

BOS (SHARED APPRECIATION MORTGAGES)
NO. 2 PLC

REPORT AND ACCOUNTS
FOR THE YEAR ENDED
28TH FEBRUARY, 2001

COMPANY NUMBER 3149607



REPORT OF THE DIRECTORSDirectors

D. R. McArthur

G. A. E. White

The Directors submit their report and the audited accounts of the Company for the year ended 28th February, 2001.

Results for the year

The profit for the year after taxation amounted to £331,521 (2000 : £312,354). The Directors do not recommend the payment of a final dividend. (2000 : £nil).

Review of operations

The Company was established to finance mortgage lending. There has been no change in the structure of the business in the year. Movements in the mortgage book are disclosed in the notes to the accounts.

The Directors consider the Company's position to be satisfactory.

Statement of Payment Practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers.

The Company did not, at any time during the year, obtain or seek to obtain credit from any of its suppliers. On this basis no calculation has been made for the average number of days credit taken at the year end.

Directors and their interests

The Directors at the date of this report are stated above. During the period the following changes to directors were made:

<u>Director</u>	<u>Date of Appointment</u>	<u>Date of Resignation</u>
D. R. McArthur	23 October 2000	
I. W. St. C Scott		30 September 2000
W. A. Donald		23 October 2000
G. E. Mitchell		23 October 2000

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 ultimate parent undertaking nor in the shares of any other undertakings in the Bank of Scotland group, at any time during the year.

Directors and their interests (Continued)

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

	<u>At 1st March, 2000</u>	<u>At 28th February, 2001</u>
	<u>Ordinary Stock Units of 25p each</u>	<u>Ordinary Stock Units of 25p each</u>
D.R. McArthur	50,050	51,470
G. A. E. White	33,198	36,048

Options to subscribe for Ordinary Stock of Bank of Scotland were granted to or exercised by Directors during the year to 28th February, 2001 as follows:-

Executive Stock Options held by Directors

	<u>#Options</u> <u>held as at</u> <u>1st March,</u> <u>2000</u>	<u>#Options</u> <u>granted</u>	<u>#Options</u> <u>exercised</u>	<u>#Options</u> <u>held as at</u> <u>28th February,</u> <u>2001</u>
D. R. McArthur	47,600	25,000	-	72,600
G. A. E. White	48,600	22,000	-	70,600

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</u> <u>held as at</u> <u>1st March,</u> <u>2000</u>	<u>#Options</u> <u>granted</u>	<u>#Options</u> <u>exercised</u>	<u>#Options</u> <u>held as at</u> <u>28th February,</u> <u>2001</u>
G. A. E. White	8,944	-	1,580	7,364

Ordinary Stock units of 25p each

Secretary

On the 1st September, 2000 L.J. Black and B. Fisher resigned as Joint Secretaries of the Company. H. M. Lakin was appointed Secretary on the same date.

Auditors

During the year, KPMG Audit Plc, were re-appointed as auditors. KPMG Audit Plc 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,



H M Lakin
Secretary

18 April 2001

Registered Office
Premier House
City Road
Chester
CH88 3AN

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts 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.

PROFIT AND LOSS ACCOUNTFor the year ended 28th February, 2001

	<u>Notes</u>	<u>2001</u> £	<u>2000</u> £
Interest receivable	2	4,010,602	3,714,276
Interest payable		(3,369,326)	(3,070,510)
Net interest		641,276	643,766
Fees and commissions receivable		13,958	24,224
Shared appreciation received		1,480,849	459,693
Premium on redemption of loan notes		(1,480,849)	(459,693)
Other income		3,994	857
Operating expenses		(187,024)	(212,199)
Profit on ordinary activities before taxation	3	472,204	456,648
Taxation	4	(140,683)	(144,294)
Profit on ordinary activities after taxation		331,521	312,354
Retained Profit for the year		331,521	312,354
Profit and Loss account at 1st March, 2000		356,990	44,636
Profit and Loss account at 28th February, 2001		<u>688,511</u>	<u>356,990</u>

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

The notes on pages 7 to 10 form part of these accounts.

BALANCE SHEETAs at 28th February, 2001

	<u>Notes</u>	<u>2001</u>	<u>2000</u>
		<u>£</u>	<u>£</u>
<u>Fixed Asset Investments</u>			
Mortgage portfolio	5	38,510,107	40,057,253
Deposit account	6	57,731,760	60,061,262
		<u>96,241,867</u>	<u>100,118,515</u>
<u>Current Assets</u>			
Amount due from ultimate parent undertaking		769,434	350,233
Deferred expenditure		480,880	587,300
Cash at bank		4,541	1,180
		<u>1,254,855</u>	<u>938,713</u>
<u>Creditors: Amounts falling due within one year</u>			
Corporation tax payable		(140,683)	(144,294)
Accruals and deferred income		(27,881)	(33,797)
Proposed dividend		(370,000)	(370,000)
		<u>(538,564)</u>	<u>(548,091)</u>
<u>Net Current Assets</u>		<u>716,291</u>	<u>390,622</u>
<u>Creditors : Amounts falling due after more than one year</u>			
Floating rate loan notes	7	(96,219,646)	(100,102,146)
<u>Net Assets</u>		<u>738,512</u>	<u>406,991</u>
<u>Share Capital & Reserves</u>			
Called up share capital	8	50,001	50,001
Profit and loss account		688,511	356,990
<u>Equity Shareholders' Funds</u>	9	<u>738,512</u>	<u>406,991</u>

.....  Director

.....  Director

..... 18 April 2001

The notes on pages 7 to 10 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, have been deferred and are being charged to the profit and loss account over a ten year period.

1.7 The company is exempt from preparing a Cash Flow Statement under FRS 1 as the results are consolidated within the financial statements of Bank of Scotland Group.

2. Interest receivable

Interest receivable includes interest receivable from ultimate parent undertaking of £31,750 (2000: £22,449).

3. Profit on ordinary activities before taxation

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

	<u>2001</u>	<u>2000</u>
	<u>£</u>	<u>£</u>
Auditors' Remuneration:		
Audit Services	<u>2,291</u>	<u>2,291</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>2001</u> £	<u>2000</u> £
UK Corporation Tax	140,683	144,294
	<u>140,683</u>	<u>144,294</u>

5. Mortgage portfolio

	<u>2001</u> £	<u>2000</u> £
Opening balance	40,057,253	40,976,880
Fees capitalised	5,405	2,155
Mortgage redemptions in year	(1,552,551)	(921,782)
Closing Balance	<u>38,510,107</u>	<u>40,057,253</u>

6. Deposit Account

This account represents a cash balance held with a third party under a guaranteed investment contract. The Company earns a LIBOR related return on the account, which is recorded as interest income in the profit & loss Account. Withdrawals from this deposit are restricted to certain circumstances, primarily in relation to the redemption of the loan notes.

7. Floating Rate Loan Notes

	<u>2001</u> £	<u>2000</u> £
Opening balance	100,102,146	102,519,108
Redemption of Loan Notes in year	(3,882,500)	(2,416,962)
Closing Balance	<u>96,219,646</u>	<u>100,102,146</u>

NOTES TO THE ACCOUNTS (Continued)7. Floating Rate Loan Notes (Continued)

The Asset Backed Floating Rate Loan Notes are due in 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.

8. Share Capital

	<u>2001</u> £	<u>2000</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>1</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>1</u>

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 (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)9. Reconciliation of movement in Equity Shareholders' Funds

	<u>2001</u> £	<u>2000</u> £
Profit attributable to shareholders	331,521	312,354
Equity Shareholders' Funds at 1st March, 2000	406,991	94,637
Equity Shareholders' Funds at 28th February, 2001	<u>738,512</u>	<u>406,991</u>

10. Financial and Derivative instruments

The Company's financial instruments comprise mortgages, funds on deposit and loan notes. The Company's operations are structured so that it does not retain any interest rate or credit risk.

It is not practical to calculate the fair market value of the mortgages and loan notes because the amount and timing of future cashflows in relation to shared appreciation is uncertain. The carrying value of other current assets and liabilities approximates fair market value.

In addition a derivative contract, which matures on 28th February 2072, was entered into on 25th July 1997 with a UK Financial Institution. As at 28th February 2001 the replacement cost of the contract is £nil and its fair value is a liability of £2,390,000.

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.

REPORT OF THE AUDITORS TO THE MEMBERS OF
BOS (SHARED APPRECIATION MORTGAGES) NO.2 PLC

We have audited the accounts on pages 5 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

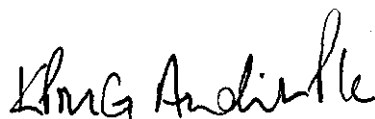
Basis of opinion

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, 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

13 April 2001