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

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their strategic report and the audited financial statements for BOS (Shared Appreciation Mortgages) NO. 2 PLC (the "Company") for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to finance mortgage lending. In 1997 the Company issued £105.6m floating rate notes (the "Notes"). Following a business restructure on 28 February 2011 the terms of the Notes were modified. The Notes bear a zero rate of interest until August 2027. Under the business restructure, the interest rate applicable to the Notes will increase to 0.50% fixed from August 2027 until 2072 when the Notes become due. The Notes are secured on the mortgage portfolio. The capital appreciation realised 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 and the swap provider.

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").

BUSINESS REVIEW AND PERFORMANCE

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

The profit for the financial year amounted to £963,981 (2012: £52,543 profit).

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). The Company's results are not impacted by changes in interest rates as the mortgage loans and Notes bear a zero rate of interest. No impairment provision was deemed necessary as at 31 December 2013 or 31 December 2012.

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.

KEY PERFORMANCE INDICATORS

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 has made all necessary payments on the Notes in accordance with the scheduled repayment dates for the year ended 31 December 2013.

The Company's performance is addressed in the quarterly management accounts provided to the directors.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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, a derivative contract ("swap"), an embedded derivative, loans and borrowings and various other payables that arise directly from its operations.

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

The principal risk arising from the Company's financial instruments is credit risk. This 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 16.

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 25% and the credit risk is considered to be low.

The extent to which the Company can meet its obligations to repay the Notes will be dependent upon the receipt of funds earned on its bank deposits, the swap agreement with the external provider, principal receipts and receipt of appreciation rights receivable on the mortgage loans 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 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 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.

Market risk

Market risk is the risk of financial losses to the Company in the event of movements in the prices of the market in which it operates. The Company's market is the UK residential housing market.

Under the terms of the Notes the Company is obligated to pay the Note holders the return on the shared appreciation that has accrued during the life of the mortgage loan at the rate implicit in the specific mortgage loan agreement as and when repaid by the mortgage loan customer. Shared appreciation is subject to the movement in the market value of the property which is dependent upon house price inflation, as measured by the Halifax House Price Index ("HPI").

However, the Company itself is not impacted by market risk as the risk of returns on the Notes being below initial expectations lies with the Note holder and there are no guarantees within the terms of the Notes for expected increases in value.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

RISK MANAGEMENT (CONTINUED)

Interest rate risk

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

The Company entered into an interest rate derivative at the start of the structure with an external Swap provider to manage the interest rate risk on its operations and sources of finance. The purpose of the interest rate swap was to reduce the interest rate risk on the Company's assets and liabilities by paying over a portion of the capital appreciation on the mortgage loans in return for a fixed interest receipt.

The Company's exposure to interest rate risk is limited to interest earned on its bank accounts and the interest rate swap, as both the mortgage loans and the remaining Notes pay a zero rate of interest. Therefore, it is not considered to be a significant risk.

Following the restructure on 28 February 2011, with the closure of the with the closure of the Guaranteed Investment Contract account (the "GIC") and partial repayment of the Notes on which the GIC account was guarantee for the repayment of, the Company's exposure to interest rate risk is limited to interest earned on its bank accounts and the interest rate swap, as both the mortgage loans and the remaining Notes pay a zero rate of interest. Therefore, it is not considered to be a significant risk.

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 £1,165,000 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. To mitigate this risk the directors hold quarterly board meetings to review the performance of the Company and ensure that the Company is in a position to meet all necessary payments.

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.

As approved by the Board of Directors and signed on its behalf by:



Paul Gittins
Secretary

Trinity Road
Halifax
West Yorkshire
HX1 2RG

DATE: 25/03/14

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their annual report and the audited financial statements for BOS (Shared Appreciation Mortgages) NO. 2 PLC (the "Company") for the year ended 31 December 2013.

DIRECTORS

The directors who served during the year, and up to the date of signing the financial statements are listed on page 1. The following director was appointed during the year::

Marc Page

13 May 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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.

DIRECTORS INDEMNITIES

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Director who joined the Board of the Company during the financial year. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc (see note 19). In addition, Lloyds Banking Group plc has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year..

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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. A review of the business can be found in the strategic report.

DIVIDENDS

The directors did not recommend the payment of a dividend during the year or at 31 December 2013 (2012: £2,300,000).

RISK MANAGEMENT

Further details on the risks facing the Company and how these risks are managed are detailed in the Strategic Report.

EMPLOYEES

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

INDEPENDENT AUDITORS

A resolution will be proposed at the 2014 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 these financial statements.

As approved by the Board of Directors and signed on its behalf by:



Paul Gittins
Secretary

Trinity Road
Halifax
West Yorkshire
HX1 2RG

DATE: 25/03/14

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

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 company'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.

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 BOS (Shared Appreciation Mortgages) No.2 plc, comprise:

- the statement of comprehensive income for the year then ended;
- the balance sheet as at 31 December 2013;
- the statement of changes in equity for the year then ended; and
- the cash flows statement for the year then ended;
- 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In applying the financial reporting framework, the directors 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 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 Directors' 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.

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.

**BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
(CONTINUED)**

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 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.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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 ISAs (UK & 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 members 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.



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

Date: 25/03/2014

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £	2012 £
Interest receivable and similar income	2	722,570	573,798
Interest payable and similar charges	3	(670,480)	(529,328)
Net interest income		<u>52,090</u>	<u>44,470</u>
Net fair value gains and losses on derivatives	4	188,040	69,103
Other operating income	5	1,425	755
Operating expenses	6	(50,626)	(54,120)
Profit before tax		<u>190,929</u>	<u>60,208</u>
Taxation	7	773,052	(7,665)
Profit for the financial year / total comprehensive income attributable to the owner		<u><u>963,981</u></u>	<u><u>52,543</u></u>

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.

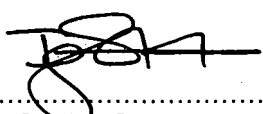
The accompanying notes on pages 13 to 32 are an integral part of the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
BALANCE SHEET AS AT 31 DECEMBER 2013

	Note	2013 £	2012 £
Assets			
Cash and cash equivalents	8	2,433,733	1,921,968
Mortgage portfolio	9	10,762,521	12,047,031
Shared appreciation rights receivable	10	105,509,726	103,990,623
Total assets		<u>118,705,980</u>	<u>117,959,622</u>
Equity and liabilities			
Bank overdraft	8	2,453	1,315
Loans and borrowings	11	10,358,632	11,616,411
Shared appreciation rights payable	12	87,924,772	86,658,852
Derivative liability	12	16,509,611	16,151,172
Current tax liability	7	60,083	568,713
Deferred tax liability	13	53,995	77,617
Trade and other payables	14	495,823	548,912
Total liabilities		<u>115,405,369</u>	<u>115,622,992</u>
Share capital	15	50,001	50,001
Retained earnings		3,250,610	2,286,629
Total equity		<u>3,300,611</u>	<u>2,336,630</u>
Total equity and liabilities		<u>118,705,980</u>	<u>117,959,622</u>

The financial statements on pages 9 to 32 were approved by the Board of Directors on

25/03/2014 and were signed on its behalf by:



.....
Ian Gordon Stewart
Director

The accompanying notes on pages 13 to 32 are an integral part of the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £	Retained earnings £	Total equity £
Balance at 1 Jan 2013	50,001	2,286,629	2,336,630
Profit for the financial year / total comprehensive income for the year	-	963,981	963,981
	<hr/>	<hr/>	<hr/>
Balance at 31 Dec 2013	50,001	3,250,610	3,300,611
	<hr/>	<hr/>	<hr/>
	Share capital £	Retained earnings £	Total equity £
Balance at 1 Jan 2012	50,001	4,534,086	4,584,087
Profit for the financial year / total comprehensive income for the year	-	52,543	52,543
Dividends paid in the year	-	(2,300,000)	(2,300,000)
	<hr/>	<hr/>	<hr/>
Balance at 31 Dec 2012	50,001	2,286,629	2,336,630
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 13 to 32 are an integral part of the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £	2012 Restated £
Operating Activities			
Inter-company fees paid		(37,726)	(40,226)
External audit fees paid		-	(3,300)
Administration expenses paid		(9,376)	(10,044)
Tax received		240,800	-
		<hr/>	<hr/>
Net cash flows generated from / (used in) operating activities		193,698	(53,570)
		<hr/>	<hr/>
Investing Activities			
Repayments on mortgage portfolio		1,914,914	1,368,386
Shared appreciation rights received		8,416,227	6,474,344
Bank interest received		77,073	64,195
		<hr/>	<hr/>
Net cash flows generated from investing activities		10,408,214	7,906,925
		<hr/>	<hr/>
Financing Activities			
Swap interest received		293,296	312,852
Repayment of borrowings		(1,934,759)	(1,374,626)
Shared appreciation rights paid to Note holders		(8,449,822)	(6,553,731)
Dividends paid		-	(2,300,000)
		<hr/>	<hr/>
Net cash flows used in financing activities		(10,091,285)	(9,915,505)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		510,627	(2,062,150)
Cash and cash equivalents at start of year		1,920,653	3,982,803
		<hr/>	<hr/>
Cash and cash equivalents at end of year	8	2,431,280	1,920,653
		<hr/>	<hr/>

The accompanying notes on pages 13 to 32 are an integral part of the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SIGNIFICANT ACCOUNTING POLICIES

BOS (Shared Appreciation Mortgages) NO. 2 PLC is a company domiciled and incorporated in the United Kingdom.

(a) Statement of compliance

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 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 Company has adopted the following new and relevant IFRS pronouncement which became effective for financial years beginning on or after 1 January 2013. This has not had a material impact on these company financial statements.

- IFRS 13 Fair Value Measurement. IFRS 13 has been applied with effect from 1 January 2013. IFRS 13 defines the 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 Company 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 Company's assets and liabilities. The IFRS 13 disclosures are given in note 16(e) to the financial statements.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRSs and 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. Lloyds Bank plc has provided letters of support dated 12 February 2014 stating that in its capacity as the indirect parent of BOS, it will continue to provide access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the directors of the Company are satisfied that 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 and interest payable and similar charges 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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Taxation

Income tax recognised in the Statement of Comprehensive Income 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, a derivative contract ("swap"), an embedded derivative, loans and borrowings and various other 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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(d)(iii) Loans and borrowings

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

Loans and borrowings are recognised initially at fair value less 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 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 and the swap provider.

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).

(d)(v) Derivatives

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 gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(d)(v) Derivatives (continued)

The Company uses a derivative financial instrument to hedge its exposure to interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Company 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.

The gain or loss on re-measurement of the interest rate swap to fair value has been recognised immediately in net fair value gains and losses on derivatives in the income statement.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(e) 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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Critical accounting judgements and estimates (continued)

Effective interest rate method (continued)

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, considering actual redemption experience and actual contractual terms of Notes.

Fair value

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, with the value of the interest rate swap calculated by discounting future cash flows at an appropriate market rate. 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.

There are no other derivative financial instruments.

(f) Fees and commissions

Fees and commissions receivable for the continuing servicing of loans and receivables are recognised on the basis of services provided. Other fees are recognised when receivable.

(g) Dividends

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

(h) Trade and other payables

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

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £	2012 £
Interest receivable on mortgage portfolio	645,497	509,603
Bank interest receivable	77,073	64,195
	<hr/>	<hr/>
	722,570	573,798
	<hr/>	<hr/>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £	2012 £
Interest payable on Notes	645,497	509,603
Amortisation of issue and restructuring costs	24,983	19,725
	<hr/>	<hr/>
	670,480	529,328
	<hr/>	<hr/>

4. NET FAIR VALUE GAINS AND LOSSES ON DERIVATIVES

	2013 £	2012 £
Fair value movement on shared appreciation rights receivable	1,519,103	(5,308,117)
Fair value movement on shared appreciation rights payable	(1,265,920)	4,423,441
Fair value movement on interest rate derivative	(356,102)	642,536
	<hr/>	<hr/>
	(102,919)	(242,140)
Income receivable on interest rate derivative	290,959	311,243
	<hr/>	<hr/>
	188,040	69,103
	<hr/>	<hr/>

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

5. OTHER OPERATING INCOME

	2013 £	2012 £
Fees and commissions receivable	1,425	755
Shared appreciation receivable	8,416,227	6,474,344
Shared appreciation payable	(8,416,227)	(6,474,344)
	<hr/> 1,425	<hr/> 755
	<hr/> <hr/>	<hr/> <hr/>

6. OPERATING EXPENSES

	2013 £	2012 £
Inter-company fees	37,426	40,020
Administration fees	9,900	10,800
Audit fees	3,300	3,300
	<hr/> 50,626	<hr/> 54,120
	<hr/> <hr/>	<hr/> <hr/>

The Company has no employees (2012: 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 (2012: none).

The audit fee for the current year, net of VAT, was £2,750 (2012: £2,750).

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

7. TAXATION

	2013 £	2012 £
Current Tax		
Corporation tax charge for the year at a rate of 23.25% (2012: 24.5%)	60,083	31,287
Adjustments in respect of prior years	(809,513)	-
	<u>(749,430)</u>	<u>31,287</u>
Deferred Tax		
Deferred tax change in tax rate – credit	(7,930)	(7,086)
Deferred tax credit for the year at a rate of 23.25% (2012: 24.5%)	(15,692)	(16,536)
	<u></u>	<u></u>
Total tax (credit)/charge for the year	<u>(773,052)</u>	<u>7,665</u>
 Reconciliation of effective tax rate	 2013	 2012
The tax assessed for the year is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	£	£
Profit before tax	190,929	60,208
	<u></u>	<u></u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	44,391	14,751
Effects of:		
Deferred tax change in tax rate – credit	(7,930)	(7,086)
Adjustments in respect of prior years	(809,513)	-
	<u></u>	<u></u>
Total tax (credit)/charge	<u>(773,052)</u>	<u>7,665</u>

The current tax liability of £60,083 (2012: £568,713 liability) represents the net amount of income tax payable in respect of the current year (2012: current and prior year).

The adjustment in respect of prior years relates to Group tax relief for the year ended 31 December 2010. The Group incurred tax loss relief as part of its decision in 2010 to pull out of the Irish economy and the decision was taken to spread this loss relief across those subsidiaries within the same tax group, including the Company. As a result the Company's tax liability for the year ended 31 December 2010 was refunded to the Company in 2013.

The Finance Act 2012, which was substantively enacted on 3 July 2012, included legislation to reduce the main rate of corporation tax from 24% to 23% with effect from 1 April 2013. In addition, the Finance Act 2013, which was substantively enacted on 2 July 2013, included legislation to reduce the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

8. CASH AND CASH EQUIVALENTS

	2013 £	2012 £
Bank accounts	2,433,733	1,921,968
Bank overdraft	(2,453)	(1,315)
	<hr/>	<hr/>
Cash and cash equivalents per the cash flow statement	2,431,280	1,920,653
	<hr/>	<hr/>

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. The amounts are repayable on demand.

9. MORTGAGE PORTFOLIO

	2013 £	2012 £
At 1 January	12,047,031	12,892,692
Mortgage redemptions in the year	(1,930,007)	(1,355,264)
Amortisation of discount	645,497	509,603
	<hr/>	<hr/>
At 31 December	10,762,521	12,047,031
	<hr/>	<hr/>

The mortgage loans advanced by the Company have no fixed maturity date but would terminate on the earlier of the date of sale of the property or the death of the mortgage account holder. All mortgage loans are considered to be non-current as maturity cannot be reasonably determined, with the exception of an amount of £645,497 in respect of the discount amortisation due within 12 months (2012: £645,497).

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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. 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 or the swap provider any amounts received from mortgage customers for the shared appreciation. Corresponding derivative liabilities have therefore been recognised in the balance sheet (note 12).

As the shared appreciation rights receivable are intrinsically linked to the maturity of the mortgage loans which have no fixed maturity, the balance is considered to be non-current (see note 9).

11. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's 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 16.

	2013 £	2012 £
Non-current liabilities		
Notes	10,708,406	11,991,168
Deferred issue costs	(324,790)	(349,774)
	<hr/>	<hr/>
	10,383,616	11,641,394
Current liabilities		
Deferred issue costs	(24,984)	(24,983)
	<hr/>	<hr/>
At 31 December	<hr/> <hr/> 10,358,632	<hr/> <hr/> 11,616,411

The mortgage-backed Notes are due in 2072. The interest rate applicable on the Notes up to and including the interest period ending 28 February 2011 was 60% of the three-month LIBOR rate for Sterling deposits less 0.30% per annum. Thereafter, the interest rate applicable to the Notes was changed as part of a restructure and the Notes now bear a zero rate of interest until August 2027. Thereafter the interest rate applicable to the Notes will increase to 0.50% fixed 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 (2012: rating of A).

The Notes carry 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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. DERIVATIVE LIABILITIES

The Company is contractually obliged to pay to the Note holders £87,924,772 (2012: £86,658,852) and £16,509,611 (2012: £16,151,172) to the swap provider for amounts received from mortgage customers for the shared appreciation arising on the sale of the property.

As the shared appreciation rights payable are intrinsically linked to the amounts received following maturity of the mortgage loans which have no fixed maturity, the balance is considered to be non-current (see note 9).

13. DEFERRED TAX LIABILITY

	2013 £	2012 £
At 1 January	77,617	101,239
Credit for year	(15,692)	(16,536)
Change in Tax Rate – credit	(7,930)	(7,086)
	<hr/>	<hr/>
At 31 December	53,995	77,617
	<hr/>	<hr/>

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.

Included in the balance at the balance sheet date is an amount of £17,998 due within 12 months (2012: £15,692).

The change in the main rate of corporation tax from 23% to 21% and 20% has resulted in a reduction in the Company's net deferred tax liability at 31 December 2013 of £7,930 (2012: £7,086), comprising the £7,930 credit included in the income statement (2012: £7,086 credit).

14. TRADE AND OTHER PAYABLES

	2013 £	2012 £
Shared appreciation payable	335,250	368,845
Note redemptions payable	82,000	88,500
Accruals and deferred income	75,540	88,234
Amounts owed to BOS	3,033	3,333
	<hr/>	<hr/>
	495,823	548,912
	<hr/>	<hr/>

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

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

15. SHARE CAPITAL

	2013	2012
	£	£
Authorised		
50,000 (2012: 50,000) ordinary shares of £1 each	50,000	50,000
	<u> </u>	<u> </u>
1 (2012: 1) deferred share of £1	1	1
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
50,000 (2012: 50,000) ordinary shares of £1 each	50,000	50,000
	<u> </u>	<u> </u>
1 (2012: 1) deferred share of £1	1	1
	<u> </u>	<u> </u>

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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

16. MANAGEMENT OF RISK

The principal risk arising from the Company's financial instruments is credit risk. However, considerable resource is given to maintaining effective controls to manage, measure and mitigate this risk. Further detailed analysis of this risk and other 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 is clearly defined and documented.

16(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 25% 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 bank deposits, the swap agreement with the external provider, principal receipts and shared appreciation receipts on the mortgage loans 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 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 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 and swap provider.

Credit risk also exists on the derivative contract with an external provider that the Company has entered into to manage the interest rate risk arising on its operations and sources of finance (see 16(c) below). The swap counterparty, UBS, is a regulated financial institution with a long term rating from Standard and Poor's (S&P) of A (2012: S&P long-term rating: A).

All loans in the mortgage portfolio pay a zero rate of interest. As a result, there are no arrears of interest, properties in possession or bad debts within the Company. With this combined with the low loan-to-value of the properties no impairment provision is considered to be necessary at 31 December 2013 or 31 December 2012.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

16. MANAGEMENT OF RISK (CONTINUED)

16(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 2013 £	Maximum Exposure 2013 £	Carrying Amount 2012 £	Maximum Exposure 2012 £
Assets held at amortised cost:					
Cash and cash equivalents	8	2,433,733	2,433,733	1,921,968	1,921,968
Mortgage portfolio	9	10,762,521	19,745,358	12,047,031	21,729,480
Assets held at fair value:					
Shared appreciation rights receivable	10	105,509,726	105,509,726	103,990,623	103,990,623
Total Assets		<u>118,705,980</u>	<u>127,688,817</u>	<u>117,959,622</u>	<u>127,642,071</u>

16(b) Market risk

Market risk is the risk of financial losses to the Company in the event of movements in the prices of the market in which it operates. The Company's market is the UK residential housing market.

Under the terms of the Notes the Company is obligated to pay the Note holders the return on the shared appreciation that has accrued during the life of the mortgage loan at the rate implicit in the specific mortgage loan agreement as and when repaid by the mortgage loan customer. Shared appreciation is subject to the movement in the market value of the property which is dependent upon house price inflation, as measured by the Halifax House Price Index ("HPI").

However, the Company itself is not impacted by market risk as the risk of returns on the Notes being below initial expectations lies with the Note holder and there are no guarantees within the terms of the Notes for expected increases in value.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

16. MANAGEMENT OF RISK (CONTINUED)

16(c) 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; where this is not possible the Company uses a derivative financial instrument to mitigate interest rate risk.

The Company has an interest rate swap with an external swap provider, UBS, to manage the interest rate risk on its operations and sources of finance. The purpose of the interest rate swap is to reduce the interest rate risk on the Company's assets and liabilities by paying over a portion of capital appreciation on the mortgage loans in return for a fixed interest receipt.

Following the restructure on 28 February 2011, with the closure of the with the closure of the Guaranteed Investment Contract account (the "GIC") and partial repayment of the Notes on which the GIC account was guarantee for the repayment of, the Company's exposure to interest rate risk is limited to interest earned on its bank accounts and the interest rate swap, as both the mortgage loans and the remaining Notes pay a zero rate of interest. Therefore, it is not considered to be a significant risk.

The main impact on profit is from the movement in fair value on the derivative.

16(d) 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 repay the Notes will be dependent upon the receipt of funds earned on the bank deposits, the swap agreement with the external provider, principal receipts on the mortgages 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 £1,165,000 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 (2012: 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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

16. MANAGEMENT OF RISK (CONTINUED)

16(d) Liquidity risk (continued)

2013	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							
Loans and borrowings (excluding deferred issue costs)	10,708,406	19,745,358	-	-	-	-	19,745,358
Derivative liability (swap)	16,509,611	13,771,087	-	(68,349)	(208,844)	(1,109,530)	15,157,810
Shared appreciation payable	87,924,772	87,924,772	-	-	-	-	87,924,772
Trade and other payables	495,823	495,823	-	495,823	-	-	-
Bank overdraft	2,453	2,453	2,453	-	-	-	-
	<u>115,641,065</u>	<u>121,939,493</u>	<u>2,453</u>	<u>427,474</u>	<u>(208,844)</u>	<u>(1,109,530)</u>	<u>122,827,940</u>
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							
Loans and borrowings (excluding deferred issue costs)	11,991,168	21,673,617	-	-	-	-	21,673,617
Derivative liability (swap)	16,151,172	12,841,925	-	(75,011)	(229,201)	(1,217,684)	14,363,821
Shared appreciation payable	86,658,852	86,658,852	-	-	-	-	86,658,852
Trade and other payables	548,912	548,912	-	548,912	-	-	-
Bank overdraft	1,315	1,315	1,315	-	-	-	-
	<u>115,351,419</u>	<u>121,724,621</u>	<u>1,315</u>	<u>473,901</u>	<u>(229,201)</u>	<u>(1,217,684)</u>	<u>122,696,290</u>

Note – the shared appreciation payable in both tables is contractually due when the mortgage loan becomes due on either the date of sale of the property or on the death of the customer.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

16. MANAGEMENT OF RISK (CONTINUED)

16(e) Fair values

Financial assets and liabilities carried at fair value

The table below analyses the financial assets and liabilities of the Company which are carried at fair value:

	2013 £ Level 2	2012 £ Level 2
Shared appreciation rights receivable	105,509,726	103,990,623
Shared appreciation rights payable	(87,924,772)	(86,658,852)
Derivative liability	(16,509,611)	(16,151,172)

Share appreciation rights

The shared appreciation rights receivable and shared appreciation rights payable are measured at fair value. The fair value has been calculated by discounting expected cash flows at an appropriate market rate. 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 is considered to be Level 2 in the Fair Value Hierarchy.

Derivatives

The fair value of the derivative liabilities have been calculated using discounted cash flow model; the most significant inputs into this model are current HPI and interest rate yield curves which are developed from publicly quoted rates. The fair value measurement is considered to be Level 2 in the Fair Value Hierarchy.

Financial assets and liabilities carried at amortised cost

The table below analyses the fair values of the financial assets and liabilities of the Company which are carried at amortised cost.

	Note	Carrying Amount 2013 £	Fair Value 2013 £	Carrying Amount 2012 £	Fair Value 2012 £
Loans and Receivables at amortised cost					
Mortgage portfolio	9	10,762,521	16,761,393	12,047,031	19,041,294
Financial liabilities at amortised cost					
Loans and borrowings	11	(10,358,632)	(16,715,569)	(11,616,411)	(18,663,942)

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

16. MANAGEMENT OF RISK (CONTINUED)

16(e) Fair values (continued)

The fair value of the mortgage portfolio and loans and borrowings have been calculated by discounting future cash flows at an appropriate market rate and are considered to be Level 2 in the Fair Value Hierarchy in accordance with "IFRS 7 Financial Instruments: Disclosures".

Trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value due to short nature of these liabilities.

17. 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. No dividend was paid during the year (2012: £2,300,000).

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

	LBG and subsidiary undertakings	LBG and subsidiary undertakings
	2013	2012
	£	£
Statement of Comprehensive Income		
Interest receivable and similar income	77,073	64,195
Operating expenses	(37,426)	(40,020)
Balance Sheet		
Assets		
Cash and cash equivalents	2,433,733	1,921,968
Liabilities		
Bank overdraft	(2,453)	(1,315)
Other payables	(3,033)	(3,333)
Equity		
Dividends paid in the year	-	(2,300,000)

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

18. FUTURE ACCOUNTING PRONOUNCEMENTS

The following pronouncements are relevant to the Company but are not applicable for the year ended 31 December 2013 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 32 Financial Instruments: Presentation – 'Offsetting Financial Assets and Financial Liabilities'	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 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 contractual cash flow characteristics of the instruments and eliminated the available-for-sale financial assets 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 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⁾ At the date of signing these financial statements, these pronouncements are awaiting EU endorsement.

⁽²⁾ IFRS 9 is the standard which will 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 the standard is complete, it is not possible to determine the overall impact of the standard on the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

19. 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 financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

20. DIVIDENDS

	2013 £	2012 £
Ordinary shares		
£nil per £1 share (2012: £46 per £1 share)	-	2,300,000
Deferred shares		
£nil per £1 share (2012: £nil per £1 share)	-	-
	<hr/>	<hr/>
	-	2,300,000
	<hr/>	<hr/>