

Company No. 3149607

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2002



BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

REPORT OF THE DIRECTORS

Directors

I.G. Stewart

G. A. E. White

The Directors hereby submit their Report and the accounts for the year ended 31st December 2002.

Accounting Reference Date

The accounting reference date was moved from 28th February to 31st December on 23rd July 2001, resulting in a 10 month accounting period in the previous period.

Results for the year to 31st December 2002

The profit for the year amounted to £298,056 (10 months to 31st December 2001 £292,273). The Directors recommend a dividend payment of £268,280 (10 months to 31st December 2001 £263,046).

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.

On 17th May 2002 D.R. McArthur resigned as a Director of the Company. On the same date I.G. Stewart was appointed as a Director of the Company.

During the year no director had any beneficial interest in the share capital of the company or of any group undertaking other than in HBOS plc, the ultimate holding company, details of which are set out below.

Directors' beneficial interests in the ordinary shares of HBOS plc were as follows:

	<u>At 31st December, 2001</u>	<u>At 31st December, 2002</u>
	<u>Ordinary Shares of 25p each</u>	<u>Ordinary Shares of 25p each</u>
	<u>or at date of appointment</u>	
I.G.Stewart	6,239	6,239
G. A. E. White	40,073	45,084

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

REPORT OF THE DIRECTORS (continued)

Long term bonus scheme - HBOS Directors and former Halifax/Halifax subsidiaries' Directors

Conditional awards of ordinary shares of HBOS plc were granted to Directors during the year to 31 December, 2002 as follows:

	<u>#Conditional Awards held as at 31 December 2001 or date of</u>	<u>#Awards granted</u>	<u>#Awards lapsed</u>	<u>#Conditional Awards held as at 31 December 2002</u>
I.G. Stewart	7987	-	-	7987

#Ordinary shares of 25p each

Conditional awards held by directors arise from the HBOS long term incentive plans and former Halifax long term plan, the detailed conditions of which are provided within the HBOS Annual Report and Accounts.

Long term incentive plan - former Bank of Scotland Directors

Options to subscribe for ordinary shares of HBOS plc were exercised by Directors to 31 December, 2002 as follows:

	<u>#Options held as at 31st December 2001 or at date of appointment</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 31st December 2002</u>
G. A. E. White	32,000	-	5,223	26,777

#Ordinary Shares of 25p each

Sharesave Plan

Options to subscribe for ordinary shares of HBOS plc under sharesave plans as at 31 December, 2002 were as follows:

	<u>#Options held as at 31st December 2001 or date of appointment</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 31st December 2002</u>
G. A. E. White	5,938	-	-	5,938

Ordinary Shares of 25p each

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

REPORT OF THE DIRECTORS (continued)

HBOS Inland Revenue Approved Share Option Plan

Options in ordinary shares of HBOS plc, held under HBOS Inland Revenue Approved Share Option plan as at 31 December, 2002 were as follows:

	<u>#Options held as at 31st December 2001 or at date of appointment</u>	<u>#Options granted</u>	<u>#Options exercised/ lapsed</u>	<u>#Options held as at 31st December 2002</u>
I.G. Stewart	2,768	-	-	2,768

Ordinary Shares of 25p each

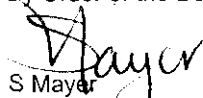
Under the HBOS Inland Revenue Approved Share Option Plan, shares are granted to all HBOS employees, except certain senior executives.

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

By Order of the Board,


S Mayer
SECRETARY

Registered Office
Premier House
City Road
CHESTER.

21-Feb-03

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare financial statements 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 year. In preparing those financial statements, the directors are required

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 financial statements 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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2002

	<u>Notes</u>	<u>12 months to 31st December, 2002 £</u>	<u>10 months to 31st December, 2001 £</u>
Interest receivable	2	2,560,892	2,744,953
Interest payable		(1,959,546)	(2,222,418)
Net Interest		601,346	522,535
Fees and commissions receivable		1,350	9,567
Shared appreciation receivable		3,833,805	1,825,076
Shared appreciation payable		(3,833,805)	(1,825,076)
Other income		9,412	5,896
Operating expenses		(186,313)	(128,914)
Profit on ordinary activities before taxation	3	425,795	409,084
Taxation	4	(127,739)	(116,811)
Profit on ordinary activities after taxation		298,056	292,273
Dividend on equity shares - proposed		(268,280)	(263,046)
Retained profit for year		29,776	29,227
Profit and Loss account at 31st December, 2001		717,738	688,511
Profit and Loss account at 31st December, 2002		747,514	717,738

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

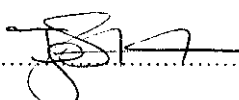
The notes on pages 8 to 11 form part of the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

BALANCE SHEET

As at 31st December, 2002

	<u>Notes</u>	<u>31st December, 2002 £</u>	<u>31st December, 2001 £</u>
<u>Fixed Assets Investments</u>			
Mortgage portfolio	5	35,373,650	37,182,778
Deposit account	6	53,371,445	55,801,104
		<u>88,745,095</u>	<u>92,983,882</u>
<u>Current Assets</u>			
Amount due from ultimate parent undertaking		707,336	688,060
Deferred expenditure		287,390	397,572
Interest receivable		205,145	214,226
Cash at bank and in hand		689,245	124,537
		<u>1,889,116</u>	<u>1,424,395</u>
<u>Creditors: Amounts falling due within one year</u>			
Corporation tax payable		(127,739)	(116,810)
Accruals and deferred income		(870,041)	(302,546)
Proposed dividend		(138,179)	(263,046)
		<u>(1,135,959)</u>	<u>(682,402)</u>
<u>Net Current Assets</u>		<u>753,157</u>	<u>741,993</u>
<u>Total Assets less Current Liabilities</u>		<u>89,498,252</u>	<u>93,725,875</u>
<u>Creditors: Amounts falling due after more than one year</u>			
Floating rate loan notes	7	(88,700,737)	(92,958,136)
<u>Net Assets</u>		<u>797,515</u>	<u>767,739</u>
<u>Share Capital and Reserves</u>			
Called up share capital	8	50,001	50,001
Profit and loss account		747,514	717,738
<u>Equity Shareholders' Funds</u>	9	<u>797,515</u>	<u>767,739</u>


 Director
 21-Feb-03

The notes on pages 8 to 11 form part of the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

NOTES ON THE ACCOUNTS

1. Accounting policies

1.1 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 In the current year, the company implemented FRS 19 "Deferred Tax"

Deferred Tax is recognised, without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed out by the balance sheet date, except as otherwise required by FRS 19.

There was no deferred tax impact on the current year profit and loss account or prior period profit and loss account.

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 Fixed 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 the HBOS group.

2. Interest receivable

Interest receivable includes interest receivable from ultimate parent undertaking of £24,621 (31st December, 2002: £25,253).

3. Profit on ordinary activities before taxation

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

	<u>12 months to 31st December, 2002</u>	<u>10 months to 31st December, 2001</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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

NOTES ON THE ACCOUNTS (continued)

4 Taxation

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

	<u>31st December</u> <u>2002</u>	<u>31st December</u> <u>2001</u>
<u>Tax on Profit on Ordinary Activities</u>	<u>£</u>	<u>£</u>
<u>Current Tax</u>		
Corporation tax charge for the year at a rate of 30% (2001 30%)	<u>127,739</u>	<u>116,811</u>

Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 30%) equates to the tax assessed for the year at the standard rate of corporation tax in the UK (30%)

5 Mortgage Portfolio

	<u>31st December,</u> <u>2002</u>	<u>31st December,</u> <u>2001</u>
	<u>£</u>	<u>£</u>
Opening balance	37,182,778	38,510,107
Fees capitalised	7,145	3,525
Mortgage redemptions in year	<u>(1,816,273)</u>	<u>(1,330,854)</u>
Closing balance	<u>35,373,650</u>	<u>37,182,778</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 account are restricted to certain circumstances, primarily in relation to the redemption of the loan notes.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

NOTES ON THE ACCOUNTS (continued)

7. Floating Rate Loan Notes

	<u>31st December,</u> <u>2002</u>	<u>31st December,</u> <u>2001</u>
	<u>£</u>	<u>£</u>
Opening balance	92,958,136	96,219,646
Redemption of loan notes in year	(4,257,399)	(3,261,510)
Closing balance	<u>88,700,737</u>	<u>92,958,136</u>

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 31st 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>31st December,</u> <u>2002</u>	<u>31st December,</u> <u>2001</u>
	<u>£</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>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.

BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC

NOTES ON THE ACCOUNTS (continued)

9. Reconciliation of Equity Shareholders' Funds

	<u>31st December,</u> <u>2002</u> <u>£</u>	<u>31st December,</u> <u>2001</u> <u>£</u>
Profit attributable to shareholders	29,776	29,227
Opening Equity Shareholders' Funds	767,738	738,512
Closing Equity Shareholders' Funds	<u>797,514</u>	<u>767,739</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 2040, was entered into on 28th Feb, 1999 with a UK Financial Institution. As at 31st December 2002 the replacement cost of the contract is £nil. and its fair value is a liability of £9,940,601

11. Related Party Transactions

The company's ultimate parent is HBOS plc. The consolidated financial statements of HBOS plc are publicly available and include all transactions with group members who are related parties of the group. Under the provisions of Financial Reporting Standard No.8, transactions with related parties of this company have not been disclosed other than as required under Companies Act 1985.

12. Parent Undertakings

The Company's parent undertaking is Uberior Investments plc, with its intermediate parent undertaking being The Governor and Company of the Bank of Scotland, incorporated by Act of the Scottish Parliament in 1695. The Company's ultimate parent undertaking is HBOS plc. Copies of HBOS plc Annual Report and Accounts may be obtained from its Head Office at The Mound, Edinburgh, EH1 1YZ.

BOS (SHARED APPRECIATION MORTGAGES) NO.2 PLC

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

We have audited the financial statements on pages 6 to 11.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements 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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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.

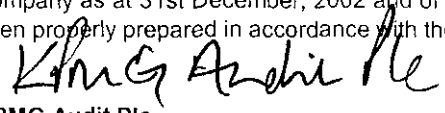
Basis of audit opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company as at 31st December, 2002 and of the 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

21.2.03