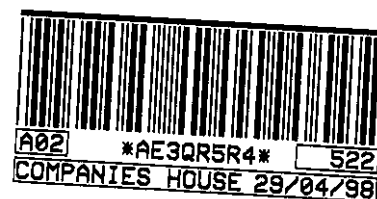


BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

REPORT AND ACCOUNTS
FOR THE YEAR ENDED
28TH FEBRUARY, 1998

COMPANY NUMBER 3149607



REPORT OF THE DIRECTORSDirectors

W. A. Donald

G. E. Mitchell

I. W. St. C. Scott

G. A. E. White

The Directors submit their report and the audited accounts of the Company for the year ended 28th February, 1998.

Results for the year

The profit for the year after taxation amounted to £491,216 (1997 : £123,967). The Directors do not recommend the payment of a dividend.

Review of operations

The Company was established to finance mortgage lending. On 25 July, 1997 the Company securitised its mortgage book via the issue of £105,600,000 Asset Backed Floating Rate Notes. 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, Prof. J. R. Browning served as a Director until his resignation on 31st August, 1997. I. W. St. C. Scott was appointed a Director on 1st September, 1997. All other Directors served throughout the year.

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 year.

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

	<u>At 28th February, 1997</u> <u>or date of appointment</u>	<u>At 28th February, 1998</u>
	<u>Ordinary Stock Units of 25p each</u>	<u>Ordinary Stock Units of 25p each</u>
W. A. Donald	1,102	2,186
G. E. Mitchell	26,462	28,393
I. W. St. C. Scott	184,609	183,997
G. A. E. White	31,411	31,006

Directors and their interests (Continued)

Options to subscribe for Ordinary Stock of Bank of Scotland were granted to or exercised by Directors during the year to 28th February, 1998 as follows:-

Executive Stock Options held by Directors

	<u>#Options held as at 1st March 1997</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 28th February 1998</u>
W. A. Donald	5,500	4,800	-	10,300
G. E. Mitchell	240,000	35,000	92,000	183,000
I. W. St. C. Scott	213,000	24,000	-	237,000
G. A. E. White	83,000	9,600	-	92,600

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.

Savings Related Stock Options held by Directors

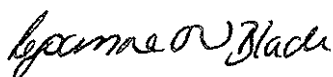
	<u>#Options held as at 1st March 1997</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 28th February 1998</u>
G. A. E. White	9,859	889	1,261	9,487

Ordinary Stock units of 25p each

Auditors

The Company's Auditors, Ernst and Young, Chartered Accountants 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/B. Fisher
Joint Secretaries

Registered Office
Old Broad Street
LONDON.

3rd April 1998

PROFIT AND LOSS ACCOUNTFor the year ended 28th February, 1998

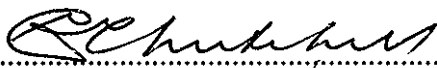
	<u>Notes</u>	<u>1998</u> <u>£</u>	<u>1997</u> <u>£</u>
Interest receivable		3,083,990	-
Interest payable	2	(2,631,813)	(4,562)
Net interest		452,177	(4,562)
Fees and commissions receivable		506,065	171,000
Fees and commissions payable		(113,450)	(1,200)
Shared appreciation received		14,691	-
Premium on redemption of Loan Notes		(14,691)	-
Other income		41,912	21,108
Operating expenses		(174,305)	(1,053)
Profit on ordinary activities before taxation	3	712,399	185,293
Taxation	4	(221,183)	(61,326)
Profit on ordinary activities after taxation		491,216	123,967
Profit and Loss account at 1st March, 1997		123,967	-
Profit and Loss account at 28th February, 1998		<u>615,183</u>	<u>123,967</u>

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

The notes on pages 5 to 8 form part of these accounts.

BALANCE SHEETAs at 28th February, 1998

	<u>Notes</u>	<u>1998</u>	<u>1997</u>
		<u>£</u>	<u>£</u>
<u>Current Assets</u>			
Mortgage portfolio	5	42,049,046	9,874,191
Interest receivable		15,073	-
Amount due from parent undertaking		-	50,000
Amount due from ultimate parent undertaking		343,259	250,704
Deferred expenditure		819,280	-
Cash at bank	6	63,139,615	-
		106,366,273	10,174,895
<u>Creditors: Amounts falling due within one year</u>			
Amount due to group companies		(70,761)	(9,874,191)
Corporation tax payable		(221,362)	(61,326)
Accruals and deferred income		(11,628)	(65,411)
		(303,751)	(10,000,928)
<u>Net Current Assets</u>		106,062,522	173,967
<u>Creditors : Amounts falling due after more than one year</u>			
Amount due to ultimate parent undertaking	7	(205,462)	-
Floating Rate Loan Notes	8	(105,191,876)	-
		665,184	173,967
<u>Share Capital & Reserves</u>			
Called up share capital	9	50,001	50,000
Profit and Loss Account		615,183	123,967
<u>Equity Shareholders' Funds</u>	10		
		665,184	173,967

.....Director

.....Director

.....3rd April, 1998

The notes on pages 5 to 8 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.

1.6 Issue costs in respect of the Floating Rate Loan Notes, in excess of the premium on issue, have been deferred and will be charged to the Profit and Loss Account over the expected maturity of the Loan Notes.

2. Interest Payable

	<u>1998</u>	<u>1997</u>
	<u>£</u>	<u>£</u>
To group undertakings	30,357	4,562
To bondholders	2,601,456	-
	<u>2,631,813</u>	<u>4,562</u>

3. Profit on ordinary activities before taxation

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

	<u>1998</u>	<u>1997</u>
	<u>£</u>	<u>£</u>
Auditors' Remuneration:		
Audit Services	1,175	500
Non Audit Services	<u>25,263</u>	<u>-</u>

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

NOTES TO THE ACCOUNTS (Continued)4. Taxation

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

	<u>1998</u> £	<u>1997</u> £
Corporation Tax	<u>221,183</u>	<u>61,326</u>

5. Mortgage portfolio

	<u>1998</u> £	<u>1997</u> £
As at 1st March, 1997	9,874,191	-
Advanced in year	32,461,024	9,874,191
Mortgage redemptions in year	(286,169)	-
As at 28th February, 1998	<u>42,049,046</u>	<u>9,874,191</u>

During the year the Company securitised £42,240,000 of mortgages through the issue of Asset Backed Floating Rate Loan Notes.

6. Cash at bank

Included in cash at bank is a Guaranteed Investment Contract deposit of £63,115,125. Withdrawals from this deposit are restricted to certain circumstances, primarily in relation to the redemption of the Loan Notes.

7. Subordinated term loan

The amount due to ultimate parent undertaking represents a subordinated term loan of £205,462. The initial amount of the loan drawn down was £526,993. Interest is charged on the loan at 1% over base rate. Repayments of principal are made on a quarterly basis from surplus revenues. The loan is due for repayment after 5 years.

8. Floating Rate Loan Notes

	<u>1998</u> £
Loan Notes issued in year	105,600,000
Redemption of Loan Notes in year	(408,124)
As at 28th February, 1998	<u>105,191,876</u>

NOTES TO THE ACCOUNTS (Continued)8. Floating Rate Loan Notes (Continued)

During the year the Company issued £105,600,000 of Asset Backed Floating Rate Loan Notes due 2072. The interest rate applicable on the Loan Notes up to and including the interest period ending in the quarter to August 2027 is 60 per cent of the London Inter Bank Offered Rate for three month sterling deposits less 0.30% per annum. Thereafter, the interest rate applicable to the Loan Notes will be 60 per cent of the London Inter Bank Offered Rate for three month sterling deposits plus 0.10% per annum. The Loan Notes carry, in addition to interest, rights to receive certain amounts calculated by reference to the value of shared appreciation proceeds received from redeemed mortgages. The Loan 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 Loan Notes are secured on the mortgage portfolio, the Guaranteed Investment Contract and certain other assets of the Company.

9. Share Capital

	<u>1998</u> <u>£</u>	<u>1997</u> <u>£</u>
<u>Authorised</u>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
1 deferred share of £1	<u>1</u>	<u>-</u>
<u>Allotted called up and fully paid</u>		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
1 deferred share of £1	<u>1</u>	<u>-</u>

On 1 July, 1997 £50,000 was received being full consideration for the ordinary share capital.

On 16 July, 1997 1 deferred share of £1 was issued to Bankers Trustee Company Limited. The 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 (1) abrogating, varying or modifying any of the rights or privileges of the holder of the Deferred Share, (2) for the winding up or administration of the Company under the Insolvency Act 1986, or (3) 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 per cent of the number of votes attached to all other issued shares of the Company.

NOTES TO THE ACCOUNTS (Continued)10. Reconciliation of movement in Equity Shareholders' Funds

	<u>1998</u>	<u>1997</u>
	<u>£</u>	<u>£</u>
Share Capital subscribed	1	49,998
Profit attributable to shareholders	491,216	123,967
Equity Shareholders' Funds at 1st March, 1997	173,967	2
Equity Shareholders' Funds at 28th February, 1998	<u>665,184</u>	<u>173,967</u>

11. 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, EH1 1YZ.

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 year. The Directors consider that in preparing the financial statements on pages 3 to 8 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 3 to 8 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 5.

Respective responsibilities of Directors and auditors

As described on page 9, 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.

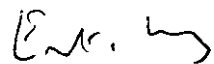
Basis of opinion

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, 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young,
Chartered Accountants,
Registered Auditor
Edinburgh

3 April, 1998