

BOS (SHARED APPRECIATION MORTGAGES
(SCOTLAND)) NO 3 LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED
29TH FEBRUARY, 2000

COMPANY NUMBER 3436151



REPORT OF THE DIRECTORS

Directors
W. A. Donald
G. E. Mitchell
G. A. E. White
I. W. St.C. Scott

The Directors submit their report and the audited accounts of the Company for the period ended 29th February, 2000.

Results for the period

The profit after taxation for the period amounted to £94,904 (17 Months to 28th February, 1999: £215,834). The Directors do not recommend the payment of a dividend.

Review of operations

The Company was established to finance mortgage lending. Movements in the mortgage portfolio 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 period, 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 period end.

Directors and their interests

The Directors at the date of this report are stated above. All Directors were appointed on 18th September, 1997 and served throughout the period

I.W.St.C. Scott had an interest in 1,491 ordinary shares in Bank of Western Australia Ltd. (at 28th February, 1999: 1,453). No other 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 period.

Directors and their interests (continued)

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

	<u>At 1st March, 1999</u>	<u>At 29th February, 2000</u>
	<u>Ordinary Stock Units of 25p each</u>	<u>Ordinary Stock Units of 25p each</u>
W. A. Donald	2,874	3,484
G. E. Mitchell	29,504	30,410
I. W. St. C. Scott	164,210	237,259
G. A. E. White	32,475	33,198

Options to subscribe for Ordinary Stock of Bank of Scotland were granted to or exercised by Directors during the period to 29th February, 2000 as follows:-

Executive Stock Options held by Directors

	<u>#Options held as at 1st March 1999</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 29th February 2000</u>
W. A. Donald	16,300	6,000	-	22,300
G. E. Mitchell	223,000	-	98,000	125,000
I. W. St. C. Scott	206,650	-	120,000	86,650
G. A. E. White	48,600	-	-	48,600

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

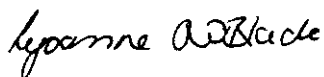
	<u>#Options held as at 1st March 1999</u>	<u>#Options granted</u>	<u>#Options exercised</u>	<u>#Options held as at 29th February 2000</u>
W. A. Donald	3,132	464	-	3,596
G. A. E. White	9,364	532	952	8,944

Ordinary Stock units of 25p each

Auditors

During the year KPMG Audit Plc were 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,



L. J. W. Black / B. Fisher
Joint Secretaries

Registered Office
Old Broad Street
LONDON,

2000

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 29th February, 2000

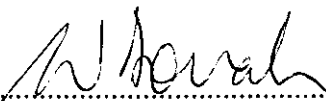
	<u>Notes</u>	<u>2000</u>	<u>17 Months to 28th February, 1999</u>
		<u>£</u>	<u>£</u>
Interest receivable	2	322,710	324,748
Interest payable	3	(250,468)	(289,492)
Net operating income		72,242	35,256
Fees and commissions receivable	4	139,104	364,509
Fees and commissions payable		-	(65,900)
Shared appreciation receivable		50,438	-
Shared appreciation payable		(50,438)	-
Other operating income		1,162	19,120
Operating expenses		(55,682)	(38,317)
Profit on ordinary activities before taxation	5	156,826	314,668
Taxation	6	(61,922)	(98,834)
Profit on ordinary activities after taxation		94,904	215,834
Profit and Loss account at 1st March, 1999		215,834	-
Profit and Loss account at 29th February, 2000		<u>310,738</u>	<u>215,834</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 9 form part of these accounts.

BALANCE SHEETAs at 29th February, 2000

	<u>Notes</u>	<u>2000</u> <u>£</u>	<u>1999</u> <u>£</u>
<u>Fixed Asset Investments</u>			
Mortgage portfolio	7	14,123,093	15,163,832
<u>Current Assets</u>			
Interest receivable		3,907	2,483
Amounts due from ultimate parent undertaking		440,400	305,590
Amount due from parent undertaking		1	1
Amount due from other group companies		8,259	-
Other debtors		8,130	8,257
		<u>460,697</u>	<u>316,331</u>
<u>Creditors: Amounts falling due within one year</u>			
Amount due to group companies	8	(14,206,838)	(15,161,897)
Corporation tax payable		(62,055)	(98,834)
Accruals and deferred income		(4,158)	(3,597)
		<u>(14,273,051)</u>	<u>(15,264,328)</u>
<u>Net Current Liabilities</u>		<u>(13,812,354)</u>	<u>(14,947,997)</u>
<u>Net Assets</u>		<u>310,739</u>	<u>215,835</u>
<u>Share Capital</u>			
Issued Share Capital	9	1	1
Profit and Loss account		310,738	215,834
<u>Equity Shareholders' Funds</u>	10	<u>310,739</u>	<u>215,835</u>

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The notes on pages 7 to 9 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 A general provision to cover advances which are latently bad or doubtful, but not yet identified as such, is maintained. Provisions made during the year are charged to revenue, net of recoveries.

2. Interest Receivable

	<u>2000</u>	<u>1999</u>
	<u>£</u>	<u>£</u>
Interest receivable from ultimate parent undertaking	-	337
Interest receivable from customers	322,710	324,411
	<u>322,710</u>	<u>324,748</u>

3. Interest Payable

All interest payable is payable to group companies.

4. Fees and commission receivable

Included within fees and commissions receivable is an amount receivable from other group companies of £117,597 (1999 - £118,395). This income has been reclassified from Interest Receivable to Fees and Commissions Receivable during the current year to better reflect the nature of the income. There is no impact on the Profit & Loss Account in either 1999 or 2000.

NOTES TO THE ACCOUNTS (continued)5. Profit on ordinary activities before taxation

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

	<u>2000</u>	<u>1999</u>
	<u>£</u>	<u>£</u>
Auditors' remuneration	<u>2,291</u>	<u>2,938</u>

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

6. Taxation

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

	<u>2000</u>	<u>1999</u>
	<u>£</u>	<u>£</u>
UK Corporation Tax	62,055	98,834
Over provision in previous year	(133)	-
	<u>61,922</u>	<u>98,834</u>

7. Mortgage portfolio

	<u>2000</u>	<u>1999</u>
	<u>£</u>	<u>£</u>
As at 1st March, 1999	15,163,832	-
Advanced in period	-	15,229,764
Fees and Interest Capitalised	7,048	2,068
Redemptions	(994,626)	(68,000)
General Bad Debt Provision	(53,161)	-
As at 29th February, 2000	<u>14,123,093</u>	<u>15,163,832</u>

During the year the Company entered into a put and call option with a third party to sell the outstanding balance of the mortgage portfolio with accrued interest thereon. Both options may be exercised in November 2009, or earlier in certain circumstances. The exercise price of both options approximates to the outstanding balance of the mortgage portfolio with accrued interest thereon.

NOTES TO THE ACCOUNTS (continued)8. Amount due to Group Companies

This is an unsecured, on demand loan provided by Bank of Scotland Treasury Services PLC. The loan consists of two tranches. On one tranche the Company receives a fee based on the outstanding balance which is recorded as fee income in the profit and loss account. The average rate of the fee during the year was 1.2%. On the second tranche the Company pays interest at a fixed rate. The average interest rate during the year was 4.49%. As part of the conditions attaching to the loan arrangement the company must pay to the lender all amounts of shared appreciation which it receives from customers.

9. Share Capital.

	<u>2000</u> <u>£</u>	<u>1999</u> <u>£</u>
<u>Authorised</u>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
<u>Allotted and called up</u>		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>

No consideration has been received for this share.

10. Reconciliation of Equity Shareholders' Funds

	<u>2000</u> <u>£</u>	<u>1999</u> <u>£</u>
Share Capital subscribed	-	1
Profit attributable to shareholders	94,904	215,834
Equity Shareholders' Funds at 1st March, 1999	215,835	-
Equity Shareholders' Funds at 29th February 2000	<u>310,739</u>	<u>215,835</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

REPORT OF THE AUDITORS TO THE MEMBERS OF
BOS (SHARED APPRECIATION MORTGAGES (SCOTLAND)) NO 3 LIMITED

We have audited the accounts on pages 5 to 9.

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 29th February, 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh

30 March 2000