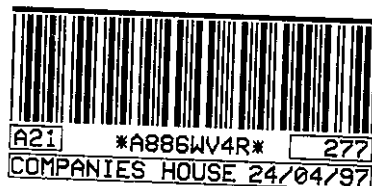


BOS (Shared Appreciation Mortgages) No. 2 PLC
(formerly BOS (Shared Appreciation Mortgages)
No. 2 Limited, formerly Refal 485 Limited)

REPORT AND ACCOUNTS

FOR THE PERIOD FROM 23rd JANUARY, 1996
TO 28TH FEBRUARY, 1997

COMPANY NUMBER 3149607



REPORT OF THE DIRECTORSDirectors

W. A. Donald
G. E. Mitchell
G. A. E. White
J. R. Browning

The Directors submit their report and the audited accounts of the Company for the period ended 28th February, 1997.

Incorporation and share capital

The Company was incorporated on 23rd January, 1996 as Refal 485 Limited with an authorised share capital of £100. On 23rd January, 1996, 2 ordinary shares of £1 each were issued at par. The authorised share capital was increased to £50,000 on 30th October, 1996 and an additional 49,998 ordinary shares of £1 each were issued at par on that date.

On 11th October, 1996, Refal 485 Limited changed its name to BOS (Shared Appreciation Mortgages) No. 2 Limited then subsequently changed its name to BOS (Shared Appreciation Mortgages) No. 2 PLC on 1st November, 1996.

Results for the period

The Company commenced trading on 21st November, 1996. The profit after taxation for the period amounted to £123,967. The Directors do not recommend the payment of a dividend.

Review of operations

The Company was established to finance mortgage lending. The Directors consider the Company's position to be satisfactory.

Directors and their interests

The Directors at the date of this report are stated above. In addition, G. R. Sandars and D. C. Carter were appointed Directors on 23rd January, 1996 and served until their resignation on 21st May, 1996. The Directors listed above were all appointed on 21st May, 1996.

No Director had an interest in the shares of the Company, nor in the Preference Stocks of The Governor and Company of the Bank of Scotland ("Bank of Scotland"), the Company's parent undertaking nor in the shares of any other undertakings in the Bank of Scotland group, at any time during the period.

Directors' beneficial interests in the ordinary stock of Bank of Scotland were as follows:

	<u>At date of appointment</u>	<u>At 28th February, 1997</u>
	<u>Ordinary Stock Units of 25p each</u>	<u>Ordinary Stock Units of 25p each</u>
W. A. Donald	1,091	1,091
G. E. Mitchell	26,462	26,462
G. A. E. White	31,079	31,411
J. R. Browning	170,494	171,943

Directors and their interests (continued)

Options to subscribe for Ordinary Stock of Bank of Scotland were granted to or exercised by Directors during the period to 28th February, 1997 as follows:-

Executive Stock Options held by Directors

	# Options held as at date of appointment	# Options granted	# Options exercised	# Options held as at 28th February 1997	Weighted average exercise price	Market price at date of exercise	Potential pre-tax gain at date of exercise	Closing weighted average exercise price
					(p)	(p)	£'000	(p)
W. A. Donald	-	5,000	-	5,000	-	-	-	273.67
G. E. Mitchell	190,000	50,000	-	240,000	-	-	-	205.72
G. A. E. White	68,500	14,500	-	83,000	-	-	-	201.67
J. R. Browning	388,546	50,000	220,546	218,000	102.32	266.50	362.1	227.32

Ordinary Stock units of 25p each

Bank of Scotland policy is to make an annual grant of options over the ten year life of the Executive Stock Option Scheme.

Options granted prior to October 1995 were granted at an exercise price of the average market price for the three dealing days immediately prior to the date on which invitations to apply for options were issued.

Options granted in October 1995 and subsequently were granted at an exercise price of the average market price for the first three dealing days on which the Ordinary Stock is quoted ex dividend following announcement of the interim results and immediately prior to the date of grant. Such options are subject to a performance pre-condition and may be exercised only where growth in earnings per Ordinary Stock unit has exceeded the growth in the General Index of Retail Prices over a period of not less than three consecutive financial years by not less than 2 per cent per annum.

Options were granted in October 1996 at an exercise price of 273.67p per Ordinary Stock unit.

Outstanding options are exercisable between 1997 and 2006. No options lapsed during the year.

Savings Related Stock Options held by Directors

	# Options held as at date of appointment	# Options granted	# Options exercised	# Options held as at 28th February 1997	Weighted average exercise price	Market price at date of exercise	Potential pre-tax gain at date of exercise	Closing weighted average exercise price
					(p)	(p)	£'000	(p)
G. A. E. White	7,865	1,994	-	9,859	-	-	-	151.82

Ordinary Stock units of 25p each

REPORT OF THE DIRECTORS (continued)

Directors and their interests (continued)

Options granted prior to 1995 were at a 20% discount to the market price on the fourth dealing day after the announcement of the interim results.

Options granted in November 1995 and subsequently are at an exercise price of 80% of the average market price for the first three dealing days on which the Ordinary Stock was quoted ex dividend following announcement of the interim results and immediately prior to the date of grant. Options were granted in November 1996 at an exercise price of 218.93p per Ordinary Stock unit.

Outstanding options are exercisable between 1997 and 2004. No options lapsed during the year.

The market price of the Ordinary Stock at 28th February, 1997 was 341.0p per Ordinary Stock unit and the range during the year was 227.5p to 373.5p.

Auditors

During the period, Ernst & Young, Chartered Accountants, were appointed as auditors. Ernst & Young have signified their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board,

L. J. W. Black

L. J. W. Black
Secretary.

Registered Office
Old Broad Street,
LONDON,

7th April 1997

PROFIT AND LOSS ACCOUNTFor the period ended 28th February, 1997

	<u>Notes</u>	<u>1997</u> <u>£</u>
Interest payable		(4,562)
Net operating expenses		<u>(4,562)</u>
Fees and commissions receivable		171,000
Fees and commissions payable		(1,200)
Other operating income		21,108
Operating expenses		<u>(1,053)</u>
Profit on ordinary activities before taxation	2	<u>185,293</u>
Taxation	3	(61,326)
Profit on ordinary activities after taxation		<u><u>123,967</u></u>

All gains and losses arising during the period have been recognised in the profit and loss account and derive from continuing operations of the Company.

The notes on pages 6 and 7 form part of these accounts.

BALANCE SHEETAs at 28th February, 1997

	<u>Notes</u>	<u>1997</u> £
<u>Current Assets</u>		
Mortgage portfolio	4	9,874,191
Amount due from parent undertaking		50,000
Amount due from ultimate parent undertaking		250,704
		10,174,895
 <u>Creditors: Amounts falling due within one year</u>		
Amount due to group companies		(9,874,191)
Corporation tax payable 1st December, 1997		(61,326)
Accruals and deferred income		(65,411)
		(10,000,928)
 <u>Net Current Assets</u>		
		173,967
 <u>Share Capital & Reserves</u>		
Issued Share Capital	5	50,000
Profit and Loss Account		123,967
<u>Equity Shareholders' Funds</u>	6	
		173,967

.....*W. A. Mann*.....Director

.....*W. A. Mann*.....Director

.....7.....April, 1997

The notes on pages 6 and 7 form part of these accounts.

NOTES TO THE ACCOUNTS1. Accounting policies1.1 Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with currently applicable accounting standards.

1.2 Interest receivable and payable is accrued on a daily basis.

1.3 Shared appreciation received is accounted for as received.

1.4 The charge for taxation takes into account the timing differences in the accounting and taxation treatment of certain items to the extent that they are expected to reverse in the future. Deferred taxation is provided on the liability method.

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

2. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging :

	<u>1997</u>
	£
Audit fees	<u>500</u>

The Company has no employees and none of the Directors receives any emoluments from the Company.

3. Taxation

The taxation charge is based on the profit arising from ordinary activities and comprises:

	<u>1997</u>
	£
Corporation Tax at 33%	<u>61,326</u>

4. Mortgage portfolio

As at 21st November, 1996	£
	-
Advanced in period	9,874,191
As at 28th February, 1997	<u>9,874,191</u>

NOTES TO THE ACCOUNTS (continued)5. Share Capital

	<u>1997</u> £
<u>Authorised</u>	
50,000 ordinary shares of £1 each	<u>50,000</u>
<u>Allotted and called up</u>	
50,000 ordinary shares of £1 each	<u>50,000</u>

On incorporation of the Company on 23rd January, 1996 2 ordinary shares of £1 each were allotted at par. A further 49,998 ordinary shares of £1 each were issued at par on 30th October, 1996.

6. Reconciliation of Equity Shareholders' Funds

	<u>1997</u> £
Share Capital subscribed	50,000
Profit attributable to shareholders	123,967
Equity Shareholders' Funds at 28th February, 1997	<u>173,967</u>

7. Parent undertakings

The Company's parent undertaking is Uberior Investments Plc and its ultimate parent undertaking is The Governor and Company of the Bank of Scotland, incorporated by Act of the Scottish Parliament in 1695. The Company is included in the group accounts of Bank of Scotland and copies of its Annual Report and Accounts are available from its Head Office at The Mound, Edinburgh.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit or loss for the period. The directors consider that in preparing the financial statements on pages 4 to 7 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable, have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF
BOS (Shared Appreciation Mortgages) No.2 PLC

We have audited the accounts on pages 4 to 7 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 8, the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 28th February, 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young,
Chartered Accountants,
Registered Auditor
Edinburgh

7 April, 1997