BANK OF SCOTLAND

REPORT AND ACCOUNTS 2001

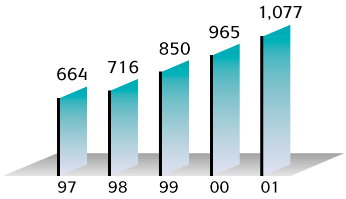
OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX

DELIVERING SHAREHOLDER VALUE

	2001 £ million	2000 £ million
Profit		
Operating profit before provisions and exceptional items*	**1,426**	1,242
Provisions for bad and doubtful debts	**385**	317
Profit before tax§		
Personal Banking	**317**	236
Business Banking	**253**	234
Corporate Banking	**352**	358
Bank of Scotland Treasury Services	**79**	54
Bank of Western Australia	**76**	83
	1,077*	965*
Profit attributable to Proprietors	**616**	588
Balance Sheet		
Total capital resources	**7,879**	5,810
Total assets	**86,113**	71,813
Per Ordinary Stock unit	**pence**	pence
Earnings (basic)*	**52.0**	48.2
Dividends	**15.30**	13.50
Net asset value	**283.0**	239.2
Market price at period end	**755.0**	565.0
Ratios	**%**	%
Pre-tax return on average total assets*	**1.4**	1.5
Pre-tax return on average equity*	**27.8**	31.0
Post-tax return on average equity*	**19.3**	21.4
Cost:income*	**45.6**	47.6
Capital adequacy (2001 – estimated)		
– Total capital	**11.6**	10.7
– Tier 1 capital	**7.1**	6.4

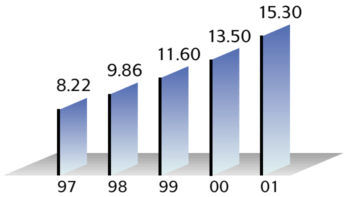
* Prior to exceptional costs of £96 million (£78 million post-tax) in 2001 and £54 million (£48 million post-tax) in 2000.

§ Includes share of operating profits of joint ventures and associates.



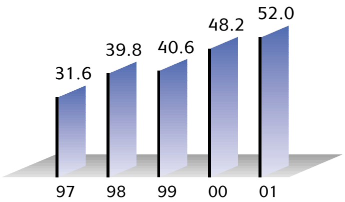
Pre-tax profit (£m)#

PRE-TAX PROFIT UP BY 12%



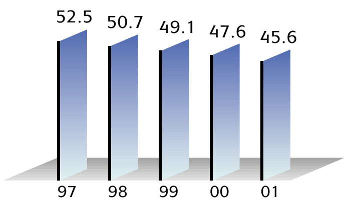
Dividends per Ordinary Stock unit (p)

DIVIDEND UP BY 13%



Earnings per Ordinary Stock unit (p)#

EARNINGS UP BY 8%



Cost:income ratio (%)#

IMPROVED EFFICIENCY

before exceptional items

Bank of Scotland has an exceptional record of delivering growth for the benefit of Proprietors, customers and employees. Our success is founded upon a culture of professionalism, prudence and innovation, reflected in our determination to set new standards.

The market for financial services and products is challenging and exciting where constant change is driven by ever greater customer sophistication and knowledge, and by the opportunities of technological development.

At Bank of Scotland we anticipate market change and can point to a long record of innovation. We pride ourselves in our imaginative approach to developing new products and services and in the novel ways in which we provide them to customers. We are well positioned to meet the challenges of the market, satisfying existing customers and attracting new ones.

Our history shows consistent growth of business while steadfastly refusing to compromise on asset quality and avoiding exposure to high risk areas. At the same time, our imaginative innovations have been rewarded by equally consistent growth of total income and the consequent ability to pay an increased dividend in each of the past 29 years.

People matter to us, as Proprietors, customers, potential customers and, within the Bank, as the drivers of our business. Bank of Scotland's achievements are based on the vision and leadership of our senior management and on the quality and dedication of our team of over 19,000 employees. And we are ever mindful of our wider responsibilities to the communities in which we do business.

The Bank suffered a sad loss with the death in January of Sir Alistair Grant who will also be much missed from the wider business scene. On a happier note, we were delighted to welcome Lord Simpson, knowing that the Board and the Bank will benefit greatly from his advice and the depth of his experience. Peter Burt pays tribute on behalf of us all to Gavin Masterton who retires at the AGM.

After the end of our Financial Year we announced the basis of the terms on which Bank of Scotland and Halifax have agreed that their businesses should be combined. The resulting combination, to be known as HBOS, will create the new force in British banking and financial services. We believe the merger is entirely consistent with our strong performance over many years, and coupled with the complementary nature of the two businesses, will yield significant benefits to Proprietors, customers, staff and the wider community.

Our own Financial Year has started encouragingly despite these uncertain times. Internationally the economic outlook in the USA and Japan is less optimistic than in recent years and in Europe and the UK the prospects are of more moderate growth. But we firmly believe that we have the strength and flexibility to continue to drive our business forward successfully.

We look forward with confidence.

SIR JOHN SHAW

GROUP CHIEF EXECUTIVE'S REVIEW

EXCELLENT PROGRESS LAST YEAR

The past year has been one of further profitable progress for Bank of Scotland. We have gained many new customers and have undertaken further profitable new business with our existing customers. The fact that our UK market share rose again, to 7.4%, shows continuing progress.

The result is an increase in our dividend for the 29th consecutive year.

None of this progress would be possible without a skilled and enthusiastic workforce. I never cease to be impressed by the performance of my colleagues, often in difficult circumstances.

CUSTOMER SERVICE REMAINS THE KEY TO SUCCESS

In a world of ever-increasing and discerning customer needs, service is the key to success. We encourage a "can do" culture which must get ever closer to customers. For example, we have pioneered and continue to roll-out work-place banking units and our Personal Choice mortgages offer real flexibility for customers. In Business Banking, we are expanding in England while maintaining our strong position in Scotland. And in Corporate Banking, we maintained our leadership in providing acquisition finance to the management buy-out sector. Treasury Services expanded its products and services, positioning the business for future growth.

CONTINUING TO DRIVE COSTS LOWER ...

Bank of Scotland is one of Europe's most efficient banks. Over the past year, our cost:income ratio improved still further to 45.6% and operating profit per employee rose 19% to £74,350. The opportunities arising from our re-organisation and our focus on outsourcing non-core activities mean that there is still room for further improvement.

... AND FOCUS ON CORE ACTIVITIES

During the year, we completed the re-organisation of the Bank into customer facing units increasing clarity and accountability. Banking is our business. By concentrating on what we do best we can be more efficient, more flexible and more dedicated to one goal – serving customers better. We have more than twenty outsourcing arrangements for non-core services with a range of strong service providers.

ENLARGING THE CUSTOMER BASE THROUGH PARTNERSHIPS AND AFFINITIES

No other UK bank has as many partnerships and affinity relationships – a unique strength. Zurich Financial Services, Royal & SunAlliance, Airtours, Saga, Axa, BT and British Gas are just some of the new partners we have announced this year.

ROBUSTNESS THROUGH GOOD ASSET QUALITY

Growth and efficiency will not come at the expense of asset quality. Bank of Scotland's non-performing assets represented only 2.1% of customer advances – one of the best ratios in the sector. We also continue to grow our retail funding base relative to our wholesale funds and continue to strengthen our balance sheet through asset securitisation.

ANY MERGER OR ACQUISITION MUST ENHANCE SHAREHOLDER VALUE

Bank of Scotland has continued to acquire businesses which build on our existing strengths and reinforce our growth of market share. During the year we acquired ICC Bank plc which, combined with our existing Irish operations, gives us a significant role in the Irish SME market.

MERGER DISCUSSIONS WITH HALIFAX

Since the end of our Financial Year we have been engaged in constructive discussions with Halifax which led to the announcement of the terms we have agreed for the merger of our businesses. The commercial logic of this combination is confirmed by the complementary nature of the two businesses and we are confident of delivering further enhanced benefits to shareholders, customers and staff.

WELL POSITIONED TO DELIVER FUTURE GROWTH

Looking forward, there is no doubt that the market in which we operate will be more competitive and customers will be more demanding. We will maintain our focus on service, growth and efficiency and our dedication to imaginative and flexible solutions to meet market demands. These, coupled with Bank of Scotland's values of integrity and trust, provide a sound platform for future success.

Finally, I must thank Gavin Masterton for his remarkable contribution to the Bank over the past 44 years. In my opinion, Gavin is the most creative and effective banker in the UK, a view shared by many of those who have dealt with him. I have learned much from Gavin and I am grateful for that knowledge and his help and friendship since we started working closely together more than twenty years ago.

PETER BURT

GROUP TEN YEAR FINANCIAL SUMMARY

For the years ended 28/29 February	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
	£ million									
Operating Profit before Provisions										
and exceptional items	1,426	1,242	1,097	954	826	646	612	569	488	393
Profit before Tax										
and exceptional items	**1,077**	**965**	**850**	**716**	**664**	**484**	**419**	**269**	**125**	**141**
Profit attributable to Proprietors	616	588	557	511	404	332	280	161	77	89
Ordinary Dividends	198	169	144	120	98	81	68	59	53	50
Preference Dividends	37	37	37	40	28	28	19	19	19	19
Retained Profit	381	382	376	351	278	223	193	83	5	20
Called Up Share Capital										
Ordinary	326	313	310	307	299	296	293	291	289	287
Preference	400	400	400	400	300	300	200	200	200	200
Reserves	3,666	2,677	2,261	1,821	1,444	1,155	1,011	813	766	774
Proprietors' Funds	**4,392**	**3,390**	**2,971**	**2,528**	**2,043**	**1,751**	**1,504**	**1,304**	**1,255**	**1,261**
Minority Interests	566	156	133	123	131	125	8	7	4	4
Subordinated Liabilities										
Dated Loan Capital	1,777	1,165	682	716	815	894	672	579	610	555
Undated Loan Capital	1,144	1,099	1,088	1,071	929	763	547	570	387	312
Capital Resources	7,879	5,810	4,874	4,438	3,918	3,533	2,731	2,460	2,256	2,132
Total Assets	86,113	71,813	59,796	54,697	47,275	44,099	34,104	30,748	29,013	24,741
Deposits by banks, customers										
and debt securities in issue	73,867	62,185	51,422	47,514	40,872	38,400	29,637	26,693	25,247	
Total Deposits										22,064
Loans and advances to banks										
and customers	71,990	59,451	51,396	47,625	40,230	36,153	27,733	25,343	24,828	
Total Advances										18,996
	pence per Ordinary Stock unit									
Earnings – basic before exceptionals	**52.0**	**48.2**	**40.6**	**39.8**	**31.6**	**23.4**	**20.5**	**12.2**	**5.0**	**6.4**
Dividends	**15.3**	**13.5**	**11.6**	**9.9**	**8.2**	**6.9**	**5.8**	**5.1**	**4.6**	**4.4**
Net Assets	**283.0**	**239.2**	**207.4**	**173.4**	**145.6**	**122.6**	**111.3**	**94.8**	**91.2**	**92.4**
	average number									
UK employees	17,040	18,044	18,060	16,807	15,905	15,775	15,110	15,245	15,720	16,140
Overseas employees	3,893	3,852	4,644	5,247	5,195	2,331	1,510	1,454	1,430	160

From 1993, as a result of the modifications to the Group Accounts following the enactment of the Companies Act 1985 (Bank Accounts) Regulations 1991, certain items are not directly comparable with 1992. The 1993 figures have been restated.

FINANCIAL REVIEW

Group operating profit rose 15% to £1,426 million, a record level.

Pre-tax profit increased 12% to £1,077 million before exceptional costs of £96 million, yet another record year (2000 – £965 million before exceptional costs of £54 million).

The benefits of the re-organisation of the Group's operations are now being realised.

The Group achieved increased levels of business in all areas and a further improvement in efficiency.

Bank of Scotland has a strong track record of building on its strategic objectives of profitable growth, increasing efficiency and strengthening customer relationships. This was sustained throughout the year. Recent strong growth has continued, with advances to customers increasing over the year by 20% to £66.7 billion (2000 – £55.5 billion) after securitisations of £3.2 billion (2000 – £0.4 billion). The Group's cost:income ratio improved further, to 45.6% (2000 – 47.6%), reinforcing its position as one of the most efficient banks in the UK.

Outlook

The slowdown in the USA increases uncertainty in the global economy. This, coupled with the consequences of the outbreak of foot and mouth disease, is leading to a moderation in the rate of economic growth in the UK. However, it is expected that monetary easing, both in the USA and Europe, will provide sufficient stimulus to prevent a serious cyclical credit downturn in the Group's principal area of operations, the UK.

Taxation

The corporation tax charge for the year totalled £300 million (2000 – £289 million). This was 30.6% of pre-tax profit (2000 – 31.7%) and was above the standard rate of corporation tax primarily because the general provision charge is not tax allowable.

Post-Tax Return on Equity

The Group achieved a post-tax return on equity of 19.3% (2000 – 21.4%). It is important to continue to generate high levels of capital internally in order to support the above-average rate of growth in the core lending business.

Earnings and Dividends

Earnings per Ordinary Stock unit before exceptional items rose 8% to 52.0p (2000 – 48.2p).

Preference Dividends

The half-yearly dividend of 4.625p per £1 stock unit on £300 million 9¼% Non-Cumulative Irredeemable Preference Stock and of 4.875p per £1 stock unit on £100 million 9¾% Non-Cumulative Irredeemable Preference Stock in issue at 28 February 2001 will be paid on 31 May 2001 to Proprietors on the register at the close of business on 18 May 2001.

Ordinary Dividend

The Directors recommend a final dividend of 10.00p (2000 – 8.90p) making a total dividend for the year of 15.30p (2000 – 13.50p), an increase of 13%. If approved at the Annual General Meeting, the final dividend will be paid on 22 June 2001 to Proprietors on the register at the close of business on 18 May 2001. Proprietors are again being offered new Ordinary Stock as an alternative to cash in respect of the final dividend. Details of the Ordinary Dividend Stock Alternative Scheme timetable are set out in the booklet of papers enclosed with this Report and Accounts.

Group Operating Profit

The Group operating profit, before provisions for bad and doubtful debts and before exceptional items, increased 15% to a record £1,426 million (2000 – £1,242 million).

Net Interest Income and Margins

Continued growth in lending was the principal factor in a rise in net interest income of 8% to £1,799 million (2000 – £1,670 million). The Group net interest margin, based on average interest earning assets was 2.44% (2000 – 2.70%). The movement in the margin was due mainly to the ongoing focus on customer deposit gathering, albeit at finer margins, and the continuing change in the mix of lending towards corporate business.

The Group net interest margin for the second half fell 6 basis points to 2.41% from 2.47% in the first half. The table below analyses this margin change:

		Basis Points
Retail Deposits		(3)
Lending	– Personal	(3)
	– Business	(1)
	– Corporate	5
	– Mix Change	(4)
Wholesale	– Base Rate/LIBOR differential	2
	– Credit Spreads/Maturities	
	– Margins	1
	– Securitisations	1
Others		1
Total UK		(1)
BankWest		(5)
Total		(6)

Non-Interest Income

Non-interest income increased by 18% to £822 million (2000 – £695 million). Included within this category are gains from sales of investments such as equity stakes, options and warrants, reflecting a policy of diversifying prudently into this higher value–added business which is an integral part of Corporate Banking's acquisition and structured finance lending activity. These investment gains are a recurring feature in non-interest income and totalled £67 million in the year (2000 – £33 million). There are unrealised gains on the Group's total equity portfolio of over £150 million (up 10% from last year).

Operating Expenses

The Group again achieved improved productivity with total income growing faster than operating expenses. The latter, excluding exceptional costs, was £1,195 million (2000 – £1,126 million), a 6% rise which compares favourably with the 11% increase in total income. A significant element of the increase in expenses was continuing IT development. Exceptional costs were £96 million (2000 – £54 million) in the year under review and related to the restructuring of the UK Group and advisory fees in connection with the Group's merger discussions.

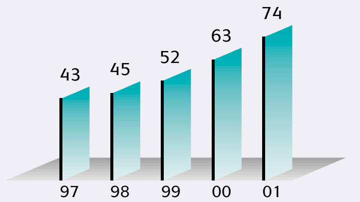
The Group pre-tax profit was at a level sufficient to generate the maximum distribution to staff under the rules of the Staff Profit Sharing Schemes for participating companies. These motivational schemes are formulae-driven, based upon the pre-tax return on Proprietors' funds. A sum of £45 million (2000 – £44 million) was provided and included in the cost base of the Group.

Cost:Income Ratio

The continuing strategy to drive down the Group's cost:income ratio resulted in a further improvement to 45.6% (2000 – 47.6%) before exceptional costs in both years.

Staff and Productivity

The ongoing rationalisation resulting from the Group restructuring, together with further outsourcing of non-core activities, gave rise to another fall in staff numbers, to 19,180 (2000 – 19,830), excluding staff in ICC Bank plc which was acquired in February. The decrease in staff numbers, coupled with strong income growth, contributed to a rise in operating profit per employee, before provisions and exceptional items, to £74,350 (2000 – £62,650), a 19% increase.



Operating profit per employee £000's (before provisions and exceptional items)

Bad Debt Provisions

The combined specific and general provisions for bad and doubtful debts charged against Group profits totalled £385 million (2000 – £317 million). This was an increase of 21%, broadly in line with the increase in advances to customers.

The charge for specific provisions was 25% higher than last year at £354 million (2000 – £283 million) and represented 0.58% of average customer lending, little changed from the 0.55% for the year to 29 February 2000.

The general provision is intended to cover losses on advances which are latently bad or doubtful. Additions to the general provision are based on formulae applied to risk weighted assets. As proposed at the time of the announcement of the Group's Interim Results in September 2000, the general provisioning policy was reviewed and the decision was taken to make no change at this time to the percentage of risk weighted assets used to derive the Balance Sheet provision. The outcome for the year under review is a charge, net of utilisations, against Group profits of £31 million (2000 – £34 million). The Group's general provisioning policy remains amongst the most prudent of its UK banking peer group.

Interest not credited to income during the year but held in suspense in respect of problem loans totalled £38 million (2000 – £34 million). The corresponding figure for unapplied interest was £48 million (2000 – £42 million).

Non-Performing Assets and Related Provisions

Non-performing assets (NPAs) as a percentage of customer advances remained at 2.1% (2000 – restated to 2.1%). As an indicator of the credit quality of the Group's loan portfolio, this ratio stands favourable comparison with other traditional UK banking groups. The amount of non-performing assets increased to £1,402 million (2000 – restated to £1,164 million). As a result of the ongoing restructuring of the UK Group, the opportunity was taken to standardise the definitions of NPAs. The result is greater consistency and a more conservative recognition of NPAs in Personal and Business Banking in the former Capital Bank business. Consequently, last year's NPAs have been restated, with an increase of £246 million to £1,164 million.

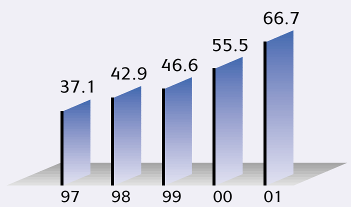
The cumulative provisions and interest in suspense, which are deducted from advances in the balance sheet, together with their percentage cover of non-performing assets are as follows:

	2001		2000 (restated)	
	£m	As % of NPAs	£m	As % of NPAs
Specific Provisions	627	45	513	44
General Provisions	412	29	372	32
Interest in Suspense	102	7	87	8
Total	1,141	81	972	84

The tax benefit as at 28 February 2001, which would accrue on the application of the general provision against specific problem debts, would increase the effective economic cover as a percentage of non-performing assets to 90% (2000 – restated to 93%).

Advances and Assets

Significant growth was again achieved in advances to customers, which increased by 20% to £66.7 billion (2000 – £55.5 billion) and the Group is well positioned to continue to grow strongly. Corporate Banking's advances rose by 40%. The UK Group mortgage lending also rose strongly, achieving growth before securitisations of 16%. The mortgage lending growth for the Major British Banking Groups was 8%.



Loans and advances to customers £bn

The underlying expansion of business, measured by the growth of the combined total of on-balance sheet lending and off-balance sheet securitised lending, was even stronger at 25%. During the year, the UK Group securitised £1.5 billion of residential mortgages and £1.4 billion of corporate loans. Total assets rose to £86.1 billion (2000 – £71.8 billion), a 20% increase. Risk weighted assets, including off-balance sheet items were 24% higher at £68.8 billion (2000 – £55.4 billion). Risk weighted assets do not include securitised lending. The mix of the Group's lending portfolio at the year end is summarised in the following table and gross lending exposure is shown in more detail in Note 14 on page 43.

	2001		2000	
	£bn	%	£bn	%
Commercial	41.4[(1)]	62	31.7	57
Residential Mortgages	16.7[(1)]	25	15.9[(1)]	29
Other Personal	8.6	13	7.9	14
Total	66.7	100	55.5	100

(1) After securitisation.

Deposits

A particular and continuing emphasis during the year was to increase the level of deposits raised from the Group's customer base and, as a consequence, limit the funding required from the wholesale markets. Encouragingly, Group customer deposits were 20% higher than in the previous year at £35.9 billion (2000 – £30.0 billion). In the UK growth was 22%.

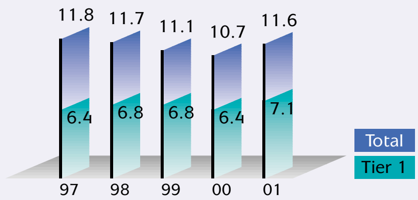
Capital Expenditure

Capital expenditure rose to £151 million (2000 – £146 million), a significant part of which reflects the ongoing investment in the IT strategic programme.

Capital

Tier 1 capital rose to £4,918 million (2000 – £3,550 million) and Total capital increased to £7,963 million (2000 – £5,955 million).

As noted in last year's Report and Accounts, Tier 1 capital was augmented by the issue, on 14 March 2000, of £400 million of innovative tax efficient perpetual preferred securities. On 6 February 2001, £193 million was raised through a placing in the market of Ordinary Stock in connection with the acquisition of ICC Bank plc. Further stock was issued on 23 February 2001 directly to certain of the vendors of ICC Bank plc. In addition, at the end of February 2001 two tax efficient issues were completed, each of £150 million of Perpetual Regulatory tier One securities redeemable at the issuer's option in 2016 and 2026 carrying coupons of 7.286% and 7.281% respectively.



Capital ratios %

Following these issues, together with internally generated capital from retained profits and Tier 2 capital issues of US$500 million in August 2000, £75 million in August 2000 and €325 million in February 2001, the estimated Tier 1 and Total capital ratios at 28 February 2001 were 7.1% and 11.6% respectively (2000 – 6.4% and 10.7% respectively).

To make the most efficient use of the Group's capital resources, a programme of securitising specific categories of assets has been initiated. Effectively, the assets are placed into a trust and bonds backed by these assets are sold to investors. The securitised assets require substantially less capital to support them than the normal on-balance sheet regulatory requirement. This enables the Group to redeploy profitably the capital released in other areas of opportunity. However, the Group retains a proportion of the net income from the securitised assets since not all of the interest earned on them is paid to the bond holders.

Through optimising the use of capital, a high level of post-tax return on equity was achieved in the year. The Group continues to manage capital efficiently, to support ongoing growth.

DIVISIONAL REVIEWS

Personal Banking

	Year ended 28 February 2001 £m	Year ended 29 February 2000 £m
Net interest income	657	637
Non-interest income	370	357
Operating income	1,027	994
Expenses	(562)	(545)
Operating profit before provisions	465	449
Provisions – Specific	(163)	(175)
– General	(6)	(53)
Share of profits of associates and joint ventures	21	15
Pre-tax profit	317	236
Total lending to customers	£20.0bn[1]	£18.7bn
Net interest margin[2]	3.40%	3.74%
Cost:income ratio (excluding share of investment expenditure)	52.9%	53.1%

[1] After securitisation of £1.5 billion of mortgages.
[2] Based on average lending to customers.

Pre-tax profit increased 34% to £317 million.

Specific provisions were 7% lower than last year and the general provision charge benefited from the clawback arising from the securitisation of mortgages during the year. The general provision charge for last year, £53 million, arose from the inclusion of mortgages for the first time in the revised formula following the UK restructuring.

Customer lending increased to £20.0 billion, after securitisation of £1.5 billion of mortgages, an underlying increase of 15%, mainly due to significant growth in mortgages. Indeed, during the year Personal Banking wrote approximately £4.4 billion of gross new mortgage business, resulting in mortgages accounting for approximately 70% of the division's total on-balance-sheet lending at the year end. It was encouraging that, despite the high level of turnover, the average margin on the total mortgage book remained close to 1.2%. Unsecured personal lending rose 9%.

The net interest margin of 3.40% is lower than last year due mainly to overall market pressures on retail deposits, mortgages and unsecured personal lending margins. However, it is encouraging to note that the pace of margin erosion has moderated in the second half.

The cost:income ratio, excluding investment expenditure, improved to 52.9% (2000 – 53.1%).

Business Banking

	Year ended 28 February 2001 £m	Year ended 29 February 2000 £m
Net interest income	570	567
Non-interest income	127	87
Operating income	697	654
Expenses	(370)	(342)
Operating profit before provisions	327	312
Provisions – Specific	(93)	(95)
– General	13	5
Share of profits of associates and joint ventures	6	12
Pre-tax profit	253	234
Total lending to customers	£18.9bn	£15.7bn
Net interest margin[1]	3.48%	3.92%
Cost:income ratio (excluding share of investment expenditure)	51.1%	51.4%

[1] Based on average lending to customers and excluding ICC Bank plc.

Business Banking achieved a 7% increase in operating income, inclusive of investment gains. The underlying trend reflects the difficult trading conditions in a number of markets, particularly motor finance and contract hire where there has been an unprecedented drop in second-hand car values and consumer reluctance to proceed with new car purchases. This situation is stabilising and with its leading market position, the division is well placed to benefit from a return to normal market trends. Further pressure was seen on SME lending margins, and at the same time growth in retail deposits was achieved at finer margins. However, the pressure on margins eased during the second half of the year.

The charge to profits for specific provisions was similar to the charge for last year whilst the general provision credit reflects utilisation to cover losses arising from the structural decline in vehicle residual values.

Pre-tax profit showed growth of 8%.

Total customer lending, assisted by the acquisition of ICC Bank plc in February 2001, rose 20%, year-on-year. Excluding ICC Bank plc, the growth was 9%.

Corporate Banking

	Year ended 28 February 2001 £m	Year ended 29 February 2000 £m
Net interest income	363	265
Non-interest income	224	168
Operating income	587	433
Expenses	(118)	(95)
Operating profit before provisions	469	338
Provisions – Specific	(91)	(10)
– General	(35)	18
Share of profits of associates and joint ventures	9	12
Pre-tax profit	352	358
Total lending to customers	£21.7bn(1)	£15.5bn
Net interest margin(2)	1.95%	1.87%
Cost:income ratio (excluding share of investment expenditure)	19.1%	20.8%

(1) After securitisation of £1.4 billion of corporate loans.
(2) Based on average lending to customers.

Operating Profit before provisions increased by 39% reflecting a continuation of the strong growth in lending achieved in the first half.

The specific provision charge was £91 million (2000 – £10 million). Last year's charge benefited from larger than normal recoveries. Despite the modest underlying deterioration in credit quality from the exceptionally favourable conditions prevailing last year, it was encouraging that the specific provision charge as a percentage of average lending remained below 0.5%. The formula-driven general provision charge of £35 million (2000 – credit of £18 million) is a direct consequence of the substantial lending growth of 40% year-on-year, an underlying growth of 49% before securitisation. Last year, the general provision enjoyed a one-time benefit from the standardisation of the formulae to a single fixed percentage of risk weighted assets across the whole UK Group.

The improved margin reflected the specialist nature of much of the division's lending.

The already excellent cost:income ratio further improved from 20.8% to 19.1%.

Services Division

A primary element in the Group's strategy has been the outsourcing of key support functions to specialist service providers. In the year under review, the management and development of IT processing were outsourced to IBM Global Services and print and stationery requirements were outsourced to Alistair McIntosh Limited. With over 20 further arrangements with outsourcing providers covering other areas of the Group's operations, the benefits of enhanced quality and lower production costs are being captured. The programme of outsourcing continues.

A major function of Services Division is the control of the Bank's Information Technology development projects and services enhancements. The IT Centre within Services Division facilitates the services provided by First Banking Systems (a joint venture company with Xansa, formerly FI Group), IBM Global Services and BT Syncordia Solutions. This model for the provision of IT is designed to position the Group at the forefront of the banking industry and to bring benefits in reduced costs and speed of implementation. The improvements achieved so far include a 30% increase in productivity in computer software development since First Banking Systems was launched in June 1998; through IBM, a 5% reduction in the unit cost of IT processing; and, within the BT arrangement unit costs per call have been reduced.

Bank of Scotland Treasury Services PLC

	Year ended 28 February 2001 £m	Year ended 29 February 2000 £m
Net interest income	65	58
Non-interest income	40	18
Operating income	105	76
Expenses	(26)	(22)
Pre-tax profit	79	54
Net interest margin	0.16%	0.18%
Cost:income ratio	24.8%	28.9%

Profit before tax for the year increased by 46%.

Net interest income rose by £7 million. This was largely due to higher volumes offsetting a modest decline in margins.

Non-interest income more than doubled as a result of successfully increasing the volume of customer business and was achieved with only a moderate increase in market risk.

The increase in expenses was mainly due to a major initiative to upgrade market risk systems and to the recruitment of personnel with new product skills to extend the range of services in response to growing and changing customer demand.

Treasury Services achieved a further improvement in its cost:income ratio.

In January, Treasury Services, in conjunction with Personal Banking, arranged the securitisation of a further £750 million of residential mortgages. This used the same innovative master trust structure as the previous issue last May and was followed in February by the successful securitisation of £1.4 billion of commercial loans from Corporate Banking's book. These transactions allowed the Group to access new sources of funding.

Bank of Western Australia Limited

	Year ended 28 February 2001 A$m	Year ended 29 February 2000[1] A$m
Net interest income	397	369
Non-interest income	177	177
Operating income	574	546
Expenses	(336)	(323)
Operating profit before provisions	238	223
Provisions – Specific	(21)	(7)
– General	(8)	(8)
Pre-tax profit	209	208
Total lending to customers[2]	A$16.6bn	A$14.3bn
Net interest margin	2.23%	2.22%
Cost:income ratio	58.5%	59.2%

[1] Prior year figures exclude the gain on sale of Trustees of Western Australia and have been restated to align with banking industry practice in the presentation of interchange fees.
[2] After securitisation.

BankWest, in which Bank of Scotland's shareholding at 28 February 2001 was 55.8%, is a full service bank headquartered in Perth, Western Australia. It is the largest bank in its home State with a market share of nearly 25% and continues to grow its interstate business. BankWest's shares are listed on the Australian Stock Exchange and it has more than 60,000 shareholders.

Net interest income increased by 8% reflecting the strong 16% growth in total lending. It is encouraging that the historic decline in margin appears to be stabilising.

Non-interest income was unchanged, with the modest growth in fees and commissions offset by a lower contribution from the Bank's Treasury operations.

Total operating expenses increased by 4% and the cost:income ratio improved further.

Pre-tax profits were largely unchanged at A$209 million. Profit was adversely affected by one large bad debt which required a specific provision of A$18.0 million. Excluding the specific provision related to this loan, the combined charge for specific and general provisions was A$11 million (2000 – A$15 million) representing 0.1% lending to customers. This includes a charge to maintain the balance sheet general provision at 0.6% of risk weighted assets. Net impaired assets as a percentage of total lending to customers were 0.5%, below industry average.

The Western Australian economy remained more buoyant than the rest of Australia although a slowdown in the national economy created more challenging conditions. The introduction of a Goods and Services Tax in July 2000 caused a rapid increase in residential building activity in the first half of the year, followed by a sharp slowdown. Similarly, the build-up to the Sydney Olympic Games in September fuelled strong growth in non-residential construction activity and was followed by a downturn late in the year. The Reserve Bank responded to the slowdown in economic activity by cutting official interest rates by a total of 1.25 percentage points in recent months. This reversed two years of increasing rates.

OTHER OPERATIONAL MATTERS

Human Resources

Bank of Scotland Group provides a wide range of career opportunities and is committed to helping staff develop to their fullest potential. The Group is fortunate in the quality of its staff. A significant number have one or more professional qualifications and these are supplemented by a variety of internal and external training courses. Group Human Resources is developing plans to enable more training to be delivered through e-learning channels. Current initiatives include:

- On-line training from the Harvard Business School for the 440 participants on our Management Development Programme on 24 key management topics.
- Approximately 200 training courses on BOSTON, the Bank of Scotland Training Online Network, covering IT, business and interpersonal skills. New topics will be added during the next year giving staff greater choice and access for personal and professional development.

The Group has committed to having full Investors in People accreditation by December 2002 with Services Division leading the way in achieving the award in November 2000.

A flexible employee benefits plan was successfully introduced across the Group during 2000 offering staff the opportunity to choose benefits packages to suit individual needs.

The Group encourages employee share ownership through Profit Sharing, Savings-Related Option and Executive Option schemes.

All staff and applicants for employment are given equality of opportunity to progress to the level of their potential without regard to gender, marital or parental status, ethnic or national origin, sexual orientation, religious belief, political affiliation, age (subject to contractual retirement age) or disability. Bank of Scotland is committed to eradicating unfair or discriminatory practices, whether direct or indirect.

As a “Two Tick” disability symbol holder Bank of Scotland is committed to providing development and support to all members of staff and job applicants who have a disability. All customer facing staff have undergone disability awareness training and the programme has now been extended to all other areas of the Bank. To ensure that commitment is fulfilled a team of specialists works with members of staff who have a disability.

The weekly communication and training session enables staff to be involved or updated on a wide range of topics including company performance, staff development, and new initiatives. These sessions are supplemented by focus groups, videos and staff newsletters. Regular meetings are held with staff representatives in a Joint Relationship Council with UNIFI, the Trades Union recognised by the Bank.

Health and Safety

Bank of Scotland is conscious of its corporate responsibility to provide a healthy and safe environment for all staff, customers and others affected by its business operations. In support of this commitment every office has an official with specific responsibility for health and safety matters.

The Group in the Community

Bank of Scotland is committed to tackling financial exclusion through products and services which help people to take control of their finances and to meet this aim selected staff work closely with charities and community groups.

The Bank is actively committed to the New Deal, a key element of the Government’s Welfare to Work strategy. The New Deal Award for Scotland 2001 was won by the Bank for an initiative which helped the financial services sector work more closely with New Deal Clients.

Bank of Scotland also recognises its responsibilities as a corporate citizen. In the past year we gave over £7 million to support hundreds of organisations working in the arts, sport and in the community through sponsorship, charitable donations and the secondment of staff.

The Group and the Environment

The Group is committed to the integration of sound environmental practices into daily operations. The reporting structure facilitates escalation of environmental issues to executive level, with the Board having overall responsibility for this area.

In addressing the direct environmental impact of the Group’s operations, branches and departments have developed environmental action plans adopting best practice initiatives, specifically in respect of energy efficiency, waste management and paper consumption.

In recognition of the importance of the potential indirect impact on the Group’s core business activities and to ensure a consistent approach, an internal guide has been issued which prompts staff to identify relevant environmental issues, both internally and externally, and to take appropriate action as necessary.

The Group's Approach to Business

The basic principles to which the Group works are to:

- consistently practise what is believed to be the best corporate behaviour;
- seek to respond sensitively to the cultural values of the communities served;
- observe all requirements of relevant laws, regulations and codes of conduct in the countries in which the Group operates;
- oppose discrimination against, and support equality of opportunity for, all customers;
- oppose discrimination against, and support equality of opportunity for, all staff.

A separate Community Report – Citizenship in Practice – which covers in more detail community involvement, environmental issues and the Group's approach to doing business, will be available shortly on the Bank's website – www.bankofscotland.co.uk – or by writing to Group Corporate Communications, Bank of Scotland, Head Office, Edinburgh EH1 1YZ.

The Group's Operational Controls

Internal Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. There are well established and ongoing processes which have been in place throughout the year under review and up to the date of approval of the Report and Accounts for identifying, evaluating and managing significant risks faced by the Group. These procedures are regularly reviewed by the Board and accord with the Turnbull Guidance on internal control.

The Board has also reviewed the effectiveness of the system of internal control specifically for the purposes of this statement. That review covered all controls including operational, compliance and risk management as well as internal financial controls.

The system of internal control provides for a documented and auditable trail of accountability and applies across the Group's operations. It covers strategic, credit, operational and market risks and provides for assurances to successive levels of management and, ultimately, to the Board.

The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable – and not absolute – assurance against material misstatement or loss.

BankWest and Sainsbury's Bank have their own systems of internal control which differ in some respects from those maintained in the remainder of the Group but are of a comparable standard.

Operating Principles and Practices

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations.

The risk appetite of the Group is set by the Board. The strategy for managing risk is formulated by the Group Management Board and recommended to the Board. The Group Management Board also reviews the effectiveness of the risk management systems through reports from management and from the Group's risk committees.

Management has the prime responsibility for identifying and evaluating significant risks to the business and for designing and operating suitable controls. This is strengthened by a Disclosure of Malpractice Policy and a complementary formalised Escalation Process. Internal and external risks are regularly assessed, including control breakdowns, disruption of information systems, competition and regulatory requirements.

The assessment process is consistent across the divisions and Group Functions and uses an iterative challenge process to provide successive assurances to ascending levels of management up to the Board.

In judging the effectiveness of the Group's controls, the Board reviews the reports of the Audit Committee and management. It also reviews monthly financial information and key performance indicators.

Audit Committee

Without diminishing its own accountability, the Board has delegated certain responsibilities to the Audit Committee including ensuring that there is regular review of the adequacy and efficiency of the internal control procedures and that there is proper compliance throughout the Group with the requirements of the financial regulatory authorities.

In this area, the Audit Committee, which meets at least quarterly, reviews procedures for:

- identifying business risks and controlling their financial impact;
- preventing or detecting fraud;
- ensuring compliance with regulatory and legal requirements; and
- monitoring the operational effectiveness of policies and systems.

The Committee which summarises its findings to the Board, uses a combination of assessment techniques designed to give the Board the assurance it requires about the internal control environment.

Group Level Controls

The Group committee structure considers risks and risk management from the Group's perspective and is supported by the Group Functions, notably Group Risk and Compliance and the Group Asset and Liability Unit (GALU). Together they provide central oversight by reviewing the work of the divisions' own risk committees and providing analysis to permit challenge by the Group committees to the divisions' assessments of their major risks and by providing techniques for their mitigation.

Group Asset and Liability Committee

The Group Asset and Liability Committee (GALCO), which manages the Group's market risk, is supported by GALU, which provides market and balance sheet analysis and advice independently from the Group's treasury operations. It also measures and monitors total market exposure.

Group Risk and Compliance

This function conducts high level reviews of, and tests the validity of, internal control systems related to macro credit and operational risks.

Part of that function, Business Risk Assessment and Mitigation, provides central expertise in aggregating, understanding, reporting and mitigating credit and operational risk while Group Compliance is responsible for monitoring the Group's adherence to regulatory requirements, particularly in relation to the Financial Services Act and will have responsibility for monitoring compliance with the new UK regulatory regime scheduled to be introduced in 2001 under the Financial Services and Markets Act 2000.

Group Internal Audit, which is also part of the Group Risk and Compliance function, plays a key role in maintaining the control environment. It provides independent assurance on the quality of the Group's operations, with particular emphasis on the systems of internal control, as part of its risk-based programme of reviews of individual areas of the Group. Its senior executive has direct access to the Audit Committee Chairman and to the Governor, Deputy Governor and Group Chief Executive.

Divisional Controls

Divisional Management Boards have responsibility for strategic, credit and operational issues affecting their own operations. All divisions have specific risk management functions and their own risk committees comprising members of their senior management. These committees meet regularly to review the significant risks facing their business and the techniques used to assess and to mitigate them.

Regulatory Controls

The Group's businesses are regulated by a range of authorities:

- The Financial Services Authority (FSA) the Group's principal regulatory authority;
- The Investment Management Regulatory Organisation (IMRO);
- The Securities and Futures Authority (SFA);
- The Personal Investment Authority (PIA); and
- Regulators in overseas jurisdictions in which the Group operates.

The day to day functions of IMRO, SFA and PIA are carried out for these organisations by the FSA. The Financial Services and Markets Act 2000 gives the FSA regulatory responsibility for the financial services sector in the UK including the powers previously held by IMRO, SFA and PIA. Implementation of the new regime is currently expected in autumn 2001. A single regulator should bring greater consistency, increased efficiency and less duplication.

The Basel Committee and the European Commission have issued consultation papers designed to replace the existing framework for the allocation of regulatory capital for credit risk. The final versions of the rules are expected to be published around the end of 2001 and to be implemented in 2004.

The Group's activities are monitored by the regulators through periodic reviews and inspections. External auditors report periodically to the regulators, when requested, on certain aspects of internal controls and other matters; the findings of those reports are also considered by the appropriate Audit Committees and Boards.

Mapping and Managing Risk

The Group is subject to a number of risks which are inherent in banking activities. The Group's principal activity is the provision of retail and corporate banking services and consequently loans to and deposits with customers and wholesale counterparties comprise the core of the Group's business.

Credit Risk

This is the risk of financial loss from a customer's failure to settle financial obligations as they fall due – the traditional or "natural risk" in the banking industry. A Group Credit Risk Committee, comprised of senior lending executives, regularly reviews the Group's lending book to ensure a Group-wide understanding and control of credit risk. This process of central credit monitoring takes account of external or economic factors and may result in the adjustment of credit policies to suit product or sectoral needs.

The quality of individual credits is the responsibility of divisional management and is continuously examined from approval to maturity. This is supplemented by analysis of the profile and trends within the aggregated portfolios, their industry subsectors and country risks.

Assessment of the consumer portfolio is increasingly based on the use of credit scorecard techniques applied across the Group.

Operational Risk

This is the risk of failure in internal controls which could result in financial loss or damage to the Group's reputation. It includes loss from fraud, error and systems breakdown.

The main purpose of the Group Operational Risk Committee is the consideration of significant operational risks being addressed across the Group. A self assessment process of risk mapping is conducted formally twice a year by line management who carry full responsibility for the management of operational risk.

The process systematically identifies potential risks which are ranked by impact and probability to determine the appropriate levels of control. A software package captures all identified risk and ensures a consistent approach is adopted within each business.

Market Risk

This is the risk of financial loss from changes in market prices of financial instruments – typically resulting from movements in interest and foreign exchange rates. Policy responsibility for the management of market risk and for setting limits for business areas lies with the GALCO.

Interest Rate Risk

This is the risk arising from movements in interest rates where the Group's financial assets and liabilities have different repricing dates.

The Group assumes interest rate risk from dealings with customers, through fixed term lending, deposit taking or derivative contracts. This risk, which is monitored by the GALU within a framework determined by the GALCO, is transferred to Treasury Services in the main.

The effect of interest rate movements is assessed using sensitivity analyses and other modelling techniques. The GALCO aims to reduce the volatility of net interest income, caused by interest rate fluctuations, by managing the structural balance sheet positions and by entering into derivative hedging transactions as appropriate. Sensitivity to interest rate movements is shown in Note 37 to the Accounts on page 59 which provides the year end repricing profile for the Group's financial assets and liabilities in the non-trading book, which includes lending, funding and liquidity activities. These activities typically lead to a surplus of liabilities over assets repricing in the short term.

A liability (or negative) gap exists when liabilities reprice more quickly or in greater proportion than assets during a given period. This tends to benefit net interest income when rates are falling.

An asset (or positive) gap exists when assets reprice more quickly or in greater proportion than liabilities during a given period. This tends to benefit net interest income when rates are rising.

Interest rate sensitivity may vary during repricing periods and amongst the currencies in which the Group has positions.

Foreign Exchange Risk

Structural foreign exchange exposures, which are set out in Note 39 on page 60 of the Accounts, arise from the Group's investments in overseas subsidiaries, branches and other investments. All other foreign exchange exposures arising in the normal course of business, other than structural, are transferred to the trading book where they are managed within the GALCO approved open position limits.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet financial commitments arising from the cashflows generated by its business activities. This risk can arise from mismatches in the timing of cashflows relating to assets, liabilities and off-balance sheet instruments. Throughout the Group, regular reports are submitted to the GALCO and to the relevant regulatory authorities.

The Group's UK liquidity is managed by Treasury Services. It operates to GALCO guidelines and within a framework set by the regulatory authority. These guidelines ensure that the Group's funding requirements can be met at all times and that a stock of high quality liquid assets is maintained in a form and at a level which reflect prudent banking practice and meet the supervisory requirements.

A further objective is to raise funding as cheaply as possible whilst ensuring that no significant unintended mismatches arise between loans and deposits. Close control is exercised over both volume and quality of short term deposits, with the sources and maturities being managed to avoid a concentration of funding requirements at any one time from any one source.

In BankWest, liquidity is managed by the Treasury Department adhering to policies set by its Asset and Liability Management Committee and approved by its Board. In addition to meeting Australian regulatory criteria, liquidity management policy requires that sufficient liquid assets are held to meet fully and promptly all deposits and other liabilities as they mature.

Trading

The Group's trading activities are conducted principally by Treasury Services in the UK and by BankWest in Australia. Trading transactions are predominantly customer driven whilst proprietary activity is maintained within modest limits. The Capital Adequacy Directive capital charge for market risk trading exposures continues to represent a negligible portion of the Group's capital base.

The Group employs several complementary techniques to measure and control trading activities including: Value at Risk (VaR), sensitivity analysis, stress testing and position limits. The variance covariance VaR model used measures the Group's exposure to market risk within a given level of confidence over a defined time period.

The year end VaR value was £1.3 million. The calculation was based upon a 99% confidence interval which reflects the standard of the Bank for International Settlements and uses 550 days of historical data and a one day holding period. This means that a mark to market profit or loss exceeding £1.3 million would be expected to occur on only one trading day in every hundred, assuming normal market conditions. The Group recognises that the VaR methodology cannot be guaranteed to predict the maximum loss that may be suffered in any trading period, particularly in the event of extreme market turmoil. Therefore, stress testing is used to simulate the effect of extreme adverse market movements on the outstanding positions.

The Group's trading market risk exposure for the year ended 28 February 2001 is analysed in Note 38 on page 60 of the Accounts.

Derivatives

In the normal course of business, the Group uses a limited range of derivative instruments for both trading and non-trading purposes. The principal derivative instruments used are interest rate swaps, interest rate options, cross currency swaps, forward foreign exchange contracts and futures. The Group uses derivatives primarily as a risk management tool for hedging interest rate and foreign exchange rate risk.

The table shown at the bottom of this page provides an illustration of the traditional banking services and activities which can give rise to market risk exposures and the way in which this can be managed and mitigated by using derivatives.

The Group's activity in derivatives is carefully controlled within a strict risk management process. This process recognises the principal risks including credit, operational, liquidity and market risk associated with derivatives. Details of derivative contracts outstanding at the year end are included in Note 34 on page 54 of the Accounts.

European Economic and Monetary Union (EMU)

The final changeover of non-cash operations to euro in the EMU countries has to be complete by 31 December 2001 and the introduction of euro notes and coins will take place on 1 January 2002. This will entail the replacement of the current national currency notes and coins and the bulk of this cash changeover is expected to be completed within the First Wave countries by the end of February 2002. Development work to cater for the changes that this will bring to the Bank's operations is in course. The projected expenditure is not regarded as significant.

There continues to be uncertainty over a UK decision to enter EMU although the current Government has indicated that they would make a decision on UK entry within 2 years of commencement of the next parliament. The Group remains actively involved in discussions within the Banking industry and other sectors of the economy to help assess the implications for the Group and its customers. This work is undertaken under the direction of the Group's EMU Steering Group, comprising senior representatives of all the Group's UK divisions and Group Functions. It is still predicted that the investment necessary to prepare for a UK changeover to the euro will be at least as much as that required to deal with the Year 2000 issue.

BANKING SERVICE OR ACTIVITY	MARKET RISK EXPOSURE	DERIVATIVE HEDGE
Fixed rate customer lending.	Rise in interest rates leading to increasing funding cost.	Interest rate swaps paying a fixed rate.
Fixed rate customer deposits and capital issues.	Fall in interest rates leading to reduction in interest income.	Interest rate swaps receiving a fixed rate.
Lending or investments denominated in foreign currencies.	Changes in exchange rates reduce the sterling value of the foreign currency asset.	Cross currency swaps which fix the sterling value of the asset.
Earnings denominated in foreign currencies.	Changes in exchange rates reduce the sterling value of the foreign currency earnings.	Forward foreign exchange contracts convert earnings to sterling at a fixed exchange rate.

BOARD OF DIRECTORS

SIR JOHN SHAW KStJ Dr hc LLD FRSE CA #
Governor
Age 68. Appointed to the Board in 1990.
Sir John was appointed a Deputy Governor in 1991 and Governor in 1999. He is a former President of the Institute of Chartered Accountants of Scotland.

SIR BOB REID MA LLD * † #
Deputy Governor
Age 67. Appointed to the Board in 1987.
Sir Bob was appointed a Deputy Governor in 1997 and is the senior independent non-executive director (other than the Governor). He is Chancellor of The Robert Gordon University in Aberdeen.

PETER BURT MA MBA FCIBS §
Group Chief Executive
Age 57. Appointed to the Board in 1995.
Mr Burt was appointed Group Chief Executive in 1996 having been Treasurer and Chief General Manager since 1988. He joined the Bank in 1975.

GAVIN MASTERTON CBE FCIBS §
Treasurer and Managing Director
Age 59. Appointed to the Board in 1997.
Mr Masterton was appointed Treasurer and Chief General Manager in 1996 having become a General Manager in 1986 and Deputy Treasurer in 1992. He joined the Bank in 1957.

GORDON McQUEEN BSc CA FCIBS §
Executive Director
Age 54. Appointed to the Board in 2000.
Mr McQueen joined the Bank in 1976 having previously worked in investment management. He has held senior management positions within International and Corporate Banking England and is Divisional Chief Executive, Group Treasury and Finance.

COLIN MATTHEW MBA FCIBS §
Executive Director
Age 50. Appointed to the Board in 2000.
Mr Matthew joined the Bank in 1966 and has held senior positions within Treasury Services and Corporate Banking in England. He is Divisional Chief Executive, Business Banking.

GEORGE MITCHELL FCIBS §
Executive Director
Age 51. Appointed to the Board in 2000.
Mr Mitchell joined the Bank in 1966 and his senior management responsibilities have included positions within Treasury Services and Personal Banking. He is Divisional Chief Executive, Corporate Banking and was appointed Deputy Group Managing Director on 1 April 2001.

SIR RONALD GARRICK CBE FREng FRSE * †
Non-executive Director
Age 60. Appointed to the Board in 2000.
Sir Ronald is Chairman of The Weir Group PLC, having previously been Chief Executive of that company for over 16 years.

ALLAN GORMLY CBE CA †
Non-executive Director
Age 63. Appointed to the Board in 1997.
Mr Gormly was Chairman of Royal Insurance Holdings plc and subsequently Deputy Chairman of Royal & Sun Alliance plc until retiring in 1998.

SIR RUSSELL HILLHOUSE KCB MA DUniv LLD DLitt FRSE *
Non-executive Director
Age 63. Appointed to the Board in 1998.
Sir Russell was Permanent Under Secretary of State at The Scottish Office until his retirement in 1998.

IAN INGLIS LLB FCIBS FRSA WS *
Non-executive Director
Age 60. Appointed to the Board in 1997.
Mr Inglis is a former senior partner of Shepherd & Wedderburn WS, a Scottish legal partnership. He is a non-executive director of a number of Investment Trusts.

BRIAN IVORY CBE MA CA FRSA FRSE
Non-executive Director
Age 52. Appointed to the Board in 1998.
Mr Ivory is a non-executive director of the Scottish American Investment Company and of Remy Cointreau SA. Until November 1999 he was Chairman of Highland Distillers plc.

LESLEY KNOX MA
Non-executive Director
Age 47. Appointed to the Board in 1993.
Mrs Knox is a non-executive director of a number of listed and unlisted companies and was a director of Kleinwort Benson Limited until 1997.

JOHN MACLEAN CA MBA * † #
Non-executive Director
Age 57. Appointed to the Board in 1995.
Mr Maclean is a non-executive director of a number of listed and unlisted companies and was a founder and director of Kelvin Shipholdings Limited.

LORD SIMPSON OF DUNKELD FCCA ACIS #
Non-executive Director
Age 58. Appointed to the Board in 2001.
Lord Simpson has been Chief Executive of Marconi plc since 1996 and in August 2001 will become Chairman. He is a non-executive director of Nestlé SA and ALSTOM SA.

Member of:
* Audit Committee
† Remuneration Committee
# Nomination Committee
§ Group Management Board – Robert Mee, Divisional Chief Executive, Personal Banking is also a member of the Group Management Board.

BOARD OF DIRECTORS

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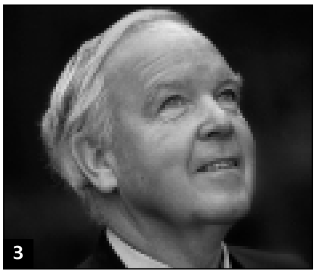

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1 SIR JOHN SHAW
2 PETER BURT
3 SIR BOB REID
4 IAN INGLIS, LESLEY KNOX AND COLIN MATTHEW
5 JOHN MACLEAN
6 GAVIN MASTERTON, SIR RONALD GARRICK AND LORD SIMPSON
7 GEORGE MITCHELL AND ALLAN GORMLY
8 BRIAN IVORY
9 GORDON McQUEEN AND SIR RUSSELL HILLHOUSE

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The Directors have pleasure in submitting their Report and the Accounts for the year ended 28 February 2001 to the 305th Annual General Meeting which is to be held at the Edinburgh International Conference Centre on Friday, 15 June 2001 at 11 am.

Issued Capital and Options

During the year, the issued Ordinary Stock of the Bank was increased as follows:

(a) by 12,712,385 Ordinary Stock units issued in lieu of cash dividends;

(b) by 2,566,519 Ordinary Stock units issued under the terms of the Bank of Scotland Profit Sharing Stock Ownership Scheme;

(c) by 3,191,653 Ordinary Stock units issued under the terms of the Bank of Scotland Executive Stock Option Schemes;

(d) by 4,419,683 Ordinary Stock units issued under the terms of the Bank of Scotland Savings-Related Stock Option Schemes;

(e) by 2,154 Ordinary Stock units issued to the holders of options which had been received in exchange for options granted under an EFT Group plc share option scheme; and

(f) by 32,538,403 Ordinary Stock units issued in connection with the acquisition of ICC Bank plc.

The issued Ordinary Stock of the Bank at 28 February 2001 was £326,407,770.75 (1,305,631,083 Ordinary Stock units).

At 28 February 2001, 7,744,326 Ordinary Stock units were held under the Bank of Scotland Profit Sharing Stock Ownership Scheme for the benefit of 11,570 employees of the Group.

During the year, the following options were granted:

(a) under the Bank of Scotland 1995 Executive Stock Option Scheme in respect of 87,511 Ordinary Stock units granted on 15 May 2000 at an exercise price of 538.33p per unit and in respect of 548,005 Ordinary Stock units granted on 16 October 2000 at an exercise price of 590.67p per unit;

(b) under the Bank of Scotland 1996 Executive Stock Option Scheme in respect of 705,489 Ordinary Stock units granted on 15 May 2000 at an exercise price of 551.50p per unit and in respect of 1,899,595 Ordinary Stock units granted on 16 October 2000 at an exercise price of 610.00p per unit; and

(c) under the Bank of Scotland 1995 Savings-Related Stock Option Scheme in respect of 3,656,988 Ordinary Stock units granted on 7 November 2000 at an exercise price of 472.53p per unit.

Profits and Dividends

The Group Profit for the year attributable to Proprietors, as shown in the Consolidated Profit and Loss Account, is £616 million (2000 – £588 million).

The dividends on the 9¼% and on the 9¾% Non-Cumulative Irredeemable Preference Stocks for the half-year ended 31 August 2000 amounting to £19 million (August 1999 – £19 million) were paid on 30 November 2000. The dividends for the half-year ended 28 February 2001 amounting to £18 million (2000 – £18 million) will be paid on 31 May 2001 to Proprietors on the Register at the close of business on 18 May 2001.

An interim dividend of 5.30p per Ordinary Stock unit was paid on 30 November 2000 and it is recommended that a final dividend of 10.00p per Ordinary Stock unit be paid on 22 June 2001 to Proprietors on the Register at the close of business on 18 May 2001. The total ordinary dividend for the year would therefore be 15.30p per Ordinary Stock unit (2000 – 13.50p) absorbing £198 million. Payment of the preference dividends and the ordinary dividend as proposed will leave £381 million to be added to reserves.

Properties

The Group's freehold and long leasehold properties were revalued at 31 December 1999. Under the transitional rules available under FRS 15 the Group will maintain the current gross value without subsequent revaluation. The Directors are of the opinion that the current market value of the Group's properties is not significantly different from the amount at which they are included in the balance sheet.

Principal Activities of the Group

Banking, financial and related services in the United Kingdom and abroad are provided through branches, offices, subsidiaries, joint ventures, associated undertakings and by telephone and other direct delivery channels.

The development of the Group's business over the past year is described in the Operating and Financial Review.

Directors

At the conclusion of the Annual General Meeting on 13 June 2000 Mr John Mercer, Mr James Miller, Mr Angus Pelham Burn and Sir Robert Smith retired from the Board.

Mr Gordon McQueen, Mr Colin Matthew and Mr George Mitchell were appointed by the Board as Ordinary Directors with effect from 1 May 2000 and were re-elected at the Annual General Meeting on 13 June 2000. Lord Simpson of Dunkeld was appointed by the Board as an Ordinary Director with effect from 1 January 2001. Sir Alistair Grant, an Ordinary Director, died on 22 January 2001.

Mr Masterton retires by rotation from the Board at the conclusion of the Annual General Meeting on 15 June 2001 and does not offer himself for re-election. The other Ordinary Directors who retire by rotation at the Annual General Meeting are Mr Brian Ivory, Mr Allan Gormly and Sir Russell Hillhouse. They, together with Lord Simpson who was appointed by the Board as an Ordinary Director and is required to retire at the Annual General Meeting, are eligible and offer themselves for re-election.

In accordance with the Bank's Regulations, a Governor and not more than two Deputy Governors are elected at the Annual General Meeting each year. Sir John Shaw (Governor) and Sir Bob Reid (Deputy Governor) are eligible and offer themselves for re-election.

Details of the present Directors are given on page 16.

Directors' Interests in Bank Stock

The Directors' interests are listed in the Appendix which follows this Report. The Register of Directors' Interests, which contains full details of Directors' interests in the stock of the Bank and options to subscribe for stock, will be available for inspection at the Annual General Meeting.

Charitable and Other Donations

Charitable donations by the Group in the UK during the year amounted to £2.6 million (2000 – £1.9 million). No contributions were made for political purposes.

Employees

The Bank's policies on the employment of disabled people and other matters relating to employees are described on page 11 of the Operating and Financial Review.

Suppliers

The Bank recognises the importance of maintaining good business relationships with its suppliers and is committed to paying all invoices within 30 days of invoice date or otherwise within agreed terms. The average number of days credit taken at 28 February 2001 was 25 days (2000 – 24 days).

Stockholdings

Notification of disclosable interests in excess of 3% of the Ordinary Stock of the Bank have been received from Scottish Widows Investment Partnership Limited in respect of a total of 52,755,918 Ordinary Stock units (4.04% of the issued Ordinary Stock) and from The Capital Group Companies Inc., in respect of a total of 39,392,505 Ordinary Stock units (3.02% of the issued Ordinary Stock).

Auditors

The Auditors, KPMG Audit Plc, have signified their willingness to continue in office and resolutions to re-appoint them and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Corporate Governance

The Board's Corporate Governance Statement is set out on pages 24 and 25 and the Remuneration Report is set out below.

Remuneration Report

Composition, Policy and Scope

The Remuneration Committee, made up wholly of independent non-executive Directors, is chaired by Mr Allan Gormly and its other members are Sir Bob Reid, Mr John Maclean and Sir Ronald Garrick. Sir Ronald Garrick was appointed as a member of the Remuneration Committee with effect from 13 June 2000, following the retirement of Mr James Miller and Mr Angus Pelham Burn at the conclusion of the Annual General Meeting.

Executive remuneration policy is formulated by the Remuneration Committee and approved by the Board. The policy is to provide competitive remuneration packages to find and keep high calibre executives and to encourage and reward superior business performance.

The main components of the Bank's remuneration package for executives are basic salary, an annual performance bonus plan, profit sharing schemes, executive stock option schemes, pension benefits and other market-related benefits, including private medical insurance and the provision of company cars.

The Committee is responsible for determining the pay and benefits and contractual arrangements of each executive Director and certain senior executives.

Compliance

The Bank applies the Principles of Good Governance relating to Directors' Remuneration as set out in the Combined Code and complies with all of the detailed Provisions of Section 1B of the Code.

Procedures

The Remuneration Committee, which has formal terms of reference that are approved and reviewed by the Board, meets several times during the year. The Committee has access to advice internally from Group Human Resources and, when appropriate, seeks external professional advice from remuneration consultants and others. The Governor, the Group Chief Executive and the Treasurer attend meetings of the Committee, as required, except when their own remuneration is being considered.

The Committee makes recommendations to the Board, for its determination, on the total remuneration of the Governor and any Deputy Governors and the fees payable for membership of committees and (other than in respect of BankWest) the boards of the Bank's principal subsidiary undertakings. In accordance with the Bank's Regulations, the Proprietors determine the fee payable to each Director of the Bank. No Director is involved in determining his or her own remuneration.

Basic Salaries

Executive Directors' salaries are normally reviewed annually by the Remuneration Committee taking into consideration, inter alia, such factors as the individual's role, accountability and performance, salaries in comparable organisations and the general pay awards made to staff overall.

Annual Performance Bonus Plan

Executive Directors and other senior executives participate in an annual performance bonus plan which is payable in cash.

The maximum amount which may be made available for distribution is determined by the Board on the recommendation of the Remuneration Committee and is at present limited to one third of total relevant salaries. For 2000/2001 the pool out of which these bonuses have been allocated was 31% of total relevant salaries. Individual awards (if any) are decided by the Remuneration Committee on the basis of a combination of group, divisional and individual performance. Awards under this plan are not pensionable.

Annual Profit Sharing Schemes

Executive Directors and other senior executives of participating companies are eligible to participate, on the same basis as all other eligible staff, in the Bank's profit sharing schemes which have been approved by Proprietors and are formulae driven based on pre-tax return on Proprietors' funds.

The Bank has two profit sharing schemes, a Stock Scheme and a Cash Scheme, which are run in parallel. The maximum total amount payable under these schemes is 15% of a participant's eligible salary. Subject to Inland Revenue limits, participants can choose to take their profit sharing entitlement (if any) as Ordinary Stock, such Stock to be held in Trust for them for three years, or as cash. Payments do not form part of pensionable earnings.

Executive Stock Option Schemes

Executive Directors and other senior executives are eligible to participate in the Bank's Inland Revenue approved and unapproved Executive Stock Option Schemes, which were adopted by Proprietors in 1995 and 1996 respectively.

The rules of the 1995 Scheme and the 1996 Scheme are virtually identical and both schemes contain a performance pre-condition on exercise which is that options are not capable of being exercised unless growth in diluted earnings per Ordinary Stock unit has exceeded the growth in the General Index of Retail Prices (All Items) over a period of not less than three consecutive financial years by not less than 2% per annum.

The general policy regarding the grant of executive stock options continues to be to phase awards to senior executives over the lives of the schemes and to reward employees below senior executive level who have made a special contribution in a particular period.

The Board granted executive stock options in May 2000 to those executive Directors and other senior executives who were prevented by the Bank's Code of Conduct from receiving any options under the October 1999 grant because of the Bank's bid for National Westminster Bank plc. Executive stock options were also granted in October 2000 in accordance with the Bank's normal annual cycle for such awards.

Savings-Related Stock Option Scheme

Executive Directors and other senior executives are eligible to participate, on the same basis as all other eligible staff, in the Bank's Inland Revenue approved Savings-Related Stock Option Scheme which was adopted by Proprietors in 1995.

Proposed Changes to Employee Stock Schemes

The Remuneration Committee and the Board have reviewed the Bank's existing arrangements for executive and all employee stock schemes, and wish to modernise these in the light of competitive practice, legislative changes and governance developments. Accordingly, changes to the existing Executive and Savings-Related Stock Option Schemes and proposals for the introduction of two new schemes, one of which is a new Senior Executive Stock Option Plan, will be submitted to Proprietors for approval at an Extraordinary General Meeting which will follow the Annual General Meeting on 15 June 2001. Details are given in the Circular to Proprietors.

Pensions

Throughout the year to 28 February 2001, Mr Peter Burt, Mr Gavin Masterton, Mr Gordon McQueen, Mr Colin Matthew, Mr George Mitchell and Sir John Shaw were active members of the Bank of Scotland 1976 Pension Scheme, which is a non-contributory defined benefit scheme. Mr John Mercer retired on 30 June 2000 under the Capital Bank Pension Scheme, which was a contributory defined benefit scheme. Pensions in payment are reviewed each year; the intention is to seek to maintain their purchasing power. Pensionable earnings consist only of basic salary plus Director's fee (if any).

On 1 January 2001, all of the assets and liabilities of the Capital Bank Pension Scheme and Bank of Wales PLC 1973 Pension & Life Assurance Scheme were merged with the Bank of Scotland 1976 Pension Scheme.

Contracts of Employment

The executive Directors have contracts of employment which are terminable on not more than one year's notice. No other Director has a contract of employment or service contract.

Further Information

Details of Directors' emoluments and information on their pension entitlements in respect of the year to 28 February 2001 are given in the Appendix which follows this Report. The Appendix also gives information on Directors' interests in Bank stock and stock options.

Post Balance Sheet Event

The following announcement was made to the London Stock Exchange on 25 April 2001:
"Halifax and Bank of Scotland announce that they are in talks regarding a potential merger of equals of the two companies. Any transaction would be structured as a nil premium merger based on a one for one share exchange ratio.
Discussions are continuing and a further announcement will be made when appropriate."
The basis of the terms on which the businesses of the two parties should be combined have now been agreed.

By Order of the Board,
John S Hunter
Secretary
Edinburgh, 3 May 2001

(i) Directors' Emoluments

	Governor	Deputy Governor	Executive Directors						Total Year to 28 Feb 2001	Total Year to 29 Feb 2000
	Sir John Shaw £000	Sir Bob Reid £000	Peter Burt £000	Gavin Masterton £000	Gordon McQueen £000	Colin Matthew £000	George Mitchell £000	John Mercer £000	£000	£000
Remuneration/Salary	215	155	463	376	223	223	220	86	**1,961**	1,340
Benefits	9		7	13	21	8	11	5	**74**	46
Bonus			150	120	71	71	75		**487**	300
Profit Sharing			75	61	35	35	35		**241**	163
	224	155	695	570	350*	337*	341*	91†	**2,763**	1,849
2000	199	143	595	486				426		

Other non-executive Directors

	Fee as Director of the Bank £000	Fees from other Group boards and committees £000	Total Year to 28 Feb 2001 £000	Total Year to 29 Feb 2000 £000
Sir Ronald Garrick	21	14	**35**	
Allan Gormly	21	18	**39**	40
Sir Alistair Grant	19	13	**32†**	87#
Sir Russell Hillhouse	21	16	**37**	29
Ian Inglis	21	31	**52**	47
Brian Ivory	21	19	**40**	31
Lesley Knox	21	23	**44**	41§
John Maclean	21	47	**68**	65
Lord Simpson	4		**4***	
James Miller	6	3	**9†**	34
Angus Pelham Burn	6	8	**14†**	44
Sir Robert Smith	6	3	**9†**	25
Sir Alick Rankin				8†
	188	195	**383**	451
2000	208	243		
			3,146	2,300

* From date of appointment.

† Until date of leaving Board.

\# Includes remuneration as Governor of the Bank in the period to 15 June 1999.

§ In addition to being a non-executive Director of the Bank, up to 31 December 1999 Mrs Lesley Knox had certain executive responsibilities at The British Linen Bank Limited in respect of which she received remuneration (inclusive of fees) of £109,375 and benefits of £7,389 in the period from 1 March 1999 to 31 December 1999. These amounts are not reflected in the above table.

The remuneration of the Governor and the Deputy Governor and the salaries of the executive Directors include fees paid in respect of membership of Group boards and committees. Benefits comprise taxable benefits in kind relating mainly to the provision of motor vehicles, medical insurance and preferential interest rates on certain borrowings.

The potential pre-tax gains made by Directors on the exercise of stock options in the year are disclosed on pages 22 and 23.

(ii) Directors' Pension Entitlements

	Additional pension earned in year to 28 February 2001 £000 pa	Accrued pension entitlement at 28 February 2001 £000 pa	Transfer value of additional pension earned in year to 28 February 2001 £000	Accrued pension entitlement at 29 February 2000 £000 pa
Peter Burt	34	228	611	188
Gavin Masterton	26	249	447	216
Gordon McQueen	30	103	448	71*
Colin Matthew	35	147	532	109*
George Mitchell	23	147	252	121*
Sir John Shaw	7	62	104	53
John Mercer	9†	200†	168†	189

* At date of appointment.
† Until or at retirement.

The additional pension earned in the year to 28 February 2001 excludes adjustment for inflation on the accrued pension entitlement at the start of the year. The transfer value of the additional pension earned in the year to 28 February 2001 is a measure of the capital cost of providing future pension payments, calculated in accordance with actuarial advice, and is not a sum paid or due to the individual.

(iii) Directors' Interests in Bank Stock

	Interests at 28 February and 3 May 2001 Ordinary Stock units of 25p each		Interests at 1 March 2000 Ordinary Stock units of 25p each	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Sir John Shaw	114,264		109,833	
Sir Bob Reid	26,819		22,705	
Peter Burt	482,588		302,158	
Gavin Masterton	591,991		299,005	
Gordon McQueen	54,233		52,731*	
Colin Matthew	39,704		37,408*	
George Mitchell	31,830		30,410*	
Sir Ronald Garrick	2,000		2,000	
Allan Gormly	6,936	1,440	6,936	1,440
Sir Russell Hillhouse	1,226		1,209	
Ian Inglis	7,500		7,500	
Brian Ivory	11,000	18,000	10,000	18,000
Lesley Knox	1,804		1,759	
John Maclean	5,000		5,000	
Lord Simpson	3,863		3,863#	

At 1 March 2000, 28 February 2001 and 3 May 2001 Mr Allan Gormly had a beneficial interest in 60,669 £1 units of the Bank's 9¾% Non-Cumulative Irredeemable Preference Stock.

No Director had an interest in any of the Group's Loan Stocks or in the shares in any of the Bank's subsidiary undertakings at any time in the period 1 March 2000 to 3 May 2001.

* At 1 May 2000 (date of appointment).
\# At 1 January 2001 (date of appointment).

(iv) Stock Options held by Directors in respect of Ordinary Stock units of 25p each

(a) Savings-Related Stock Options

	Date Options granted	Options held as at 1 March 2000	Options exercised	Options granted	Options held as at 28 Feb and 3 May 2001	Options exercise price per stock unit (p)	Options exercisable
Gavin Masterton	2.11.93	3,161	3,161			150.80	
Gordon McQueen	7.11.00			3,571	3,571	472.53	2005-2006

Mr Gavin Masterton exercised 3,161 Savings-Related Stock Options on 4 January 2001. The market price of the Bank's Ordinary Stock units on 4 January 2001 was 713.0p and Mr Masterton's potential pre-tax gain at that date was therefore £17,771.

(b) Executive Stock Options

	Date Options granted	Options held as at 1 March 2000	Options exercised	Options granted	Options held as at 28 Feb and 3 May 2001	Options exercise price per stock unit (p)	Options# exercisable
Peter Burt	02.11.93	90,000	90,000			188.50	
	01.11.94	90,000	90,000			201.50	
	17.10.95	72,000			72,000	259.83	2001-2005
	21.10.96	90,000			90,000	273.67	2001-2006
	17.10.97	53,000			53,000	535.33	2001-2007
	19.10.98	60,000			60,000	583.50	2001-2008
	15.05.00			75,000	75,000	551.50	2003-2010
	16.10.00			90,000	90,000	610.00	2003-2010
		455,000	180,000	165,000	440,000		
Gavin Masterton	2.11.93	75,000	75,000			188.50	
	1.11.94	75,000	75,000			201.50	
	17.10.95	60,000	60,000			259.83	
	21.10.96	70,000	70,000			273.67	
	17.10.97	42,000			42,000	535.33	2001
	19.10.98	50,000			50,000	583.50	2001-2002
		372,000	280,000		92,000		
Gordon McQueen	17.10.95	48,000			48,000	259.83	2001-2005
	21.10.96	45,000			45,000	273.67	2001-2006
	17.10.97	32,000			32,000	535.33	2001-2007
	19.10.98	5,223			5,223	574.33	2001-2008
	19.10.98	29,777			29,777	583.50	2001-2008
	15.05.00			35,000	35,000	551.50	2003-2010
	16.10.00			40,000	40,000	610.00	2003-2010
		160,000*		75,000	235,000		
Colin Matthew	17.10.95	48,000			48,000	259.83	2001-2005
	21.10.96	50,000			50,000	273.67	2001-2006
	17.10.97	28,000			28,000	535.33	2001-2007
	19.10.98	5,223			5,223	574.33	2001-2008
	19.10.98	29,777			29,777	583.50	2001-2008
	15.05.00			40,000	40,000	551.50	2003-2010
	16.10.00			40,000	40,000	610.00	2003-2010
		161,000*		80,000	241,000		
George Mitchell	21.10.96	50,000			50,000	273.67	2001-2006
	17.10.97	35,000			35,000	535.33	2001-2007
	19.10.98	40,000			40,000	583.50	2001-2008
	15.05.00			5,572	5,572	538.33	2003-2010
	15.05.00			39,428	39,428	551.50	2003-2010
	16.10.00			50,000	50,000	610.00	2003-2010
		125,000*		95,000	220,000		

Other than in respect of Mr Gavin Masterton, where the exercise dates anticipate his retirement on 15 June 2001, these dates are the final exercise dates under the rules of the respective Schemes. Retirement may advance the final exercise date.
* At 1 May 2000 (date of appointment).

Executive Stock options granted in 1995 and subsequently are subject to a performance pre-condition on exercise, as detailed in the Remuneration Report on pages 19 and 20. Mr Peter Burt exercised 180,000 executive stock options on 23 October 2000. The market price of the Bank's Ordinary Stock units on 23 October 2000 was 603.5p and Mr Burt's potential pre-tax gain at that date was therefore £735,300. Mr Gavin Masterton exercised 280,000 executive stock options on 4 October 2000. The market price of the Bank's Ordinary Stock units on 4 October 2000 was 610.0p and Mr Masterton's potential pre-tax gain at that date was therefore £1,068,033. No Directors' executive stock options lapsed in the period 1 March 2000 to 3 May 2001. The closing market price of the Bank's Ordinary Stock at 28 February 2001 was 755.0p per Ordinary Stock unit and the range during the year was 523.5p to 790.0p.

The Board of Bank of Scotland aims to maintain the highest standards of Corporate Governance believing that they are essential to the process of delivering long term growth in profits and dividends for the benefit of Proprietors.

Compliance

The Board has reviewed the Combined Code which is appended to the Listing Rules. This report, together with the Remuneration Report which is set out on pages 19 and 20, explains how the Bank has applied the Principles, and its compliance with the detailed Provisions, of Section 1 of the Combined Code during the year to 28 February 2001.

For some years the Board, rather than the Remuneration Committee, determined the remuneration packages of executive Directors. This was technically a variance from the detailed Provisions of the Combined Code. The procedure was reviewed in April 2000 and with effect from that time it became the responsibility of the Remuneration Committee to determine the remuneration packages of the executive Directors. The Bank has in all other respects complied with all of the detailed Provisions of Section 1 of the Combined Code throughout the year to 28 February 2001.

Board, Board Committees and Directors

The Board of Bank of Scotland, which acts as the Group Board as well as the Board of the Clearing Bank, currently comprises ten non-executive Directors (including the Governor and the Deputy Governor) and five executive Directors. Biographical details of each member of the Board are given on page 16.

The roles of the Governor and the Group Chief Executive are separate and their responsibilities are clearly defined.

Throughout the year to 28 February 2001 the Board had an Audit Committee, a Remuneration Committee and a Nomination Committee each of which has formal terms of reference that have been approved, and are reviewed, by the Board.

The members of the Audit Committee are Mr John Maclean (Chairman), Sir Bob Reid, Sir Ronald Garrick, Sir Russell Hillhouse and Mr Ian Inglis. The main purpose of the Audit Committee is to assist the Board in discharging its responsibility for satisfying itself; that accounting and reporting systems provide accurate and up to date information on the Group's financial position; that the adequacy and effectiveness of the internal control procedures for the Group are regularly reviewed; that published financial statements and related commentaries report a true and fair view of the Bank's financial position and the Group's financial results and position; and that there is proper compliance throughout the Group with the requirements of the financial regulatory authorities. The Audit Committee receives reports from Group Risk and Compliance and internal and external auditors on a regular basis. The duties of the Audit Committee also include keeping under regular review the scope and costs of audit and the nature and extent of non-audit services provided by the auditors.

Membership of the Remuneration Committee is shown in the Remuneration Report on page 19.

The members of the Nomination Committee are Sir John Shaw (Chairman), Sir Bob Reid, Mr John Maclean and Lord Simpson. The main purpose of the Nomination Committee is to assist the Board in considering the need for and making Board appointments, both executive and non-executive. Recommendations are made to the Board for its decision.

The Board meets monthly, with additional meetings to consider the half-year and the full-year results and, as required from time to time, to consider other matters. When necessary, the Board appoints a Committee for specific matters which require to be dealt with between Board meetings. The respective Chairmen take the lead in setting the agendas for Board and Committee meetings and normally papers are circulated some days in advance of the meetings. It is the responsibility of executive management to ensure that Board and Committee papers are comprehensive, relevant and timely.

All Directors have access to the advice and services of the Secretary and, in accordance with an agreed procedure, in the furtherance of their duties are able to take independent professional advice at the Bank's expense.

The Board recognises the value to the Group of being served by Directors who together have a wide range of skills from business and other backgrounds, and the particular contribution which can be made by Directors who have experience gained by serving on the Board for some years.

All of the Bank's Directors acknowledge their obligation to fulfil their duties with integrity and honesty, and to bring independent judgement to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct in the interests of the Bank, its Proprietors, customers and staff.

All of the non-executive Directors are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Sir Bob Reid, who is Deputy Governor, is the senior independent non-executive Director (other than the Governor).

The non-executive Directors together have considerable experience of service as Directors of listed companies. Appropriate induction visits and briefings are arranged for non-executive Directors following their appointment to the Board. The Board is briefed and updated on the supervisory and regulatory structure which applies to the Bank and to other Group companies.

The Bank's Regulations (equivalent to Articles of Association) require the election of a Governor and not more than two Deputy Governors at the Annual General Meeting in each year. A Director who is appointed by the Board during a year is required by the Regulations to retire from office at the next Annual General Meeting but is eligible for re-election at that meeting. Although the Regulations currently require one-third of the other Directors (rounded down) to retire from office at the Annual General Meeting in each year (such Directors are eligible for re-election at that meeting) the Bank's practice is that all Directors are required to submit themselves for re-election at least every three years. Subject to these requirements for re-election, non-executive Directors are appointed to the Board for a specified period, initially normally for five years, and any extension is in each case at the discretion of the Board.

The Group Management Board, which is chaired by the Group Chief Executive, comprises the senior executives of the Group. The Group Management Board meets monthly and normally is attended by the Governor and/or Deputy Governor. The Board of the Bank, and the Boards of each of its principal subsidiaries (other than BankWest) have delegated to the Group Management Board, within defined limits, responsibility for the day-to-day running of the Group. The Boards of the Bank's principal subsidiary companies are each chaired by one of their non-executive directors. Divisional Management Boards, which include non-executives, supervise the activities of the Operating Divisions and report to the Group Management Board.

For some years the Board has had a schedule of matters specifically reserved to it for decision. The Group Management Board has terms of reference defining those matters specifically reserved to it for decision. These schedules cover, inter alia, budget and financial reporting procedures, and provide for delegation of tiered levels of authority for credit approvals, expenditure and investment. They also cover consideration of the Bank's responsibility to the community, environmental issues and its approach to business. The schedules are updated when necessary and are formally reviewed at least annually.

Relations with Proprietors

Immediately following the announcement of the half-year and full-year results, the Bank presents these results to investors and analysts. The Bank also carries out a programme of regular dialogue and individual meetings with institutional investors.

The Bank encourages the participation of private investors at its Annual General Meetings. The 2000 Annual General Meeting included a question and answer session and Proprietors had also been invited to submit questions in advance. The Chairmen of the Audit Committee and the Remuneration Committee were present. A separate resolution was proposed on each substantially separate issue, including a resolution to receive and adopt the 2000 Report and Accounts. The level of proxy votes was announced after each resolution had been passed on a show of hands.

Accountability and Audit

An assessment of the Group's position and prospects is given in this document, in particular within the Governor's Statement (page 2), the Group Chief Executive's Review (page 3) and the Operating and Financial Review (pages 5 to 15).

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable – and not absolute – assurance against material misstatement or loss.

The Group has mechanisms for monitoring at executive level the risk management practices approved and adopted by individual business areas for strategic, credit, operational and market risk. Information on these mechanisms and on the Group's implementation of "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance") is provided in the Operating and Financial Review (on pages 12 to 15).

The Directors have satisfied themselves that the Group has adequate resources to continue in business for the foreseeable future and that it is therefore appropriate for the accounts for the year to 28 February 2001 to have been prepared on a going concern basis.

DIRECTORS' ACCOUNTING RESPONSIBILITIES

The Directors are required to prepare accounts for each financial year which comply with Part VII of the Companies Act 1985 and which give a true and fair view of the state of affairs of the Bank and of the Group as at the end of the year and of the profit or loss for the year. The Directors consider that in preparing the accounts on pages 28 to 64 the Group 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 Group keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Group and which enable them to ensure that the accounts comply with Part VII of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE PROPRIETORS

We have audited the accounts of Bank of Scotland which comprise the consolidated profit and loss account, the consolidated balance sheet, the Bank of Scotland balance sheet, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and notes 1 to 50.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Report and Accounts. As described in the Statement of Directors' Responsibilities, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority 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 Group 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Bank's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Governor's Statement, the Group Chief Executive's Review, the Group Ten Year Financial Summary, the Operating and Financial Review, the Directors' Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

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 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 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 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 financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 28 February 2001 and of the profit of the Group 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, 3 May 2001

Notes

1 The maintenance and integrity of the Bank of Scotland web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounts or audit report since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX PROFIT UP 12% • DIVIDEND PER STOCK UNIT UP BY 13% • COST:INCOME RATIO IMPROVED TO 45.6% • OPERATING PROFIT UP 15% • PRE-TAX

The Group's accounting policies, detailed below, are unchanged from those of the previous year other than those arising from implementation of FRS 15 "Tangible Fixed Assets" and FRS 16 "Current Tax". The effect of the implementation of these standards on the current and prior year results and financial position is not material.

Basis of Preparation

The accounts have been prepared under the historical cost convention modified by the revaluation of certain properties and items held for trading purposes and in accordance with currently applicable accounting standards and statements of recommended practice.

Debt Securities

(i) Debt securities and other fixed interest securities held for dealing are included at market value with gains or losses included in dealing profits.

(ii) Debt securities and other fixed interest securities held for the longer term are included at cost less amounts written off and adjusted for the amortisation of premiums or discounts arising on purchase of investments redeemable at fixed dates. Such premiums or discounts are taken to interest receivable evenly over the period to redemption. Gains or losses on realisation are taken to revenue as they arise.

Equity Shares

Equity shares are stated at cost less amounts written off. Income from listed equity shares is credited to revenue on the ex-dividend date and from unlisted equity shares on an equivalent basis.

Associated Undertakings and Joint Ventures

The attributable share of results of associated undertakings, generally based on audited accounts, is included using the equity method of accounting. Shares in associated undertakings are stated in the consolidated balance sheet at the Group's share of their net tangible assets. In the Bank's balance sheet, the investments in shares in associated undertakings and joint ventures are stated at cost.

Joint ventures in which the Group has a long term interest and shares control under a contractual agreement with other parties are accounted for using the gross equity method.

Tangible Fixed Assets and Depreciation

The transitional rules of FRS 15 have been adopted whereby the gross value relating to previously revalued fixed assets will be retained.

Freehold and leasehold property is depreciated over 50 years, or the length of the lease term if shorter. The gross value of property at 1 March 2000 will be maintained without subsequent revaluation. Other tangible fixed assets are stated at cost less amounts written off.

Improvements to leasehold properties with unexpired lease terms of fifty years or less are depreciated in equal instalments over the lesser of the remaining life of the lease or ten years. Premiums are amortised over the period of the lease.

Equipment, including fixtures and fittings, vehicles, computer hardware and software which is capitalised is written off in equal instalments over the expected lives of the assets, generally between five and fifteen years.

Impairment charges are included within operating profit.

Goodwill

Goodwill arising on acquisitions prior to 1 March 1998 was written off to reserves in the year in which it arose. These amounts will be charged to the profit and loss account on a disposal of the business to which they relate.

Goodwill arising on acquisitions after 1 March 1998 is capitalised and included within Intangible Fixed Assets. This goodwill is amortised by equal instalments over its estimated useful life as stated. Impairment charges are included within operating profit.

Bad and Doubtful Debts

Specific provisions are made for advances which are recognised to be bad or doubtful. A general provision, to cover advances which are latently bad or doubtful, but not yet identified as such, is also maintained. Provisions made during the year are charged to revenue, net of recoveries.

Interest, receipt of which is considered to be doubtful, is not credited to revenue when applied to a customer's account but is held in suspense until collection is assured.

Loans and Advances are stated net of specific and general provisions and of interest in suspense in the balance sheet. Provisions and interest in suspense are written off in whole or in part when there is no longer any realistic prospect of recovery.

Securitisation

Loans and advances to customers include loans that are subject to non-returnable finance arrangements following securitisation of portfolios of mortgages and loans. The principal benefits of these loans were acquired from the Bank by special purpose securitisation companies primarily through the issue of floating rate notes. In accordance with Financial Reporting Standard 5 (FRS 5), "Reporting the Substance of Transactions", the proceeds of these note issues are shown deducted from the securitised assets on the face of the balance sheet.

Finance Leases, Instalment Credit and Operating Leases

Income from assets leased to customers and from instalment credit agreements is determined by spreading interest and charges over the period of the agreement in proportion to the net cash investment.

The net investments in finance leases and operating leases are included as amounts receivable in advances and the net obligation under leases with third party finance lessors is included in customer accounts.

Dated and Undated Loan Capital

Dated and undated loan capital is included at the nominal value adjusted for premiums, discounts and expenses, all of which are amortised evenly over the period to redemption or reset.

Income Recognition

Arrangement fees and commissions receivable for the continuing service of loans and advances are recognised on the basis of work done and those receivable in respect of bearing risk are recognised over the period of the advance or risk exposure. Other fees are recognised when receivable. Mortgage incentive costs are taken through net interest income in the profit and loss account as they are incurred.

Taxation

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.

Pension Contributions

Pension fund liabilities are assessed by independent professionally qualified actuaries, normally at triennial valuations and at intervening dates if considered necessary. In accordance with the requirements of Statement of Standard Accounting Practice No. 24, pension costs are charged against profits using actuarial valuation methods intended to spread the pension cost over the average future working lifetime of the membership.

Foreign Currencies

Assets and liabilities and profit and loss accounts are translated at the rates of exchange ruling on the balance sheet date or at the forward exchange rate, as appropriate. Exchange differences arising on the translation of foreign equity investments are taken to reserves except to the extent that they are offset by corresponding differences arising on the translation of related borrowing. All other exchange differences are included in dealing profits.

Derivatives

(i) Trading derivatives, which include customer driven and proprietary transactions and hedges thereof, are carried in the accounts at fair value with gains or losses included in dealing profits.

(ii) Non-trading derivatives, which are used primarily as a risk management tool for hedging interest rate and foreign exchange rate risk arising on on-balance sheet assets and liabilities, are accounted for on an accruals basis reflecting the treatment of the underlying items being hedged.

Where a hedge transaction is terminated early, any profit or loss is spread over the remaining life of the underlying asset or liability being hedged. In other circumstances, where the underlying item subject to the hedge is extinguished, the hedge transaction is measured at fair value and any profit or loss is recognised immediately.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 28 February 2001

	Notes		2001 £ million		2000 £ million
Interest receivable					
Interest receivable and similar income arising from debt securities			507		313
Other interest receivable			5,735		4,320
			6,242		4,633
Interest payable			(4,448)		(2,971)
Dividend income from equity shares			5		8
Net interest and dividend income receivable			1,799		1,670
Fees and commissions receivable			845		802
Fees and commissions payable			(156)		(171)
Dealing profits			56		30
Other operating income			84		40
Net operating income (all from continuing operations)	*1a*		2,628		2,371
Administrative expenses		(1,201)		(1,099)	
Depreciation and amortisation		(90)		(81)	
Operating expenses	*1b, 1d*		(1,291)		(1,180)
Property revaluation surplus					3
Provisions for bad and doubtful debts	*15*		(385)		(317)
Amounts written off fixed asset investments			(7)		(6)
Operating profit (all from continuing operations)			945		871
Before exceptional items		1,041		925	
Exceptional items	*1d*	(96)		(54)	
Share of operating profits of joint ventures			19		27
Share of operating profits of associated undertakings			17		13
Profit on ordinary activities before taxation			981		911
Before exceptional items		1,077		965	
Exceptional items	*1d*	(96)		(54)	
Tax on profit on ordinary activities	*7*		(300)		(289)
Profit on ordinary activities after taxation			681		622
Before exceptional items		759		670	
Exceptional items	*1d*	(78)		(48)	
Minority interests (equity)			(34)		(34)
(non-equity)			(31)		
Profit attributable to Proprietors			616		588
Dividends	*8*				
Preference		37		37	
Ordinary		198		169	
			235		206
Retained profit of the year	*9*		381		382
Earnings per 25p Ordinary Stock unit – basic before exceptional items	*10*		52.0p		48.2p
Earnings per 25p Ordinary Stock unit – basic	*10*		45.8p		44.3p
Earnings per 25p Ordinary Stock unit – diluted	*10*		45.4p		43.6p

The statement of accounting policies on pages 28 and 29 and the notes on pages 37 to 64 form part of these accounts.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 28 February 2001

	2001 £ million	2000 £ million
Profit attributable to Proprietors	616	588
Currency translation differences	(2)	
Total recognised gains and losses for the year	**614**	588

HISTORICAL COST PROFITS

It is estimated that Group profit on ordinary activities before taxation and retained profit of the year calculated solely on a historical cost basis would not differ materially from those stated in the consolidated profit and loss account on page 30.

The statement of accounting policies on pages 28 and 29 and the notes on pages 37 to 64 form part of these accounts.

CONSOLIDATED BALANCE SHEET
As at 28 February 2001

	Notes		2001 £ million		2000 £ million
Assets					
Cash and balances at central banks			745		587
Items in course of collection			532		544
Treasury bills and other eligible bills	12		365		524
Loans and advances to banks	13		5,308		3,954
Loans and advances to customers	14	69,913		55,901	
Less: non-returnable finance	14	(3,231)		(404)	
			66,682		55,497
Debt securities	18		9,037		7,960
Equity shares	19		162		96
Share of gross assets		1,057		941	
Share of gross liabilities		(1,015)		(908)	
Shares in joint ventures	20(i)		42		33
Shares in associated undertakings	20(ii)		124		108
Intangible fixed assets	22		192		76
Tangible fixed assets	23		613		627
Other assets			1,372		1,113
Prepayments and accrued income			939		694
			86,113		71,813
Liabilities					
Deposits by banks	25		7,960		7,924
Customer accounts	26		35,946		30,037
Debt securities in issue	27		29,961		24,224
Notes in circulation			602		545
Corporate taxation			172		247
Proposed dividends	8		149		130
Other liabilities			1,640		1,507
Accruals and deferred income			1,263		922
Provisions for liabilities and charges					
Deferred taxation	28(i)	473		415	
Other provisions	28(ii)	68		52	
			541		467
			78,234		66,003
Capital Resources					
Subordinated liabilities	29				
Dated loan capital		1,777		1,165	
Undated loan capital		1,144		1,099	
			2,921		2,264
Called up share capital	30				
Preference stocks (non-equity)		400		400	
Ordinary stock		326		313	
		726		713	
Share premium account	31	568		305	
Perpetual securities (non-equity)	31	297			
Other reserves	31			(4)	
Profit and loss account	31	2,801		2,376	
Proprietors' funds (including non-equity interests)	32		4,392		3,390
Minority interests (equity)			166		156
(non-equity)	29		400		
			7,879		5,810
			86,113		71,813

CONSOLIDATED BALANCE SHEET

As at 28 February 2001

	Notes	2001 £ million	2000 £ million
Memorandum Items	*33*		
Contingent liabilities			
Acceptances and endorsements		**157**	156
Guarantees and assets pledged as collateral security		**1,807**	1,550
		1,964	1,706
Commitments			
Other commitments		**10,199**	7,442

John C Shaw	**John Maclean**	**Peter Burt**	**Gavin Masterton**	**Gordon McQueen**
Governor	Director	Group Chief Executive	Treasurer and Managing Director	Director

The statement of accounting policies on pages 28 and 29 and the notes on pages 37 to 64 form part of these accounts.

BANK OF SCOTLAND BALANCE SHEET

As at 28 February 2001

	Notes		2001 £ million		2000 £ million
Assets					
Cash and balances at central banks			692		565
Items in course of collection			532		544
Loans and advances to banks	*13*		10,586		5,533
Loans and advances to customers	*14*	45,759		35,608	
Less: non-returnable finance	*14*	(2,937)			
			42,822		35,608
Debt securities	*18*		824		313
Equity shares	*19*		51		32
Shares in associated undertakings	*20(ii)*		76		76
Shares in group undertakings	*21*		1,246		737
Tangible fixed assets	*23*		428		410
Deferred tax asset	*28(i)*		12		7
Other assets			125		155
Prepayments and accrued income			645		417
			58,039		44,397
Liabilities					
Deposits by banks	*25*		22,360		17,777
Customer accounts	*26*		24,843		19,048
Debt securities in issue	*27*		2,065		1,084
Notes in circulation			602		545
Corporate taxation			107		133
Proposed dividends	*8*		149		130
Other liabilities			481		457
Accruals and deferred income			467		332
Provisions for liabilities and charges					
Other provisions	*28(ii)*		58		42
			51,132		39,548
Capital Resources					
Subordinated liabilities	*29*				
Dated loan capital		1,603		1,065	
Undated loan capital		1,490		1,047	
			3,093		2,112
Called up share capital	*30*				
Preference stocks (non-equity)		400		400	
Ordinary stock		326		313	
		726		713	
Share premium account	*31*	568		305	
Perpetual securities (non-equity)	*31*	297			
Other reserves	*31*	35			
Profit and loss account	*31*	2,188		1,719	
Proprietors' funds (including non-equity interests)	*32*		3,814		2,737
			6,907		4,849
			58,039		44,397

BANK OF SCOTLAND BALANCE SHEET
As at 28 February 2001

	Notes	2001 £ million	2000 £ million
Memorandum Items	33		
Contingent liabilities			
Acceptances and endorsements		**151**	111
Guarantees and assets pledged as collateral security		**1,897**	1,615
		2,048	1,726
Commitments			
Other commitments		**7,048**	5,646

John C Shaw	**John Maclean**	**Peter Burt**	**Gavin Masterton**	**Gordon McQueen**
Governor	Director	Group Chief Executive	Treasurer and Managing Director	Director

The statement of accounting policies on pages 28 and 29 and the notes on pages 37 to 64 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 28 February 2001

	Notes	2001 £ million	2000 £ million
Net cash inflow from operating activities	42	**514**	3,664
Dividends received from joint ventures		**8**	18
Dividends received from associated undertakings			1
Returns on investments and servicing of finance	43(i)	**(270)**	(184)
Taxation		**(316)**	(332)
Capital expenditure and financial investment	43(ii)	**(873)**	(3,340)
		(937)	(173)
Acquisitions and disposals	43(iii)	**(217)**	(141)
Equity dividends paid		**(109)**	(127)
		(1,263)	(441)
Financing	43(iv)	**1,400**	489
Increase in cash	45	**137**	48

The statement of accounting policies on pages 28 and 29 and the notes on pages 37 to 64 form part of these accounts.

1. OPERATING PROFIT

	Notes		2001 £ million		2000 £ million
(a) Net operating income includes					
Finance lease rental income			614		617
Operating lease rental income			316		288
Operating lease depreciation			(210)		(203)
Profit on sale of investment securities			67		33
Mortgage incentives			(14)		(10)
Dealing profits					
Foreign exchange		34		19	
Interest rate related		22	56	11	30

Dealing profits arise from the Group's trading book. The types of instrument in which the Group trade are as stated in Note 34.

	Notes	2001 £ million	2000 £ million
(b) Operating expenses includes			
Staff costs	*2*	551	545
Property rentals		32	31
Other occupation costs		43	43
Hire of equipment		1	1
Other equipment costs		26	23
Goodwill amortisation	*22*	6	2
Exceptional costs	*1d*	96	54

(c) Savings-Related Stock Option Scheme

The Group operates an Inland Revenue approved Savings-Related Stock Option Scheme and has utilised the exemption under UITF Abstract 17.

	2001 £ million	2000 £ million
(d) Exceptional items		
Exceptional costs	96	54
Tax credit	(18)	(6)
	78	48

Exceptional costs for the year ended 28 February 2001 relate to restructuring of the UK Group and advisory fees in connection with the Group's merger discussions. Exceptional costs for the year ended 29 February 2000 related to the offer for National Westminster Bank Plc and the termination of the US Retail Banking joint venture.

2. STAFF

	2001 Number	2000 Number
The average number of persons employed by the Group during the year was:		
Full time	**16,635**	17,565
Part time	**4,298**	4,331
	20,933	21,896

	2001 £ million	2000 £ million
The aggregate remuneration payable to those employees comprises:		
Wages and salaries	**438**	440
Social security costs	**37**	35
Other pension costs (Note 6)	**31**	26
	506	501
Allocation to staff profit sharing schemes	**45**	44
	551	545

3. DIRECTORS' EMOLUMENTS

	2001 £000	2000 £000
Total emoluments	**3,146**	2,417
Total potential pre-tax gains on stock options exercised	**1,803**	397
Highest paid Director – emoluments	**570**	426
– potential pre-tax gains on stock options exercised	**1,086**	397
– accrued pension entitlement per annum	**249**	189

Retirement benefits accrued to seven Directors under defined benefit schemes in the year to 28 February 2001.
A detailed analysis of Directors' emoluments, pension entitlements, stock interests and stock options is given on pages 21 to 23 in the Appendix to Directors' Report.

4. AUDITORS' REMUNERATION

The aggregate remuneration for audit and other services is analysed below. Consultancy paid to KPMG comprises amounts mainly in respect of systems and advisory work. The nature and extent of non-audit services is subject to regular review by the Audit Committee. Others in the year to 29 February 2000 relate to amounts paid to the previous auditors prior to KPMG's appointment.

	2001			2000		
	Audit £ million	Regulatory, Tax and Accounting £ million	Consultancy £ million	Audit £ million	Regulatory, Tax and Accounting £ million	Consultancy £ million
Group						
KPMG – Within UK	**1.0**	**0.3**	**4.6**	1.0	0.3	2.4
– Outwith UK	**0.2**	**0.2**	**0.3**	0.2	0.2	0.1
Others – Within UK					0.2	0.1
– Outwith UK						0.3
	1.2	**0.5**	**4.9**	1.2	0.7	2.9
Bank						
KPMG – Within UK	**0.2**	**0.3**	**3.6**	0.2	0.2	2.0
Others – Within UK					0.2	0.1

5. OPERATING LEASES

	Group			Bank		
	2001 Property £ million	2001 Equipment £ million	2000 Property £ million	2001 Property £ million	2001 Equipment £ million	2000 Property £ million
There are commitments to make payments in the following year in respect of non-cancellable operating leases which expire:						
within 1 year	1	2	2	1		1
between 1 and 5 years	5	15	6	4	6	4
after 5 years	28		19	16		8
	34	17	27	21	6	13

6. PENSION COSTS

The Group operates several pension schemes, all of which are funded.

The principal scheme, the Bank of Scotland 1976 Pension Scheme (the Scheme), which covers 82 per cent of the Group's pensionable employees, including those who were members of the schemes referred to below as being merged with the Scheme, is of the defined benefit type. The assets of the Scheme are held in a Trust Fund independently from the Bank's own assets. With effect from 1 January 2001, the assets and liabilities of two of the Group's other defined benefit pension schemes, the Capital Bank Pension Scheme and Bank of Wales PLC 1973 Pension & Life Assurance Scheme, were merged with the Scheme. At the time of the merger, there was a small surplus in the Capital Bank Pension Scheme, and the Bank of Wales PLC 1973 Pension & Life Assurance Scheme was in a balanced funding position.

In determining the level of contributions required to be made to the Scheme and the relevant charge to the Profit and Loss Account of the period, the Bank has been advised by Watson Wyatt Partners, Actuaries and Consultants. The most recently published formal valuation of the Scheme was as at 31 December 1998. The main financial assumptions adopted in making this valuation were as follows:

	Rates per annum
Future price inflation	3.0 per cent
Return on new investments	7.1 per cent
Return on existing investments	5.8 per cent
Increases in earnings	4.5 per cent
Increases in pensions	3.0 per cent

Based on these assumptions and using the projected unit method, the market value of the assets (which amounted to £1,343 million as at 31 December 1998 excluding external AVC investments) covered 116 per cent of the accrued liabilities (after making allowance for expected future increases in earnings and increases to pensions in payment). The rate of contribution necessary to finance the benefits accruing in respect of current service was calculated at 19.4 per cent of pensionable salaries. The charge has been reduced as a result of the surplus assets, which have been spread over the average future working lifetime of the membership (expected to be 14 years) by fixed capital instalments plus interest on the reducing balance. These elements, together with interest on the provision carried forward, amount to £16 million (2000 – £14 million).

Contributions to the Scheme remained suspended until 31 December 2000 and were paid thereafter at the rates payable in respect of the pre-merger arrangements. As pension scheme contributions are less than the amount charged in the Profit and Loss Account, a provision of £58 million (2000 – £42 million) for future contributions is included in the Balance Sheet.

The pension costs charged in the Profit and Loss Account include £15 million (2000 – £12 million) relating to schemes other than the Scheme.

7. TAXATION

	2001 £ million	2000 £ million
UK Corporation Tax at 30 per cent (2000 – 30.08 per cent)	189	229
Deferred taxation (Note 28 (i))	68	22
Relief for overseas taxation	(11)	(7)
	246	244
Overseas taxation	41	34
Share of joint ventures' taxation	7	7
Share of associated undertakings' taxation	6	4
	300	289

8. DIVIDENDS

		2001 £ million		2000 £ million
Preference dividends paid		19		19
payable		18		18
		37		37
Ordinary dividend				
Interim dividend of 5.30p per stock unit (2000 – 4.60p)	67		57	
Proposed final dividend of 10.00p per stock unit (2000 – 8.90p)	131		112	
		198		169
		235		206

The Ordinary Dividend Stock Alternative Scheme, which is offered as an alternative to the cash dividend, resulted in £51 million (2000 – £7 million) relating to the 2000 final dividend and £19 million (2000 – £18 million) relating to the 2001 interim dividend being retained by the Bank and added to reserves.

9. RETAINED PROFIT

	2001 £ million	2000 £ million
The profit of the Group has been retained by		
Bank of Scotland	419	260
Subsidiary undertakings	(53)	112
	366	372
Associated undertakings and joint ventures	15	10
	381	382

By virtue of the exemption contained within Section 230 of the Companies Act 1985, the Profit and Loss Account of the Bank is not presented.

10. EARNINGS PER ORDINARY STOCK UNIT

Basic and diluted earnings per Ordinary Stock unit are based upon Group profit attributable to Ordinary Stockholders of £579 million (2000 – £551 million). The earnings before exceptional items per Ordinary Stock unit are based upon Group profit attributable to Ordinary Stockholders (before exceptional items but after tax) of £657 million (2000 – £599 million). For the basic earnings per Ordinary Stock unit the weighted average number of 25p Ordinary Stock units of 1,263 million (2000 – 1,243 million) is used and for the diluted earnings per Ordinary Stock unit the weighted average number of actual and potential 25p Ordinary Stock units of 1,276 million (2000 – 1,263 million) is used. Group profit attributable to Ordinary Stockholders equals profit attributable to proprietors of £616 million (2000 – £588 million) less preference dividends of £37 million (2000 – £37 million). The weighted average number of actual and potential Ordinary Stock units in issue is detailed below:

	2001 Number million	2000 Number million
Actual weighted average number of stock units in issue	1,263	1,243
Adjustment for weighted average number of stock units on which options have been granted but not yet exercised	13	20
Potential weighted average number of stock units in issue	1,276	1,263

The calculation of basic earnings per 25p Ordinary Stock unit before exceptional items presents a more consistent representation of earnings to proprietors over the last two years and is detailed below:

	2001	2000
Earnings per 25p Ordinary Stock unit – basic	45.8p	44.3p
Exceptional items (Note 1d)	6.2p	3.9p
Earnings per 25p Ordinary Stock unit – basic before exceptional items	52.0p	48.2p

11. SEGMENTAL ANALYSIS

The Group results and assets relate predominantly to banking activities. The table below analyses the Group results and assets by the geographical area in which the business is generated. The geographical analysis is prepared in accordance with the location of the relevant company or branch.

	2001			2000		
	UK £ million	Australasia and Rest of World £ million	Group Total £ million	UK £ million	Australasia and Rest of World £ million	Group Total £ million
Interest receivable	5,251	991	6,242	3,861	772	4,633
Dividend income	5		5	4	4	8
Fees and commissions receivable	734	111	845	708	94	802
Dealing profits	51	5	56	20	10	30
Other operating income	77	7	84	29	11	40
Gross income	6,118	1,114	7,232	4,622	891	5,513
Operating profit before exceptional items			1,041			925
Share of operating profits of joint ventures			19			27
Share of operating profits of associated undertakings			17			13
Exceptional items			(96)			(54)
Group profit before taxation	847	134	981	768	143	911
Total assets	67,481	18,466	85,947	60,348	11,324	71,672
Joint ventures			42			33
Associated undertakings			124			108
Group total assets			86,113			71,813
Net assets (excluding minority interests)	3,715	677	4,392	2,941	449	3,390

12. TREASURY BILLS AND OTHER ELIGIBLE BILLS

	Group £ million
Other eligible bills – held as investment securities	
At 1 March 2000	524
Exchange translation	(10)
Additions	5,117
Disposals	(5,289)
Amortisation	23
At 28 February 2001	365
Aggregate unamortised discount at 28 February 2001	1

13. LOANS AND ADVANCES TO BANKS

	Group		Bank	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Sterling advances	2,904	3,137	7,689	3,340
Other currencies	2,400	809	2,897	2,193
Assets leased to banks	4	8		
Loans and advances to Banks	5,308	3,954	10,586	5,533
Repayable on demand	428	449	2,926	2,454
Other loans and advances repayable				
in 3 months or less	3,579	2,688	2,822	1,462
between 3 months and 1 year	1,176	631	274	780
between 1 year and 5 years	114	166	511	10
after 5 years	11	20	4,053	827
	5,308	3,954	10,586	5,533
Included above are loans to subsidiary undertakings				
subordinated			644	624
unsubordinated			9,586	4,567
			10,230	5,191

14. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
	2001 £ million	2000 £ million*	2001 £ million	2000 £ million
Advances to customers				
Banking advances	53,455	43,122	41,555	35,049
Instalment credit and other financial agreements	8,263	8,027		
Assets leased to customers	4,693	4,208		
Advances to joint ventures	874	917	116	20
Advances to associated undertakings	538	195	407	174
Advances to subsidiary undertakings			1,388	908
Gross advances	67,823	56,469	43,466	36,151
Provisions for bad and doubtful debts (Note 15)	(1,039)	(885)	(583)	(481)
Interest in suspense	(102)	(87)	(61)	(62)
Loans and advances to customers	66,682	55,497	42,822	35,608
Repayable on demand	10,885	10,001	10,649	8,844
Other loans and advances repayable				
in 3 months or less	11,570	9,883	9,796	7,657
between 3 months and 1 year	5,779	5,325	3,153	2,306
between 1 year and 5 years	12,084	11,206	4,853	3,511
after 5 years	27,505	20,054	15,015	13,833
Gross advances	67,823	56,469	43,466	36,151

Assets leased to customers includes the following amounts in respect of operating leased assets:

	£ million
Cost	
At 1 March 2000	1,305
Additions	967
Disposals	(598)
At 28 February 2001	1,674
Aggregate depreciation	(412)
Net Book Value at 28 February 2001	1,262
Net Book Value at 29 February 2000	999

The cost of assets acquired during the year by the Group for the purpose of letting under finance leases to customers and banks amounted to £1,155 million (2000 – £926 million).
The Group's gross lending exposure is analysed below.

	2001 £ million	2000 £ million*
Agriculture, forestry and fishing	972	887
Energy	1,506	1,203
Manufacturing industry	5,286	4,756
Construction and property	8,096	6,351
Hotels, restaurants and wholesale and retail trade	5,403	4,738
Transport, storage and communication	2,473	1,835
Financial	5,151	2,596
Other services	7,783	6,637
Individuals		
Home mortgages	16,740	15,898
Other personal lending	8,597	7,977
Overseas residents	5,816	3,591
Gross loans and advances to customers	67,823	56,469

* Restated

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Loans and advances to customers which have been securitised are shown below. These meet the criteria set out in FRS 5 "Reporting the Substance of Transactions", for a linked presentation format.

				At 28 February 2001			
				Gross assets securitised		Non-returnable finance	
Securitisation Company	Assets securitised	Date of securitisation	Initial Amount £ million	Group £ million	Bank £ million	Group £ million	Bank £ million
SWAN Trust	Mortgages	February 2000	408	294		294	
Mound Financing (No 1) PLC	Mortgages	May 2000	750	750	750	748	748
Mound Financing (No 2) PLC	Mortgages	February 2001	750	750	750	748	748
Melrose Financing No 1 plc	Corporate Loans	February 2001	1,500	1,500	1,500	1,441	1,441
				3,294	3,000	3,231	2,937

These special purpose companies, all of which are ultimately beneficially owned by charitable trusts, have been funded primarily through the issue of floating rate notes. Neither the Bank nor its subsidiary undertakings will support any losses that may be suffered by the noteholders in accordance with the terms of the notes. When all liabilities to the noteholders have been discharged any remaining surpluses in the securitisation companies accrue to the Bank or its subsidiary undertakings.

The Bank or its subsidiary undertakings have neither the right nor obligation to repurchase any securitised advance unless it has been in breach of warranty.

The Bank and third parties have entered into a number of interest rate swaps with the securitisation companies, the intention of which is to swap all or part of the interest flows from customers into variable rate interest flows to match the variable rate interest payable to the noteholders.

In aggregate the securitisation companies had net interest income of £0.6 million; operating expenses of £0.2 million; provisions for bad and doubtful debts of £0.4 million; resulting in a nil profit for the period.

15. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Group			Bank		
	Specific £ million	General £ million	Total £ million	Specific £ million	General £ million	Total £ million
At 1 March 2000 (restated)	513	372	885	249	232	481
Exchange movements	3	(3)		3		3
Acquisitions	13	12	25			
New provisions less releases	373	31	404	222	43	265
Amounts written off	(275)		(275)	(166)		(166)
Cumulative provisions as at 28 February 2001	627	412	1,039	308	275	583
New provisions less releases	373	31	404	222	43	265
Recoveries of amounts previously written off	(19)		(19)	(6)		(6)
Net charge to profit and loss account	354	31	385	216	43	259

16. INTEREST IN SUSPENSE

The aggregate amount of advances, gross of suspended interest, at 28 February 2001 on which interest is being held in suspense amounted to £849 million (Bank £421 million). Net of specific provisions, those advances amounted to £675 million (Bank £288 million).

In addition, the aggregate amount of gross advances at 28 February 2001 on which interest is not being accrued amounted to £553 million (Bank £434 million). Net of specific provisions, these advances amounted to £362 million (Bank £274 million).

17. ADVANCES TO DIRECTORS, OFFICERS AND CONNECTED PERSONS

As at 28 February 2001 transactions, arrangements and agreements entered into with Directors, Officers and Connected Persons amounted to £1.8 million (number of persons – 8) (2000 – £1.3 million (number of persons – 13)).

18. DEBT SECURITIES

	2001				2000			
	Issued by public bodies £ million	Issued by others £ million	Total £ million	Market Value £ million	Issued by public bodies £ million	Issued by others £ million	Total £ million	Market Value £ million
Group								
Investment securities								
Listed								
British Government Securities	40		40	40	702		702	696
Others	382	4,046	4,428	4,434	2	2,259	2,261	2,268
Unlisted								
Certificates of deposit issued by banks and building societies		3,432	3,432	3,457		3,822	3,822	3,820
Others	9	646	655	671		493	493	507
Total investment securities	431	8,124	8,555	8,602	704	6,574	7,278	7,291
Other securities								
Listed	2		2	2	154		154	154
Unlisted	96	384	480	480	262	266	528	528
	529	8,508	9,037	9,084	1,120	6,840	7,960	7,973
of which:								
maturing within 1 year			4,181				5,273	
in more than 1 year			4,856				2,687	
			9,037				7,960	
Bank								
Investment securities								
Listed								
Others	8	569	577	583	2	74	76	82
Unlisted								
Certificates of deposit issued by banks and building societies		83	83	83		79	79	79
Others		164	164	166		158	158	158
Total investment securities	8	816	824	832	2	311	313	319
of which:								
maturing within 1 year			92				83	
in more than 1 year			732				230	
			824				313	

"Other unlisted debt securities" held by the Bank includes £25 million (2000 – £70 million) issued by a subsidiary undertaking.

The movement on investment securities is as follows:

	Group			Bank		
	Amortised Cost £ million	Aggregate amount written off £ million	Book Value £ million	Amortised Cost £ million	Aggregate amount written off £ million	Book Value £ million
At 1 March 2000	7,288	(10)	7,278	318	(5)	313
Exchange translation	248		248	42		42
Acquisitions	217		217			
Additions	8,061		8,061	606		606
Amortisation	(19)		(19)			
Disposals	(7,230)	1	(7,229)	(136)		(136)
Amount written off		(1)	(1)		(1)	(1)
At 28 February 2001	8,565	(10)	8,555	830	(6)	824
Aggregate unamortised premium at 28 February 2001	(2)					

19. EQUITY SHARES

	Listed			Unlisted			
	Cost £ million	Aggregate amount written off £ million	Book Value £ million	Cost £ million	Aggregate amount written off £ million	Book Value £ million	Total Book Value £ million
Group							
At 1 March 2000	13		13	84	(1)	83	96
Exchange translation				2		2	2
Acquisitions	8		8	8		8	16
Additions	8		8	64		64	72
Disposals	(2)		(2)	(16)		(16)	(18)
Amounts written off					(6)	(6)	(6)
At 28 February 2001	**27**		**27**	**142**	**(7)**	**135**	**162**
Bank							
At 1 March 2000	5		5	27		27	32
Additions	5		5	24		24	29
Disposals	(1)		(1)	(6)		(6)	(7)
Amounts written off					(3)	(3)	(3)
At 28 February 2001	**9**		**9**	**45**	**(3)**	**42**	**51**

The total value of investments at 28 February 2001 for the Group was £321 million (2000 – £241 million) and for the Bank £164 million (2000 – £165 million) including for the Group £156 million (2000 – £146 million) and for the Bank £115 million (2000 – £129 million) in respect of listed equity shares.

20. SHARES IN JOINT VENTURES AND SHARES IN ASSOCIATED UNDERTAKINGS

(i) Joint Ventures

	Group				
	Book Value £ million	Equity Adjustments £ million	Share of Net Tangible Assets £ million	Intangible Fixed Assets £ million	Share of Net Assets £ million
At 1 March 2000	28	3	31	2	33
Acquisitions and subscriptions of capital	8		8		8
Disposals	(4)	1	(3)		(3)
Equity accounting adjustments		4	4		4
At 28 February 2001	**32**	**8**	**40**	**2**	**42**

(ii) Associated Undertakings

	Group					Bank
	Book Value £ million	Equity Adjustments £ million	Share of Net Tangible Assets £ million	Intangible Fixed Assets £ million	Share of Net Assets £ million	Cost £ million
At 1 March 2000	101	7	108		108	76
Acquisitions and subscriptions of capital	16		16		16	
Disposals	(2)	(9)	(11)		(11)	
Equity accounting adjustments		11	11		11	
At 28 February 2001	**115**	**9**	**124**		**124**	**76**

All the investments are unlisted.
The main joint ventures and associated undertakings are listed in Note 48 on page 63.

21. SHARES IN GROUP UNDERTAKINGS

	Banks £ million	Others £ million	Total £ million
At cost at 1 March 2000	371	366	737
Transfers to other Group undertakings and redemptions of capital	(53)	(239)	(292)
Acquisitions and subscriptions of capital	232	569	801
At cost at 28 February 2001	**550**	**696**	**1,246**

The main subsidiary undertakings are listed in Note 49 on page 64.

22. INTANGIBLE FIXED ASSETS

	Goodwill £ million
Cost	
At 1 March 2000	78
Additions (Note 44)	122
At 28 February 2001	200
Provisions for amortisation and impairment	
At 1 March 2000	2
Amortisation charged in period (Note 1(b))	6
At 28 February 2001	8
Net Book Value	
At 28 February 2001	**192**
At 29 February 2000	76

Goodwill on acquisitions is capitalised and amortised by equal instalments over its estimated useful life, normally 20 years.

23. TANGIBLE FIXED ASSETS

	Group			Bank		
	Cost or Valuation £ million	Depreciation £ million	Book Value £ million	Cost or Valuation £ million	Depreciation £ million	Book Value £ million
Property						
At 1 March 2000	362	(17)	345	233	(6)	227
Exchange translation	(2)		(2)	1		1
Additions and transfers	20		20	13		13
Disposals	(20)	2	(18)	(11)	1	(10)
Depreciation for year		(10)	(10)		(7)	(7)
At 28 February 2001	360	(25)	335	236	(12)	224
of which:						
At valuation 31 December 1999	303			212		
At cost	57			24		
	360			236		
Freehold	316			213		
Long leasehold	4			4		
Short leasehold	40			19		
	360			236		
Occupied for own activities			316			210
Equipment						
At 1 March 2000	655	(373)	282	391	(208)	183
Exchange translation	(5)	5				
Additions and transfers	131		131	107		107
Disposals	(161)	96	(65)	(93)	51	(42)
Acquisitions	8	(4)	4			
Depreciation for year		(74)	(74)		(44)	(44)
At 28 February 2001	628	(350)	278	405	(201)	204
Total tangible fixed assets 2001	**988**	**(375)**	**613**	**641**	**(213)**	**428**
Total tangible fixed assets 2000	1,017	(390)	627	624	(214)	410
Had the value of the Group's property been stated at historical cost, it is estimated they would have been included in the accounts as follows:	324	(25)	299	171	(12)	159
Equipment includes amounts acquired under finance leases	35	(31)	4	32	(28)	4

24. CAPITAL AND OTHER COMMITMENTS

	Group		Bank	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
There are commitments in respect of capital expenditure on fixed assets, authorised but not provided for in the accounts for which contracts have been entered into	11	9	3	1
Included in deposits by banks and in customer accounts are net obligations under finance leases payable as follows:				
within 1 year	9	2	1	1
between 2 and 5 years	20	10		1

25. DEPOSITS BY BANKS

	Group		Bank	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Repayable on demand	1,769	1,251	4,416	4,555
Repayable:				
in 3 months or less	4,681	4,779	11,347	7,758
between 3 months and 1 year	1,443	1,884	3,051	1,841
between 1 and 5 years	58	10	2,713	2,822
after 5 years	9		833	801
	7,960	7,924	22,360	17,777
Amounts above include:				
Subsidiary undertakings			21,389	16,949
Associated undertakings	368	385	6	3

26. CUSTOMER ACCOUNTS

	Group		Bank	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Repayable on demand	23,943	18,916	20,565	15,353
Repayable:				
in 3 months or less	9,272	9,119	3,513	3,257
between 3 months and 1 year	1,997	1,591	480	263
between 1 and 5 years	682	402	285	175
after 5 years	52	9		
	35,946	30,037	24,843	19,048
Amounts above include:				
Subsidiary undertakings			620	415
Associated undertakings	7	6	7	4
Joint ventures	4		4	

27. DEBT SECURITIES IN ISSUE

	Group 2001 £ million	Group 2000 £ million	Bank 2001 £ million	Bank 2000 £ million
Bonds and Medium Term Notes				
due within 1 year	4,373	2,525		
between 1 and 2 years	3,388	2,919	250	
between 2 and 5 years	4,330	2,421	250	
after 5 years	780	181		
	12,871	8,046	500	
Other Debt Securities				
Repayable:				
in 3 months or less	13,064	12,928	1,132	554
between 3 months and 1 year	3,612	2,693	433	446
between 1 and 2 years	154	274		
between 2 and 5 years	256	283		42
after 5 years	4			42
	17,090	16,178	1,565	1,084
Total debt securities in issue	29,961	24,224	2,065	1,084

Bonds and Medium Term Notes includes £333 million (2000 – £352 million) secured on advances to customers and certain other assets of the Group. "Other Debt Securities" issued by the Bank includes £84 million (2000 – £84 million) held by subsidiary undertakings.

28. PROVISIONS FOR LIABILITIES AND CHARGES

(i) Deferred Taxation

	Group £ million	Bank £ million
At 1 March 2000	415	(7)
Charge/(credit) in year (Note 7)	68	(5)
Other movements	(10)	
At 28 February 2001	473	(12)

Deferred taxation comprises:	2001 Provided for in Accounts £ million	2001 Full Potential Liability £ million	2000 Provided for in Accounts £ million	2000 Full Potential Liability £ million
Group				
Capital allowances:				
on assets leased to customers	402	402	353	353
on other assets	35	35	17	17
Other timing differences	36	36	45	45
	473	473	415	415
Bank				
Capital allowances on fixed assets	12	12	9	9
Other timing differences	(24)	(24)	(16)	(16)
	(12)	(12)	(7)	(7)

It has been assumed that no Group properties will be sold and no material liability is likely to arise in the foreseeable future. No provision is made therefore for any liability for taxation which may arise if properties are disposed of at their balance sheet values.

(ii) Other Provisions

	Group Pension Provisions £ million	Group Other Provisions £ million	Bank Pension Provisions £ million
At 1 March 2000	42	10	42
Charge for year	16		16
At 28 February 2001	58	10	58

29. SUBORDINATED LIABILITIES

	Interest rate %	Group 2001 £ million	Group 2000 £ million	Bank 2001 £ million	Bank 2000 £ million
Dated Loan Capital					
US$208.5 million Floating Rate Notes 2000	US$ LIBOR plus 0.725		132		132
DFL7 million 9.72% Registered Loans 2000/2001	9.72		2		2
US$300 million 8.80% Notes 2004*	8.80	208	190	208	190
£60 million 9.00% Instruments 2006	9.00	60	61		
US$150 million 8.85% Notes 2006*	8.85	104	94	104	94
£75 million Floating Rate Instruments 2010	LIBOR plus 0.45	75	75	75	75
US$150 million Notes 2011*	6.50	103	94	103	94
A$100 million Callable Notes 2007	A$Bank Bill Rate plus 0.48	36	39		
€500 million 5.50% Instruments 2009	5.50	319	306	319	306
£250 million 6.375% Instruments 2019**	6.375	244	172	244	172
US$500 million Notes 2010*	7.70	345		345	
€325 million 6.125% Notes 2013	6.125	205		205	
DM100 million 8.30% Notes 2002	8.30	33			
DM25 million 6.25% Instruments 2012	6.25	8			
IEP10 million 6.50% Instruments 2012***	6.50	8			
IEP10 million 6.50% Instruments 2012***	6.50	8			
€22 million Floating Rate Notes 2011***	EURIBOR plus 0.54	14			
€10 million 6.375% Notes 2012***	6.375	7			
		1,777	1,165	1,603	1,065
Repayable:					
within 1 year			134		134
between 1 and 2 years		33			
between 2 and 5 years		208	190	208	190
after 5 years		1,536	841	1,395	741
		1,777	1,165	1,603	1,065

* These Notes, which are onlent to the Bank, are liabilities of wholly-owned subsidiary undertakings of the Bank and are guaranteed unconditionally by the Bank on a subordinated basis.
** During the year an additional £75 million was consolidated within the £175 million 6.375% Instruments 2019.
*** These Notes and Instruments provide a right to repayment on a change of majority ownership of ICC Bank plc subject to the consent of the Central Bank of Ireland. This right has been exercised and is awaiting Central Bank consent in respect of £32 million as at 28 February 2001.

	Interest rate %	Group 2001 £ million	Group 2000 £ million	Bank 2001 £ million	Bank 2000 £ million
Undated Loan Capital					
US$250 million Floating Rate Primary Capital Notes	US$ LIMEAN plus 0.25	173	158	173	158
£200 million Perpetual Notes	8.625	200	200	200	200
£100 million Instruments	10.25	99	99	99	99
JPY 17 billion Instruments	4.25	111	101	111	101
JPY 9 billion Instruments	4.55	54	52		
£150 million Instruments	8.375	149	149	149	149
US$300 million Reset Notes	7.00	208	190	208	190
£150 million Instruments	7.375	150	150	150	150
£250 million Instruments	8.117			250	
£150 million Instruments	7.754			150	
		1,144	1,099	1,490	1,047

The undated loan capital has no final date of maturity. All or some of the Capital Notes may be redeemed at the option of the Bank at par on any interest payment date. The Perpetual Notes may, at the option of the Bank on 4 November 2013, be redeemed at par or exchanged for new notes. The new notes (and any further new notes issued) may be similarly redeemed or exchanged for further new notes at the option of the Bank on the fifth anniversary of their respective date(s) of issue.
The Instruments may, at the option of the Bank or relevant subsidiary undertaking on giving 30 days notice, be redeemed at par or exchanged for new instruments on 10 August 2015 (£100 million); 9 February 2016 (JPY 17 billion); 30 May 2016 (JPY 9 billion); 30 October 2006 (£150 million) and 10 February 2023 (£150 million). The new Instruments (and any further new Instruments issued) may be similarly redeemed or exchanged for further new notes at the option of the Bank on the fifth anniversary of their respective date(s) of issue. The JPY 17 billion Instruments have been converted into an obligation of US$160 million, bearing interest at US$ LIBOR plus 1.01% by means of swap arrangements.

29. SUBORDINATED LIABILITIES (CONTINUED)

The Reset Notes may be redeemed at the option of the Bank at par on 20 November 2007, at which time the interest rate becomes US$ LIBOR plus 1.625%, or on any interest payment date thereafter.

The £250 million and £150 million Perpetual Preferred Notes were issued to Bank of Scotland Capital Funding LP by the Bank as subordinated notes. Bank of Scotland Capital Funding LP has issued preferred securities of equivalent amount. These are included in minority non-equity interests in the Consolidated Balance Sheet.

30. SHARE CAPITAL

	Ordinary Stock £ million	9 1/4% Non-Cumulative Irredeemable Preference Stock £ million	9 3/4% Non-Cumulative Irredeemable Preference Stock £ million	8.117% Non-Cumulative Perpetual Preference Stock Class A £ million	7.754% Non-Cumulative Perpetual Preference Stock Class B £ million
Authorised					
At 1 March 2000	381	375	125		
Created in year				2.5	1.5
At 28 February 2001	**381**	**375**	**125**	**2.5**	**1.5**

The Class A and Class B Preference Stocks were created at an Extraordinary General Meeting of Proprietors on 13 June 2000.

	Ordinary Stock £ million	9 1/4% Non-Cumulative Irredeemable Preference Stock £ million	9 3/4% Non-Cumulative Irredeemable Preference Stock £ million	8.117% Non-Cumulative Perpetual Preference Stock Class A £ million	7.754% Non-Cumulative Perpetual Preference Stock Class B £ million
Allotted, called up and fully paid					
At 1 March 2000	313	300	100		
Issued in lieu of dividends and under employee Stock Schemes	5				
Issued in respect of the acquisition of ICC Bank plc	8				
At 28 February 2001	**326**	**300**	**100**		

At 28 February 2001, options in respect of Ordinary Stock units of 25p were outstanding under the Savings-Related Stock Option Schemes and Executive Stock Option Schemes, as follows:

Savings-Related Schemes	on	100,751	units exercisable at 150.80p in 2001
	on	1,508,143	units exercisable at 163.60p between 2001 and 2002
	on	1,622,465	units exercisable at 207.86p between 2001 and 2003
	on	2,881,327	units exercisable at 218.93p between 2001 and 2004
	on	3,010,091	units exercisable at 428.27p between 2001 and 2005
	on	3,401,399	units exercisable at 459.47p between 2001 and 2006
	on	3,340,596	units exercisable at 570.00p between 2002 and 2007
	on	3,635,298	units exercisable at 472.53p between 2003 and 2008
Executive Schemes	on	14,000	units exercisable at 119.50p in 2001
	on	72,540	units exercisable at 110.17p between 2001 and 2002
	on	218,100	units exercisable at 188.50p between 2001 and 2003
	on	827,380	units exercisable at 201.50p between 2001 and 2004
	on	10,054	units exercisable at 221.17p between 2001 and 2005
	on	1,152,650	units exercisable at 259.83p between 2001 and 2005
	on	1,533,594	units exercisable at 273.67p between 2001 and 2006
	on	1,551,206	units exercisable at 535.33p between 2001 and 2007
	on	497,190	units exercisable at 574.33p between 2001 and 2008
	on	1,135,960	units exercisable at 583.50p between 2001 and 2008
	on	1,097,000	units exercisable at 712.50p between 2002 and 2009
	on	79,939	units exercisable at 538.33p between 2003 and 2010
	on	638,061	units exercisable at 551.50p between 2003 and 2010
	on	531,618	units exercisable at 590.67p between 2003 and 2010
	on	1,889,982	units exercisable at 610.00p between 2003 and 2010

The exercise price for options granted under the Executive Stock Option Schemes is the market price on or shortly before the date of grant, in accordance with the rules of the respective Schemes. The exercise price for options granted under the Savings-Related Stock Option Schemes is at the maximum discount of 20 per cent to the market price which is permitted for an Inland Revenue approved Scheme.

31. RESERVES

	Share Premium £ million	Perpetual Securities £ million	Other Reserves: Bank and Subsidiaries £ million	Other Reserves: Joint Ventures and Associated Undertakings £ million	Other Reserves: Total Other Reserves £ million	Profit and Loss Account £ million
Group						
At 1 March 2000	305		(16)	12	(4)	2,376
Reserves capitalised	(3)					
Premium arising on issue of stock in respect of the acquisition of ICC Bank plc	217					
Premium arising on other issues of stock	49					
Issued in year		297				
Dividends retained on account of stock dividends						70
Exchange translation			(2)		(2)	
Contribution to Employee Share Trust						(20)
Transfers				(9)	(9)	9
Retained profit				15	15	366
At 28 February 2001	**568**	**297**	**(18)**	**18**		**2,801**
Bank						
At 1 March 2000	305					1,719
Reserves capitalised	(3)					
Premium arising on issue of stock in respect of the acquisition of ICC Bank plc	217					
Premium arising on other issues of stock	49					
Issued in year		297				
Dividends retained on account of stock dividends						70
Exchange translation			35		35	
Contribution to Employee Share Trust						(20)
Retained profit						419
At 28 February 2001	**568**	**297**	**35**		**35**	**2,188***

* Of which £1,993 million is distributable.

On 28 February 2001, £300 million Perpetual Regulatory tier One securities were issued (£297 million net of expenses). These qualify as Tier 1 regulatory capital. A £150 million Series A Issue has a fixed coupon of 7.286% to 2016 and a Series B Issue of £150 million has a fixed coupon of 7.281% to 2026. Thereafter, for each Issue the coupon will be reset and will be further reset at five yearly intervals. There is an option to settle the coupon payment through the issue of Ordinary Stock. Coupon payments may be deferred but the Bank may not declare or pay dividends on any of its Ordinary Stock whilst any coupon payments are deferred.

The cumulative amount of positive goodwill on acquisitions of subsidiary undertakings written off in the Group reserves is £228 million (2000 – £228 million) and in respect of joint ventures and associated undertakings £nil million (2000 – £1 million).

32. RECONCILIATION OF PROPRIETORS' FUNDS

	Group		Bank	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Profit attributable to Proprietors	616	588	654	466
Dividends	(235)	(206)	(235)	(206)
Other recognised gains and losses	(2)		35	
Dividends retained on account of stock dividends	70	25	70	25
Contribution to Employee Share Trust	(20)	(18)	(20)	(18)
Ordinary capital subscribed	276	30	276	30
Perpetual securities issued	297		297	
	1,002	419	1,077	297
Proprietors' Funds at 1 March 2000	3,390	2,971	2,737	2,440
Proprietors' Funds at 28 February 2001	4,392	3,390	3,814	2,737
of which:				
Attributable to non-equity interests	697	400	697	400
Attributable to equity interests	3,695	2,990	3,117	2,337
	4,392	3,390	3,814	2,737

33. MEMORANDUM ITEMS

The contract amounts noted below indicate the volume of business outstanding at the balance sheet date in respect of contingent liabilities and commitments undertaken for customers. They do not reflect the underlying credit or other risks, which are significantly lower as indicated by the risk weighted amount using the Bank for International Settlements' capital adequacy amounts.

	2001		2000	
	Contract Amount £ million	Risk Weighted Amount £ million	Contract Amount £ million	Risk Weighted Amount £ million
Group				
Contingent Liabilities				
Acceptances and endorsements	157	156	156	149
Guarantees and assets pledged as collateral security				
Guarantees and irrevocable letters of credit	1,807	1,222	1,550	1,056
	1,964	1,378	1,706	1,205
Commitments				
Other commitments				
Short term trade related transactions	116	25	116	23
Undrawn formal standby facilities, credit lines and other irrevocable commitments to lend				
up to and including 1 year	4,213		2,803	
over 1 year	5,870	2,930	4,523	2,292
	10,199	2,955	7,442	2,315

33. MEMORANDUM ITEMS (CONTINUED)

	2001 Contract Amount £ million	2001 Risk Weighted Amount £ million	2000 Contract Amount £ million	2000 Risk Weighted Amount £ million
Bank				
Contingent Liabilities				
Acceptances and endorsements	151	151	111	111
Guarantees and assets pledged as collateral security				
Guarantees and irrevocable letters of credit	1,897	1,361	1,615	1,149
	2,048	1,512	1,726	1,260
Amounts included above in respect of guarantees to subsidiary undertakings	367	352	259	244
Commitments				
Other commitments				
Short term trade related transactions	99	20	105	21
Undrawn formal standby facilities, credit lines and other irrevocable commitments to lend				
up to and including 1 year	1,485		1,160	
over 1 year	5,464	2,670	4,381	2,124
	7,048	2,690	5,646	2,145
Amounts included above in respect of commitments to subsidiary undertakings	122	59	219	93

34. DERIVATIVES

The Bank and Group use interest rate swaps, forward foreign exchange contracts and other derivative instruments to hedge and reduce the interest rate and currency exposures that are inherent in any banking business. Trading transactions are predominantly customer driven and are generally matched whilst proprietary activity is restricted within modest limits.

The Bank and Group have entered into derivative contracts as noted below. The underlying risks involved are significantly lower than the contract or notional principal amounts, as shown by the risk weighted amount using the Bank for International Settlements' capital adequacy rules and the replacement cost.

	2001 Notional Principal Amount £ million	2001 Replacement Cost £ million	2001 Risk Weighted Amount £ million	2000 Notional Principal Amount £ million	2000 Replacement Cost £ million	2000 Risk Weighted Amount £ million
Group						
Exchange Rate Related Contracts						
expiring within 1 year	27,088	520	188	26,018	574	202
between 1 and 5 years	3,643	175	121	2,503	88	59
after 5 years	1,522	81	45	332	49	22
	32,253	776	354	28,853	711	283
Interest Rate Related Contracts						
expiring within 1 year	29,318	280	47	20,313	202	34
between 1 and 5 years	46,572	421	95	30,194	206	54
after 5 years	14,447	332	76	7,378	140	43
	90,337	1,033	218	57,885	548	131
Equity and Commodity Related Contracts						
expiring within 1 year	412	11	8	75	5	1
between 1 and 5 years	138	4	4	188		3
	550	15	12	263	5	4
Total Group Derivatives	123,140	1,824	584	87,001	1,264	418

The notional principal amounts and fair values of these derivatives are analysed between non trading and trading activity. "Fair value" is the amount at which instruments could be exchanged in an arms length transaction.

34. DERIVATIVES (CONTINUED)

	2001 Notional Principal Amount £ million	2001 Year End Fair Values Asset £ million	2001 Year End Fair Values Liability £ million	2000 Notional Principal Amount £ million	2000 Year End Fair Values Asset £ million	2000 Year End Fair Values Liability £ million
Non Trading						
Exchange Rate Related Contracts						
Forward foreign exchange	6,990	127	36	6,216	144	14
Cross currency swaps	8,449	422	99	5,323	234	80
	15,439	549	135	11,539	378	94
Interest Rate Related Contracts						
Interest rate swaps	33,598	558	509	25,828	290	339
Forward rate agreements	991		1	312		
Options	20			25		
	34,609	558	510	26,165	290	339
Equity and Commodity Related Contracts						
Options and swaps	152	2	44	218	2	68
Total Non Trading Derivatives	50,200	1,109	689	37,922	670	501

	2001 Notional Principal Amount £ million	2001 Year End Fair Values Asset £ million	2001 Year End Fair Values Liability £ million	2000 Notional Principal Amount £ million	2000 Year End Fair Values Asset £ million	2000 Year End Fair Values Liability £ million
Trading						
Exchange Rate Related Contracts						
Forward foreign exchange	16,262	216	190	16,814	317	314
Cross currency swaps	53	1	1	210	10	
Options	499	10	7	290	6	4
	16,814	227	198	17,314	333	318
Interest Rate Related Contracts						
Interest rate swaps	42,356	460	436	25,466	249	235
Forward rate agreements	1,812	1	1	775		
Options	5,383	10	8	3,576	9	10
Futures	6,177	4	2	1,903		2
	55,728	475	447	31,720	258	247
Equity and Commodity Related Contracts						
Options and swaps	398	13	12	45	3	3
Total Trading Derivatives	72,940	715	657	49,079	594	568
Total Group Derivatives	123,140	1,824	1,346	87,001	1,264	1,069

34. DERIVATIVES (CONTINUED)

	2001 Notional Principal Amount £ million	2001 Replace-ment Cost £ million	2001 Risk Weighted Amount £ million	2000 Notional Principal Amount £ million	2000 Replace-ment Cost £ million	2000 Risk Weighted Amount £ million
Bank						
Exchange Rate Related Contracts						
expiring within 1 year	824	15	6	641	10	5
between 1 and 5 years	61	1	1	21		
after 5 years	100	12	4	98	10	4
	985	28	11	760	20	9
Interest Rate Related Contracts						
expiring within 1 year	3,541	53	1	1,330	34	
between 1 and 5 years	6,531	110	6	3,131	4	1
after 5 years	5,069	151	28	1,239	49	5
	15,141	314	35	5,700	87	6
Equity and Commodity Related Contracts						
expiring within 1 year	139			40	2	1
between 1 and 5 years	5		2	178		3
	144		2	218	2	4
Total Bank Derivatives	16,270	342	48	6,678	109	19

The notional principal amounts and fair values of these derivatives are analysed below between non trading and trading activity. "Fair value" is the amount at which instruments could be exchanged in an arms length transaction.

	2001 Notional Principal Amount £ million	2001 Year End Fair Values Asset £ million	2001 Year End Fair Values Liability £ million	2000 Notional Principal Amount £ million	2000 Year End Fair Values Asset £ million	2000 Year End Fair Values Liability £ million
Non Trading						
Exchange Rate Related Contracts						
Cross currency swaps	100	12		100	9	
	100	12		100	9	
Interest Rate Related Contracts						
Interest rate swaps	14,390	314	11	5,688	87	96
Forward rate agreements	750		1			
Options	1			12		
	15,141	314	12	5,700	87	96
Equity and Commodity Related Contracts						
Options and swaps	144		44	218	2	68
Total Non Trading Derivatives	15,385	326	56	6,018	98	164

	2001 Notional Principal Amount £ million	2001 Year End Fair Values Asset £ million	2001 Year End Fair Values Liability £ million	2000 Notional Principal Amount £ million	2000 Year End Fair Values Asset £ million	2000 Year End Fair Values Liability £ million
Trading						
Exchange Rate Related Contracts						
Forward foreign exchange	885	16	16	660	11	11
Total Trading Derivatives	885	16	16	660	11	11
Total Bank Derivatives	16,270	342	72	6,678	109	175

The Bank has no interest rate, equity or commodity contracts in the trading book.

34. DERIVATIVES (CONTINUED)

Credit Risk Analyses

Counterparties of the Group's derivative transactions are primarily financial institutions. An institutional and geographical analysis of replacement cost, based on the location of the office writing the business, is shown below:

	Group 2001 £ million	Group 2000 £ million	Bank 2001 £ million	Bank 2000 £ million
Institutional				
Financial Institutions	1,450	1,127	327	103
Non-financial Institutions	374	137	15	6
	1,824	1,264	342	109
Geographical				
UK	1,408	1,071	339	109
Australasia and Rest of World	416	193	3	
	1,824	1,264	342	109

The Group's objectives and policies in managing the risks that arise in connection with the use of financial instruments are set out on pages 13 to 15 of the Operating and Financial Review under "Mapping and Managing Risk".

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair values of Financial Assets and Financial Liabilities are based on market prices where available, or are estimated using other valuation techniques. Where they are short term in nature or reprice frequently fair value approximates to carrying value.

Derivatives held for trading purposes as disclosed in Note 34 are carried at fair values. Derivatives held for non trading purposes are accounted for in the same way as the underlying transaction being hedged. Fair values are based on market prices where available, or are estimated using other valuation techniques.

The following table shows the carrying amount and the fair value of financial assets and liabilities analysed between trading and non trading:

	2001 Assets Carrying Amount £ million	2001 Assets Fair Values £ million	2001 Liabilities Carrying Amount £ million	2001 Liabilities Fair Values £ million	2000 Assets Carrying Amount £ million	2000 Assets Fair Values £ million	2000 Liabilities Carrying Amount £ million	2000 Liabilities Fair Values £ million
Group								
Non Trading								
Debt securities	8,555	8,602			7,278	7,291		
Equity shares	162	321			96	241		
Debt securities in issue			29,681	29,829			24,224	24,195
Dated loan capital			1,777	1,843			1,165	1,165
Undated loan capital			1,144	1,208			1,099	1,099
Preference stocks			400	564			400	540
Perpetual securities			297	300				
Minority interests (non-equity)			400	426				
Derivatives	479	1,109	234	689	286	670	129	501
Total Non Trading	9,196	10,032	33,933	34,859	7,660	8,202	27,017	27,500
Trading								
Loans and advances to banks	348	348			153	153		
Loans and advances to customers	7	7			13	13		
Debt securities	482	482			682	682		
Debt securities in issue			280	280				
Deposits by banks			144	144			73	73
Customer accounts			61	61			124	124
Derivatives	715	715	657	657	594	594	568	568
Total Trading	1,552	1,552	1,142	1,142	1,442	1,442	765	765

Fair values in respect of non trading financial assets and liabilities are disclosed only where there is a liquid and active market.

Fair value information is not provided for items that do not meet the definition of a financial instrument or for certain other financial instruments, including short term debtors and creditors. The fair value information presented does not therefore represent the fair value of the Group as a going concern at 28 February 2001.

36. HEDGES

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	2001 Gains £ million	2001 Losses £ million	2001 Total Net Gains/(Losses) £ million
Unrecognised gains and losses on hedges at 1 March 2000	**422**	**410**	**12**
Gains and losses arising in previous years that were recognised in the year ended 28 February 2001	**213**	**134**	**79**
Gains and losses arising before 1 March 2000 that were not recognised in the year ended 28 February 2001	**209**	**276**	**(67)**
Gains and losses arising in the year ended 28 February 2001 that were not recognised in that year	**475**	**233**	**242**
Unrecognised gains and losses on hedges at 28 February 2001	**684**	**509**	**175**
of which:			
Gains and losses expected to be recognised in the year ended 28 February 2002	**329**	**238**	**91**
Gains and losses expected to be recognised after 28 February 2002	**355**	**271**	**84**

	2000 Gains £ million	2000 Losses £ million	2000 Total Net Gains/(Losses) £ million
Unrecognised gains and losses on hedges at 1 March 1999	396	552	(156)
Gains and losses arising in previous years that were recognised in the year ended 29 February 2000	183	252	(69)
Gains and losses arising before 1 March 1999 that were not recognised in the year ended 29 February 2000	213	300	(87)
Gains and losses arising in the year ended 29 February 2000 that were not recognised in that year	209	110	99
Unrecognised gains and losses on hedges at 29 February 2000	422	410	12
of which:			
Gains and losses expected to be recognised in the year ended 28 February 2001	247	177	70
Gains and losses expected to be recognised after 28 February 2001	175	233	(58)

37. INTEREST RATE SENSITIVITY GAP

The tables below summarise the repricing profiles of the Group's assets and liabilities.

	As at 28 February 2001							
	Not more than 3 months £ million	Over 3 months but not over 6 months £ million	Over 6 months but not over 1 year £ million	Over 1 year but not over 5 years £ million	Over 5 years £ million	Non-interest bearing £ million	Trading £ million	Total £ million
Assets								
Treasury bills and other eligible bills	365							365
Loans and advances to banks	3,665	289	857	107	18	24	348	5,308
Loans and advances to customers	49,018	3,466	2,960	8,541	1,861	829	7	66,682
Debt securities and equity shares	6,496	489	815	357	242	318	482	9,199
Other assets	1					3,843	715	4,559
Total assets	59,545	4,244	4,632	9,005	2,121	5,014	1,552	86,113
Liabilities								
Deposits by banks	6,353	853	571	30	9		144	7,960
Customer accounts	32,363	853	709	399	52	1,509	61	35,946
Debt securities in issue	25,136	2,047	2,021	409	68		280	29,961
Other liabilities				24	3	3,683	657	4,367
Subordinated liabilities	298			241	2,382			2,921
Minority interests and proprietors' funds						4,958		4,958
Total liabilities	64,150	3,753	3,301	1,103	2,514	10,150	1,142	86,113
On-balance sheet gap	(4,605)	491	1,331	7,902	(393)	(5,136)	410	
Non trading derivatives	3,421	(1,473)	(1,633)	(1,055)	740			
Net interest rate repricing gap 2001	(1,184)	(982)	(302)	6,847	347	(5,136)	410	
Cumulative gap 2001	(1,184)	(2,166)	(2,468)	4,379	4,726	(410)		

	As at 29 February 2000							
	Not more than 3 months £ million	Over 3 months but not over 6 months £ million	Over 6 months but not over 1 year £ million	Over 1 year but not over 5 years £ million	Over 5 years £ million	Non-interest bearing £ million	Trading £ million	Total £ million
Assets								
Treasury bills and other eligible bills	514	10						524
Loans and advances to banks	3,061	289	305	98	20	28	153	3,954
Loans and advances to customers	37,507	3,283	2,942	9,272	1,776	704	13	55,497
Debt securities and equity shares	2,827	951	3,204	68	109	215	682	8,056
Other assets	1					3,187	594	3,782
Total assets	43,910	4,533	6,451	9,438	1,905	4,134	1,442	71,813
Liabilities								
Deposits by banks	5,848	547	1,446	10			73	7,924
Customer accounts	26,846	587	799	232	10	1,439	124	30,037
Debt securities in issue	20,589	1,541	1,383	637	74			24,224
Other liabilities	30	1	1	19	10	3,189	568	3,818
Subordinated liabilities	272	132	2	190	1,668			2,264
Minority interests and proprietors' funds						3,546		3,546
Total liabilities	53,585	2,808	3,631	1,088	1,762	8,174	765	71,813
On-balance sheet gap	(9,675)	1,725	2,820	8,350	143	(4,040)	677	
Non trading derivatives	1,125	451	1,466	(3,157)	115			
Net interest rate repricing gap 2000	(8,550)	2,176	4,286	5,193	258	(4,040)	677	
Cumulative gap 2000	(8,550)	(6,374)	(2,088)	3,105	3,363	(677)		

All derivative instruments which alter the interest bases of the non-trading portfolio of assets and liabilities are reflected in the above tables.

38. TRADING VALUE AT RISK

The Group's Value at Risk (VaR) methodology of estimating potential losses arising from the Group's exposure to market risk is explained on page 15 of the Operating and Financial Review. The Group's trading market risk exposure for the year ended 28 February 2001 is analysed below.

	Exposure							
	As at 28 February 2001 £ million	As at 29 February 2000 £ million	Average 2001 £ million	Average 2000 £ million	Highest 2001 £ million	Highest 2000 £ million	Lowest 2001 £ million	Lowest 2000 £ million
Total Value at Risk	1.3	0.9	0.9	1.3	2.7	2.4	0.2	0.4

For all significant exposures VaR has been calculated on a daily basis.

39. NON-TRADING CURRENCY EXPOSURE

Structural currency exposures arise from the Group's investments in overseas subsidiaries, branches and other investments and are noted in the table below.

	2001			2000		
Functional currency of the operation	Net investments in overseas operations £ million	Borrowing taken out to hedge the net investments £ million	Remaining structural currency exposure £ million	Net investments in overseas operations £ million	Borrowing taken out to hedge the net investments £ million	Remaining structural currency exposure £ million
US Dollar	38	12	26	37	11	26
Euro	199	58	141	49	44	5
Australian Dollar	277	236	41	246	159	87
Other	2	2		1		1
Total	516	308	208	333	214	119

As at 28 February 2001 and 29 February 2000 there are no material net currency exposures in the non trading book relating to transactional (or non-structural) positions that would give rise to net currency gains or losses for the reason set out on page 14 of the Operating and Financial Review.

40. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	Group		Bank	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
The aggregate amounts of assets and liabilities denominated in currencies other than sterling were:				
Assets	35,799	16,371	9,158	5,127
Liabilities	38,143	24,314	6,246	3,868

The above figures do not reflect the Bank and Group exposure to foreign exchange, which is significantly lower as it is hedged by off-balance sheet instruments.

41. OTHER CONTINGENT LIABILITIES

The Bank unconditionally and irrevocably guarantees due payment of all lawfully incurred present and future indebtedness and other obligations of its wholly-owned subsidiary undertakings Bank of Scotland Treasury Services PLC and BOS International (Australia) Limited.

42. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £ million	2000 £ million
Group operating profit	945	871
Increase in accrued income and prepayments	(208)	(40)
Increase in accruals and deferred income	306	14
Provision for bad and doubtful debts	385	317
Depreciation and amortisation	90	81
Amortisation of debt securities	19	15
Revaluation surplus		(3)
Interest on subordinated loans	186	150
Profits on sale of investment securities	(67)	(33)
Provisions for liabilities and charges	16	12
Provision against debt securities and equity shares	7	6
Exchange differences	(162)	34
Net cash inflow from trading activities	1,517	1,424
Net increase in notes in circulation	57	24
Net decrease/(increase) in items in course of collection	12	(129)
Net decrease/(increase) in treasury and other bills	159	(114)
Net increase in loans and advances to banks and customers	(10,722)	(8,093)
Net increase in deposits by banks and customer accounts	3,726	3,065
Net increase in debt securities in issue	5,697	7,524
Net decrease/(increase) in other debt securities	200	(137)
Net increase in other assets	(259)	(178)
Net increase in other liabilities	127	278
	(1,003)	2,240
Net cash inflow from operating activities	514	3,664

43. GROSS CASH FLOWS

	Notes	2001 £ million	2000 £ million
(i) **Returns on investments and servicing of finance**			
Interest paid on loan capital		(181)	(133)
Preference dividends paid		(37)	(37)
Dividends paid to minority shareholders in subsidiary undertakings		(52)	(14)
		(270)	(184)
(ii) **Capital expenditure and financial investment**			
Purchase of investment securities		(8,133)	(9,213)
Sale and maturity of investment securities		7,328	5,983
Purchase of property and equipment		(151)	(146)
Sale of property and equipment		83	36
		(873)	(3,340)
(iii) **Acquisitions and disposals**			
Investment in subsidiary undertakings		(193)	(112)
Investment in associated undertakings, joint ventures and business interests		(24)	(29)
		(217)	(141)
(iv) **Financing**			
Issue of ordinary stock	*46*	242	30
Issue of perpetual securities	*46*	297	
Issue of subordinated loan capital	*46*	621	478
Issue of innovative preference stock		400	
Repayments of subordinated loan capital	*46*	(140)	(1)
Contribution to Employee Share Trust		(20)	(18)
		1,400	489

44. ACQUISITIONS AND DISPOSALS

In February 2001, Bank of Scotland acquired 99.99% of the share capital of ICC Bank plc, which is based in Ireland. Since the year end the remaining equity has been acquired. The consideration of £227 million inclusive of fees and expenses was satisfied partly in cash raised from the proceeds of a placing of Bank of Scotland stock and partly by stock issued. The profit attributable to Proprietors and cashflows generated for the period since the date of acquisition up to 28 February 2001 were not material. The net assets at the date of acquisition are shown in the table below.

	£ million
Loans and advances to banks and customers	2,239
Debt securities and equity shares	233
Tangible fixed assets	4
Other assets, prepayments and accrued income	37
	2,513
Deposits by banks, customer accounts and debt securities in issue	2,255
Other liabilities, accruals and deferred income and other provisions	48
Subordinated liabilities	78
Minority interests	2
	2,383
Net assets acquired	130
Goodwill	97
	227
Consideration	
Cash	193
Shares issued at fair value	34
	227

During the year £25 million (2000 £2 million) of goodwill has arisen from a combination of an acquisition of a portfolio of motor finance receivables and motor dealer funding, on acquisition of additional shares in Bank of Western Australia Ltd through the dividend reinvestment plan, and from fair value adjustments to previous acquisitions.

There were no material disposals in the year to 28 February 2001.

In August 1999, Bank of Scotland acquired 100% of the share capital of Smurfit Finance Limited, a company based in Ireland. In October 1999, the Bank acquired 100% of the share capital of Hill Hire plc, a contract hire company based in the United Kingdom. The profit attributable to Proprietors for the period since the dates of acquisition up to 29 February 2000 was £3 million. The cashflows generated in respect of the Group's net operating cashflow, paid in respect of net returns on investments and servicing of finance, paid in respect of taxation and utilised for capital expenditure and financial investment were not material. The net assets at the date of acquisition are shown in the table below.

There were no material disposals in the year to 29 February 2000.

	£ million
Loans and advances to banks and customers	204
Tangible fixed assets	11
Other assets, prepayments and accrued income	12
	227
Deposits by banks, customer accounts and debt securities in issue	174
Other liabilities, accruals and deferred income and other provisions	4
Deferred taxation	3
	181
Net assets acquired	46
Fair value adjustments	(6)
Goodwill	72
	112
Consideration	
Cash	112

45. ANALYSIS OF THE BALANCES OF CASH AS SHOWN IN THE BALANCE SHEET

	As at 1 March 2000 £ million	Cashflow £ million	As at 28 February 2001 £ million	As at 1 March 1999 £ million	Cashflow £ million	As at 29 February 2000 £ million
Cash and balances at central banks	587	158	745	615	(28)	587
Loans and advances to other banks repayable on demand	449	(21)	428	373	76	449
	1,036	137	1,173	988	48	1,036

The Group maintains balances with the Bank of England which, at 28 February 2001, amounted to £567 million (2000 – £488 million).

46. ANALYSIS OF THE CHANGES IN FINANCING DURING THE YEAR

	2001		2000	
	Share Capital (including Premium) £ million	Loan Capital £ million	Share Capital (including Premium) £ million	Loan Capital £ million
At 1 March 2000	1,018	2,264	988	1,770
Effect of foreign exchange differences		98		17
Acquisitions		78		
Shares issued as part payment for the acquisition of ICC Bank plc	34			
Proceeds of capital issues (including premium) – ordinary stock	242		30	
Proceeds of perpetual securities issue	297			
Proceeds of loan capital issues		621		478
Repayments of loan capital		(140)		(1)
At 28 February 2001	1,591	2,921	1,018	2,264

47. RELATED PARTY TRANSACTIONS

In the year ended 28 February 2001, Bank of Scotland Group provided both administration and processing services to Sainsbury's Bank plc. The amounts in respect of administration and processing services payable to Bank of Scotland Group during the period were £20 million (2000 – £20 million), of which £5 million was outstanding at the year end (2000 – £4 million).

During the year, IBM United Kingdom (Systems Operations) Limited, a non consolidating subsidiary, provided to Bank of Scotland Group systems operations services. The amounts in respect of these services payable from Bank of Scotland Group during the period were £45 million, of which £2 million was outstanding at the year end.

48. MAIN JOINT VENTURES AND ASSOCIATED UNDERTAKINGS

	Nature of Business	Issued Share and Loan Capital		Bank's Interest	Accounts Made up to	Principal Area of Operations
Registered in England						
Joint Ventures:						
Centrica Personal Finance	Finance	ordinary	£3,000,000	50.0%*	December 2000	UK
Limited		loan	£4,500,000	50.0%*		
NFU Mutual Finance Limited	Finance	ordinary	£500,002	50.0%*	December 2000	UK
RFS Limited	Finance	ordinary	£6,000,006	50.0%*	December 2000	UK
Associated Undertaking:						
Sainsbury's Bank plc	Banking	ordinary	£130,000,000	45.0%	February 2001	UK

* Held by a subsidiary undertaking.

49. MAIN SUBSIDIARY UNDERTAKINGS

	Bank's Interest in Ordinary Share Capital and Voting Rights	Principal Business	Incorporated
Bank of Scotland Independent Financial Advisers Limited	100%	Financial advisers	UK
Bank of Scotland (Ireland) Limited	98.9%†	Banking	Ireland
Bank of Scotland Offshore Limited	100%	Banking	Jersey
Bank of Scotland Treasury Services PLC	100%	Banking	UK
Bank of Scotland Trust Company (International) Limited	100%	Trust company	Jersey
Bank of Wales plc	100%	Banking	UK
Bank of Western Australia Ltd	55.8%†	Banking	Australia
BOS International (Australia) Limited	100%†	Commercial deposits	Australia
CAPITAL BANK plc	100%*	Banking and personal finance	UK
and subsidiaries, including			
British Linen Asset Finance Limited	100%	Asset finance	UK
Capital Bank Cashflow Finance Limited	100%	Debt factoring	UK
Forthright Finance Limited	100%	Finance	UK
Godfrey Davis (Contract Hire) Limited	100%	Contract hire	UK
Inchcape Financial Services Limited	51%	Finance	UK
International Motors Finance Limited	51%	Finance	UK
St Andrew's Group plc	100%§	Insurance	UK
Capital Finance Australia Limited	100%†	Finance	Australia
First Banking Systems Limited	51%	Computer related services	UK
Hill Hire plc	100%	Contract hire	UK
Horizon Capital 2000 Limited	100%	Property	UK
ICC Bank plc	99.99%	Banking	Ireland
Uberior Investments PLC	100%	Investment	UK

* The Bank also holds 100% of the issued preference share capital.
† Held by a subsidiary undertaking.
§ Held by a subsidiary undertaking of Capital Bank plc.

50. APPROVAL OF ACCOUNTS

The accounts, which have been prepared under the Bank Accounts Directive (Miscellaneous Banks) Regulations 1991 and comply with Part VII of the Companies Act 1985, were approved by the Directors on 3 May 2001.

Accounts in US Dollars

at $1.4428 to the £ (2000 – $1.5807 to the £)

Summary of Consolidated Balance Sheet

As at 28 February 2001

		2001 US$ million		2000 US$ million
Assets				
Cash and balances at central banks		1,075		928
Items in course of collection		768		860
Bills, debt securities and equity shares		13,799		13,562
Loans, advances and other accounts		107,201		96,831
Shares in associated undertakings and joint ventures		240		223
Intangible and tangible fixed assets		1,161		1,111
		124,244		113,515
Financed by				
Liabilities				
Deposits by banks, customers and debt securities in issue		106,575		98,296
Notes in circulation		869		862
Proposed dividends		215		205
Deferred taxation		682		656
Other liabilities and provisions		4,535		4,312
		112,876		104,331
Capital Resources				
Subordinated liabilities – Dated loan capital	2,564		1,841	
– Undated loan capital	1,651		1,737	
Called up share capital				
Preference stocks	577		632	
Ordinary stock	470		495	
Reserves	5,289		4,232	
Minority interests	817		247	
		11,368		9,184
		124,244		113,515

Summary of Consolidated Profit and Loss Account

For the year ended 28 February 2001

	2001 US$ million	2000 US$ million
Operating profit before provisions	1,918	1,878
Provisions for bad and doubtful debts	(555)	(501)
Operating profit	1,363	1,377
Profit on ordinary activities before taxation	1,415	1,440
Profit attributable to proprietors	889	929
Dividends:		
Preference	53	58
Ordinary	286	267
Retained profit	550	604
Earnings per 25p Ordinary Stock unit – basic before exceptional items	75.0c	76.2c
Dividends per 25p Ordinary Stock unit	22.1c	21.3c

Accounts in Euros

at €1.5648 to the £ (2000 – €1.6321 to the £)

Summary of Consolidated Balance Sheet

As at 28 February 2001

		2001 € million		2000 € million
Assets				
Cash and balances at central banks		1,166		958
Items in course of collection		832		888
Bills, debt securities and equity shares		14,966		14,004
Loans, advances and other accounts		116,266		99,979
Shares in associated undertakings and joint ventures		260		230
Intangible and tangible fixed assets		1,260		1,147
		134,750		117,206
Financed by				
Liabilities				
Deposits by banks, customers and debt securities in issue		115,587		101,492
Notes in circulation		942		890
Proposed dividends		233		212
Deferred taxation		740		677
Other liabilities and provisions		4,918		4,452
		122,420		107,723
Capital Resources				
Subordinated liabilities – Dated loan capital	2,781		1,901	
– Undated loan capital	1,790		1,794	
Called up share capital				
Preference stocks	626		653	
Ordinary stock	510		511	
Reserves	5,737		4,369	
Minority interests	886		255	
		12,330		9,483
		134,750		117,206

Summary of Consolidated Profit and Loss Account

For the year ended 28 February 2001

	2001 € million	2000 € million
Operating profit before provisions	2,081	1,939
Provisions for bad and doubtful debts	(602)	(517)
Operating profit	1,479	1,422
Profit on ordinary activities before taxation	1,535	1,487
Profit attributable to proprietors	964	960
Dividends:		
Preference	58	60
Ordinary	310	276
Retained profit	596	624
Earnings per 25p Ordinary Stock unit – basic before exceptional items	81.4c	78.7c
Dividends per 25p Ordinary Stock unit	23.9c	22.0c

Analysis of Proprietors' Holdings of Ordinary Stock

	Proprietors		Ordinary Stock units of 25p each	
Range of Stockholding	number	% of total	number 000s	% of total
1-2,500	48,058	72.11	40,521	3.10
2,501-5,000	8,265	12.40	29,823	2.28
5,001-25,000	8,206	12.31	84,188	6.45
25,001-50,000	819	1.23	28,523	2.18
50,001-100,000	454	0.68	32,087	2.46
100,001-250,000	366	0.55	60,007	4.59
250,001-500,000	187	0.28	67,104	5.14
over 500,000	294	0.44	963,821	73.80
	66,649	**100.00**	**1,306,074**	**100.00**

The above analysis was extracted from the Stock Register at 22 April 2001.

Base Price for Capital Gains Tax

Sale of Bank Stock by a UK Proprietor may give rise to a Capital Gains Tax liability.

The market value for Capital Gains Tax purposes at 31 March 1982 was £4.255 per £1 Capital Stock. This requires to be adjusted to take account of the capitalisation issues in 1984, 1988 and 1991, the rights issues in 1984, 1985 and 1991, and the stock split in December 1988. Allowing for all of these, the adjusted market value at 31 March 1982 for Proprietors who subscribed for their full entitlements under the rights issues is £0.4302564 per 25p Ordinary Stock unit. This value will require to be further adjusted to take account of indexation allowance, taper relief where appropriate and the effect of any election to accept new Ordinary Stock as an alternative to a cash dividend.

Proprietors are recommended to consult their professional adviser if detailed Capital Gains Tax calculations require to be made.

Cross-Border Outstandings

"Cross-border outstandings" comprises loans and advances to customers not resident in the same country as the lending branch or subsidiary which made the loan or advance and not guaranteed by the UK Export Credits Guarantee Department (the "ECGD"). "Loans and advances" consists of loans to customers and banks including instalment credit and finance lease receivables, acceptances and other monetary assets. The Group monitors the geographical breakdown of outstandings based on the country of domicile of the borrower or guarantor of ultimate risk. The following table provides an analysis of the Group's cross-border outstandings greater than 1.0 per cent of Group total assets.

	% of Total Assets	**Total £ million**	Banks £ million	Other Residents £ million
At 28 February 2001				
Germany	3.2	**2,774**	2,689	85
USA	1.7	**1,446**	669	777

OTHER INFORMATION

HEAD OFFICE
The Mound, Edinburgh, EH1 1YZ. General Telephone Enquiries: 0131 442 7777.

WEBSITE www.bankofscotland.co.uk
The Bank's website provides information on investor relations, the Bank's history and many other aspects of the Bank. Copies of the Bank's Annual Report and Accounts, Interim Reports and Annual Reviews are also available on the site.

FINANCIAL CALENDAR 2001

31 May	Preference Stock dividend payable
15 June	Annual General Meeting
22 June	Ordinary Stock final dividend payable
26 September	Interim results announced

ORDINARY DIVIDEND STOCK ALTERNATIVE SCHEME
The Bank is again offering Proprietors Ordinary Stock as an alternative to cash in respect of the final dividend. To participate in the Ordinary Dividend Stock Alternative Scheme you should complete and return the Mandate Form contained in the papers enclosed with this Report and Accounts. If you have already completed a Mandate and do not wish to change your instruction you need take no action.

If you would like to receive a copy of the Rules of the Ordinary Dividend Stock Alternative Scheme or a further Mandate Form, or if you wish to find out the basis of allotment of the new Ordinary Stock which will be calculated on 24 May 2001, you should contact The Share Dividend Team at our Registrars (in Worthing) whose details are given below. Details of the Ordinary Dividend Stock Alternative Scheme timetable are set out in the papers enclosed with this Report and Accounts.

CASH DIVIDEND PAYMENT
You can have your cash dividend paid directly into your bank or building society account simply by completing and returning the bank mandate form contained in the papers enclosed with this Report and Accounts or obtainable from the Bank's Registrars (in Worthing). The bank mandate form needs to be returned by 8 June 2001 if the final dividend for 2001 is to be paid to you in this way. If your dividend is already paid directly into your bank or building society account you need take no action.

ORDINARY STOCK CERTIFICATE CONSOLIDATION
If you have four or more Ordinary Stock certificates, perhaps as a result of participating in the Ordinary Dividend Stock Alternative Scheme, you may send them (at your own risk) to the Bank's Registrars (in Edinburgh) at the address noted below, and a single certificate will be issued at no charge.

BENEFITS
The Bank offers a range of benefits to Proprietors. These include discounts on insurance as well as commission-free travellers cheques and foreign currency. Full details of these benefits, and eligibility requirements, are set out in the leaflet which accompanies this Report and Accounts.

REGISTRARS
The Bank's Registrars are Lloyds TSB Registrars Scotland. Please contact them if you have any enquiries about your Bank of Scotland holding.

For general enquiries contact Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh, EH3 5ED, Telephone 0870 601 5366 (national call rate).

For dividend enquiries contact The Share Dividend Team, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, Telephone 0870 600 3970 (national call rate).

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