

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 29 FEBRUARY 1996

The Directors hereby submit their report and the accounts for the year ended 29 February 1996.

Results

The Group's profit before taxation amounted to £121.7 million (1995: fourteen months £114.3 million). This includes £14 million in respect of finance lease rental income receivable to offset the additional corporation tax payable following the denial of certain capital allowances to the Group. Out of the profit attributable to the shareholders of £72.2 million (1995:£73.9 million) the Directors recommend dividends of £15.7 million leaving a balance of £56.5 million to be transferred to reserves.

Principal activity and business review

The principal activity of the Group is banking and financial and related services, including leasing, instalment credit and mortgage facilities.

Details of the current year's business, acquisitions and future developments are given in the Chairman's statement and in the Chief Executive's report.

Property and equipment

Changes in property and equipment during the year are shown in Note 20 to the accounts.

Employees

The Company, by means of its circulars, appraisal system, video and other communications keeps its staff informed of matters concerning them. Regular meetings at branch and departmental level inform staff of new developments, and seek suggestions from them.

Employees participate in the Bank of Scotland Profit Sharing Schemes. The Company has a comprehensive system of incentive and productivity bonuses.

The Company holds frequent and extensive conferences and training courses at which exchanges of views on all aspects affecting the Company take place. Directors pay visits to these and to branches and central departments explaining the Company's role within the Group and the external factors influencing its performance.

The Company continues to give full and fair consideration to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The training, career development and promotion of disabled persons employed by the Company continues to be an integral part of the personnel policy applicable to all employees of the Company.

Suppliers

The Company 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.



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**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 29 FEBRUARY 1996 (continued)**

Directors

The Directors as at 29 February 1996 and their respective interests in the companies within Bank of Scotland Group were as follows:-

Bank of Scotland Ordinary Stock Units of 25p each

Beneficially owned

	<u>At 1 March 1995</u>	<u>At 29 February 1996</u>
W.G. Barclay	35,793	38,796
I.M. Brown	13,396	17,448
J.S. Brown	128,705	228,317
J.R. Browning	44,086	48,945
P.A. Burt	142,410	146,234
A.R. Christie	18,005	15,268
C.R. Halliwell	6,434	10,304
N. Lessels	52,000	52,000
R. Littler	24,781	29,094
R.J. Mee	51,081	51,980
J.A. Mercer	48,141	44,839
Sir Bruce Pattullo	230,901	224,851
Sir John Shaw	86,851	90,987

Options to subscribe for ordinary stock of Bank of Scotland were granted to or exercised by Directors during the year ended 29 February 1996 as follows:-

Executive Stock Options

					Weighted	Market	Closing	
	Options			Options	average	price at	weighted	Date
	held as at	Options	Options	held as at	exercise	date of	average	Options
	<u>1.3.95</u>	<u>granted</u>	<u>exercised</u>	<u>29.2.96</u>	<u>price</u>	<u>exercise</u>	<u>price</u>	<u>exercisable</u>
								1996 to:
W.G. Barclay	102,000	24,000	-	126,000	-	-	175.71p	2005
I.M. Brown	189,407	28,500	30,162	187,745	76.08p	259.0p	156.71p	2005
J.S. Brown	90,489	-	90,489	-	78.83p	258.0p	-	
J.R. Browning	340,546	48,000	-	388,546	-	-	150.40p	2005
P.A. Burt	571,145	72,000	-	643,145	-	-	142.77p	2005
A.R. Christie	81,311	24,000	11,311	94,000	87.82p	253.5p	191.97p	2005
C.R. Halliwell	87,311	24,000	-	111,311	-	-	176.18p	2005
R. Littler	210,000	48,000	-	258,000	-	-	178.92p	2005
R.J. Mee	79,311	24,000	-	103,311	-	-	173.67p	2005
J.A. Mercer	285,326	60,000	30,163	315,163	84.33p	258.0p	174.60p	2005
Sir Bruce Pattullo	804,301	96,000	-	900,301	-	-	139.65p	2005

Bank of Scotland policy is to make an annual grant of options over the ten year life of the Executive Stock Options Scheme. Options were granted in October 1995 at a price of 259.83p per ordinary stock unit, being the average market price for the first three dealing days in which the ordinary stock was quoted ex dividend following the announcement of the interim results and immediately prior to the date of grant. For earlier years, options were granted at the average market price for the three dealing days immediately prior to the date on which invitations to apply for options were issued. No options lapsed during the year.

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**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 29 FEBRUARY 1996 (continued)**

Directors (continued)

<u>Savings Related Stock Options</u>								
	Options held as at <u>1.3.95</u>	Options granted	Options exercised	Options held as at <u>29.2.96</u>	Weighted average exercise price	Market price at date of exercise	Closing weighted average exercise price	Date Options exercisable
I.M. Brown	9,037	3,049	-	12,086	-	-	132.99p	1996 to 2003
J.S. Brown	10,328	2,521	1,281	11,568	75.18p	215.0p	139.45p	1996 to 2003
A.R. Christie	6,518	898	1,051	6,365	71.29p	279.0p	144.72p	1996 to 2003
C.R. Halliwell	5,176	2,032	-	7,208	-	-	163.45p	1999 to 2003
R. Littler	3,966	3,374	-	7,340	-	-	183.95p	2001 to 2003
R.J. Mee	-	5,082	-	5,082	-	-	207.86p	2002 to 2003
J.A. Mercer	-	4,495	-	4,495	-	-	207.86p	2000 to 2001

Options were granted in November 1995 at a price of 207.864p per ordinary stock unit, being 80% of the average market price for the first three dealing days on which ordinary stock was quoted ex dividend following the announcement of the interim results and immediately prior to the date of grant. For earlier years, options were granted at 80% of the market price on the fourth dealing day after the announcement of the interim results. No options lapsed during the year.

The market price of the Stock at 29 February 1996 was 276.5p and the range during the year was 196.5p to 312.0p.

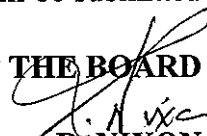
Full details of the Directors' shareholdings and options are contained in the Register of Directors' Interests which is available for inspection.

Mr. W.E. Coppel was a Director during the year and resigned on 28 April 1995.

Auditors

The auditors, Ernst & Young, Chartered Accountants, have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

BY ORDER OF THE BOARD


R. NIXON
Secretary

**NWS House
City Road
CHESTER**

15 April 1996

DIRECTORS' ACCOUNTING RESPONSIBILITIES

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and 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 financial statements on pages 6 to 31 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all Accounting Standards which they consider applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are satisfied that it is appropriate for these accounts to have been prepared on a going concern basis.

The Directors acknowledge their responsibility for the systems of internal financial control, the effectiveness of which they regularly review. These controls are designed to provide reasonable assurance on the accuracy and reliability of the information systems and on the maintenance of proper control over the assets and liabilities of the Group. They are based on the principles of tiered levels of authority for credit approvals and for capital and revenue expenditure. Detailed procedures include budgeting and reporting systems, the appropriate supervision of which is supplemented by periodic internal audits and inspections.

We have audited the accounts on pages 6 to 31 which have been prepared under the historical cost convention as modified by the revaluation of certain properties and investments and on the basis of the stated accounting policies.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

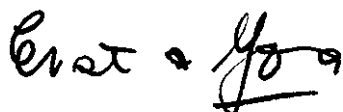
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 29 February 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG
Chartered Accountants
Registered Auditor
LIVERPOOL

15 April 1996.

ACCOUNTING POLICIES FOR THE YEAR ENDED 29 FEBRUARY 1996

The Group's accounting policies are as follows:

Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention modified by the revaluation of certain properties and investments, in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups and in compliance with the requirements of the Companies Act 1985 (Bank Accounts) Regulations 1991 and applicable Accounting Standards.

The consolidated accounts include audited management accounts made up to 29 February 1996 for those subsidiary undertakings with other accounting reference dates.

Debt securities

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 revenue 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 equity shares is credited to revenue on the ex-dividend date.

Associated undertakings and joint ventures

The attributable share of the results of associated undertakings, based on audited accounts, is included using the equity method of accounting and the Group's share of the results, assets and liabilities of joint ventures is included in the accounts using the method of proportional consolidation.

Shares in associated undertakings are stated in the consolidated balance sheet at the Group's share of their net tangible assets. In the Company's balance sheet, the investments in shares in associated undertakings are stated at cost.

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ACCOUNTING POLICIES**FOR THE YEAR ENDED 29 FEBRUARY 1996 (continued)****Finance leases, instalment credit and operating leases**

Income from assets leased to customers, including the release of government grants and leasing earnings equalisation provisions, and from instalment credit agreements is determined by spreading interest charges, after making a deduction for certain initial expenses, over the period of repayment in proportion to the net cash investment.

The earnings element of leasing rentals receivable under those agreements for which related agreements exist with third party finance lessors is credited to interest income on a straight line basis; the related charges element of leasing rentals payable is accounted for on the same basis.

The balance of operating lease rentals receivable during the period not attributed to earnings is applied as depreciation of the relative assets leased to customers.

Adjustments are made to equalise the effects of changes in corporation tax rates and certain tax free lease termination payments and are included in revenue, grossed up at the prevailing corporation tax rate, over the anticipated lives of the leases affected.

The net investment in finance leases is included as amounts receivable in advances and the net obligation under leases with third party finance lessors is included as amounts payable in customer accounts. Fixed assets which are on hire under operating lease agreements are identified separately.

Provisions for bad and doubtful debts

Specific provisions are made for advances and for amounts receivable under operating lease agreements which are recognised to be bad or doubtful. A general provision, to cover loans and 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.

Fees and commissions

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 advance or risk exposure. Other fees are recognised when receivable.

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**ACCOUNTING POLICIES
FOR THE YEAR ENDED 29 FEBRUARY 1996 (continued)****Tangible fixed assets and depreciation**

Freehold properties are revalued on a regular basis. Other tangible fixed assets are stated at cost less amounts written off.

Land is not depreciated. Freehold properties are not depreciated as it is considered that residual values, based upon prices prevailing at the time of acquisition, or subsequent valuation, are such that any charge would not be significant. In addition, it is the policy to maintain properties in a sound state of repair, with regular maintenance expenditure being charged against operating profit.

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

Equipment is written off in equal instalments over the expected lives of the assets which are between four and ten years.

Deferred 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.

Pensions

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 evenly over the average service periods of the current employees in the scheme.

Off balance sheet instruments

Interest paid or received in respect of off balance sheet instruments held for hedging purposes is spread over the life of the underlying asset or liability which is subject to the hedge.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 29 FEBRUARY 1996**

	<u>Notes</u>	<u>12 months to 29.2.96 £m</u>	<u>14 months to 28.2.95 £m</u>
Interest receivable			
Interest receivable and similar income arising from debt securities		0.9	0.9
Other interest receivable	2	<u>604.6</u>	<u>532.3</u>
		605.5	533.2
Interest payable	2	<u>(355.1)</u>	<u>(314.6)</u>
Net interest income		250.4	218.6
Fees and commissions receivable		<u>75.0</u>	<u>65.8</u>
Fees and commissions payable		<u>(33.0)</u>	<u>(17.2)</u>
		42.0	48.6
Other operating income		1.8	1.5
Net operating income		294.2	268.7
Administrative expenses	3	<u>132.3</u>	<u>113.0</u>
Depreciation: Property and equipment	20	<u>9.7</u>	<u>8.4</u>
Provisions for bad and doubtful debts	13	<u>43.5</u>	<u>45.4</u>
		185.5	166.8
OPERATING PROFIT from continuing operations	4	108.7	101.9
Share of profits of associated undertakings		<u>13.0</u>	<u>12.4</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		121.7	114.3
Tax on profit on ordinary activities	7	<u>48.1</u>	<u>40.5</u>
PROFIT FOR THE FINANCIAL YEAR		73.6	73.8
Applicable to minority shareholders		<u>1.4</u>	<u>(0.1)</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	8	72.2	73.9
Dividends	9	15.7	57.6
RETAINED PROFIT	30	56.5	16.3

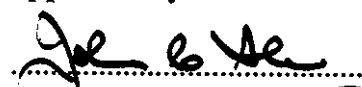
**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 29 FEBRUARY 1996**

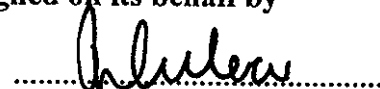
	12 months <u>to 29.2.96</u> <u>£m</u>	14 months <u>to 28.2.95</u> <u>£m</u>
Profit attributable to shareholders	72.2	73.9
Currency translation differences	0.2	0.2
Total recognised gains and losses for the financial year	<u>72.4</u>	<u>74.1</u>

CONSOLIDATED BALANCE SHEET AS AT 29 FEBRUARY 1996

	Notes	1996	1995
		£m	£m
Assets			
Cash and balances at central banks		0.1	0.1
Loans and advances to banks	10,11	117.5	107.2
Loans and advances to customers	12	5,411.6	4,592.8
Debt securities	15	11.0	10.8
Equity shares	16	-	0.3
Shares in associated undertakings	17	7.4	6.4
Tangible fixed assets			
Operating lease assets	19	171.3	140.5
Property and equipment	20	63.0	54.3
		234.3	194.8
Other assets	21	31.5	31.1
Prepayments and accrued income		18.6	15.7
Total assets		5,832.0	4,959.2
Liabilities			
Deposits by banks	22	2,838.3	2,256.8
Customer accounts	23	1,759.0	1,691.5
Bills in issue	24	124.3	51.4
Other liabilities	25	142.9	178.8
Accruals and deferred income	26	240.4	185.7
Provisions for liabilities and charges			
Deferred taxation	27	202.5	179.5
		5,307.4	4,543.7
Capital resources			
Subordinated liabilities			
Dated loan capital	28	121.0	66.0
Undated loan capital	28	55.0	55.0
		176.0	121.0
Called up share capital	29	56.4	56.4
Share premium account		2.6	2.6
Profit and loss account	30	288.2	235.3
Shareholders' funds	31	347.2	294.3
Equity		327.2	274.3
Non-equity		20.0	20.0
Minority interests - equity		1.4	0.2
		524.6	415.5
		5,832.0	4,959.2
MEMORANDUM ITEMS			
Commitments	32	654.5	513.2

Approved by the Board of Directors on 15 April 1996 and signed on its behalf by



 JOHN C. SHAW


 JOHN A. MERCER

BALANCE SHEET AS AT 29 FEBRUARY 1996

	Notes	1996	1995
		£m	£m
Assets			
Cash and balances at central banks		0.1	0.1
Loans and advances to banks	10,11	15.5	13.3
Loans and advances to customers	12	4,996.0	4,347.0
Debt securities	15	2.2	2.2
Shares in associated undertakings	17	6.2	5.4
Shares in subsidiary undertakings	18	39.5	30.1
Tangible fixed assets			
Property and equipment	20	51.3	46.7
Other assets	21	65.5	71.0
Prepayments and accrued income		12.1	10.6
Total assets		5,188.4	4,526.4
Liabilities			
Deposits by banks	22	2,650.7	2,237.3
Customer accounts	23	1,842.8	1,692.2
Other liabilities	25	69.6	97.8
Accruals and deferred income	26	149.9	123.4
Provisions for liabilities and charges			
Deferred taxation	27	8.3	5.2
		4,721.3	4,155.9
Capital resources			
Subordinated liabilities			
Dated loan capital	28	121.0	66.0
Undated loan capital	28	55.0	55.0
		176.0	121.0
Called up share capital	29	56.4	56.4
Share premium account		2.6	2.6
Profit and loss account	30	232.1	190.5
Shareholders' funds		291.1	249.5
Equity		271.1	229.5
Non-equity		20.0	20.0
		467.1	370.5
		5,188.4	4,526.4
MEMORANDUM ITEMS			
Commitments	32	44.0	116.2

Approved by the Board of Directors on 15 April 1996 and signed on its behalf by


JOHN C. SHAW


JOHN A. MERCER

NOTES ON THE ACCOUNTS

1. SEGMENTAL ANALYSIS

The Directors are of the opinion that the Group operates, to a material extent, in one class of business being banking and related services in the United Kingdom, in the Republic of Ireland and in Australia. The activities in the Republic of Ireland and in Australia are not separately disclosed on the basis of materiality.

2. INTEREST RECEIVABLE AND PAYABLE

Interest receivable includes £14 million in respect of additional finance lease rental income receivable following the denial of capital allowances to the Group (see note 7).

Interest payable includes £9.5million (1995:£9.2million) in respect of interest on the subordinated loan capital.

3. ADMINISTRATIVE EXPENSES

	12 months to 29.2.96 £m	14 months to 28.2.95 £m
Staff costs		
Salaries	69.8	59.5
Social Security costs	5.0	4.3
Other pension costs (note 6)	3.3	2.8
	<u>78.1</u>	<u>66.6</u>
Other administration expenses	54.2	46.4
	<u>132.3</u>	<u>113.0</u>

Salaries include allocations to staff profit sharing schemes amounting to £6.1 million (1995: £4.7 million).

	12 months to 29.2.96	14 months to 28.2.95
The average number of persons employed by the Group during the year were:		
Full time	3,414	2,833
Part time	228	236
	<u>3,642</u>	<u>3,069</u>

4. OPERATING PROFIT

	12 months to 29.2.96 £m	14 months to 28.2.95 £m
Group operating profit is all from continuing operations and is stated after crediting:		
Finance lease rentals	379.3	399.1
Operating lease rentals	59.1	66.8
Hire purchase rentals	581.6	542.1
Government grants	0.1	0.4
Leasing earnings equalisation	1.5	2.4
Income from listed investments - debt securities	<u>0.6</u>	<u>0.7</u>

and after charging:

Depreciation of operating lease assets	41.9	46.0
Operating lease charges - land and buildings	4.3	4.0
Emoluments of directors (note 5)	1.6	1.8
Auditors' remuneration - audit	0.4	0.3
- other	<u>0.1</u>	<u>0.1</u>

NOTES ON THE ACCOUNTS (continued)

5. EMOLUMENTS OF DIRECTORS

The aggregate emoluments of the Directors of the Company amounted to £1,574,021 (1995:£1,752,835) and included fees of £99,417 (1995:£34,417). Thirteen Directors waived their rights in 1995 to fees amounting in aggregate to £75,400.

The emoluments of the Chairman were £24,350 (1995:£27,650) and the emoluments of the highest paid Director were £243,598 (1995:£236,525), including a performance related bonus of £35,000 (1995: £32,500), both exclusive of pension contributions.

The number of Directors whose emoluments, excluding pension contributions, fell within the following ranges was:

	12 months to <u>29.2.96</u>	14 months to <u>28.2.95</u>
Up to £5,000	-	3
£5,001 - £10,000	4	1
£20,001 - £25,000	1	-
£25,001 - £30,000	-	1
£35,001 - £40,000	1	-
£70,001 - £75,000	-	1
£110,001 - £115,000	-	1
£120,001 - £125,000	-	1
£130,001 - £135,000	1	-
£135,001 - £140,000	1	-
£145,001 - £150,000	1	-
£160,001 - £165,000	1	2
£170,001 - £175,000	-	1
£175,001 - £180,000	1	-
£185,001 - £190,000	-	2
£190,001 - £195,000	1	-
£215,001 - £220,000	1	1
£235,001 - £240,000	-	1
£240,001 - £245,000	1	-

6. PENSION COSTS

The company operates a funded defined benefit pension scheme.

The pension funding cost is assessed in accordance with the advice of qualified actuaries using the Projected Unit valuation method.

The most recent actuarial valuation of the scheme was completed as at 5 April 1995 at which date the market value of the scheme assets was £75.7 million.

The principal assumptions used in the valuation were an annual rate of return on investments 2% higher than the annual increase in salaries and 4% higher than the annual increase in pensions in payment, and a growth in equity dividends of 4½% per annum.

The actuarial value of the assets was sufficient to cover 117% of members' accrued benefits. The Company is taking credit for the surplus within the pension fund by making reduced contributions over the next fifteen years which is the expected remaining average service life of current employees in the scheme.

NOTES ON THE ACCOUNTS (continued)

7. TAXATION

	12 months to 29.2.96	14 months to 28.2.95
	<u>£m</u>	<u>£m</u>
Corporation tax	9.0	23.9
Relief for overseas taxation	(0.4)	-
Notional tax on property lease terminations	14.4	-
Notional tax on leasing earnings equalisation	0.5	0.9
Transfer to leasing earnings equalisation	0.4	0.6
Transfer to deferred taxation	20.2	11.1
	<u>44.1</u>	<u>36.5</u>
Associated undertakings	4.0	4.0
	<u>48.1</u>	<u>40.5</u>

Taxation for the year is based on a corporation tax rate of 33% and includes a charge of £14 million relating to prior years for the tax effects of the denial of capital allowances previously claimed and accounted for in respect of the leasing of certain fixtures.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to Shareholders £57.3m (1995:£81.8m) has been dealt with in the accounts of NWS BANK plc. The exemption in respect of the publication of the Company's profit and loss account conferred by S230, Companies Act 1985 applies to NWS BANK plc.

9. DIVIDENDS

	12 months to 29.2.96	14 months to 28.2.95
	<u>£m</u>	<u>£m</u>
Preference dividend : paid	1.0	1.0
: payable	0.9	1.2
	<u>1.9</u>	<u>2.2</u>
Ordinary dividend : paid	-	7.4
: proposed	13.8	48.0
	<u>13.8</u>	<u>55.4</u>
	<u>15.7</u>	<u>57.6</u>

10. LIQUIDITY

The Bank of Scotland Group's liquidity policy has been agreed with the supervisory authority. High quality assets are held and managed by Bank of Scotland Treasury Services PLC, a wholly-owned subsidiary of the parent undertaking, at a level sufficient for all the United Kingdom banking entities in the Bank of Scotland Group. Bank of Scotland has provided NWS BANK plc with a committed standby facility amounting to £200 million, which remains undrawn.

NOTES ON THE ACCOUNTS (continued)

11. LOANS AND ADVANCES TO BANKS

	Group		Company	
	<u>29.2.96</u>	<u>28.2.95</u>	<u>29.2.96</u>	<u>28.2.95</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Repayable:				
On demand - Central banks	18.6	14.9	15.1	12.4
- Others	0.7	2.6	0.2	0.5
Within three months	31.3	28.0	-	-
Between three months and one year	3.5	3.4	0.1	0.1
Between one and five years	6.6	5.6	0.1	0.3
After five years	56.8	52.7	-	-
	<u>117.5</u>	<u>107.2</u>	<u>15.5</u>	<u>13.3</u>
Amounts include:				
Net investment in finance leases	67.1	62.3	0.2	0.4
Balances with ultimate parent undertaking	-	1.9	-	-

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	<u>29.2.96</u>	<u>28.2.95</u>	<u>29.2.96</u>	<u>28.2.95</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Repayable:				
On demand	656.4	683.3	2,907.5	2,461.4
Within three months	441.3	284.1	552.5	193.4
Between three months and one year	954.2	835.9	456.4	522.3
Between one and five years	1,888.9	1,269.0	912.5	805.5
After five years	1,595.0	1,645.4	204.4	396.9
	<u>5,535.8</u>	<u>4,717.7</u>	<u>5,033.3</u>	<u>4,379.5</u>
Provisions (note 13)	(111.6)	(105.2)	(37.3)	(32.5)
Interest in suspense (note 14)	(12.6)	(19.7)	-	-
	<u>5,411.6</u>	<u>4,592.8</u>	<u>4,996.0</u>	<u>4,347.0</u>
Amounts include, net of provisions:				
Net investment in				
- Finance leases	1,797.6	1,624.0	59.9	85.7
- Hire purchase contracts	1,277.7	921.2	1,136.2	871.7
Advances to associated undertakings	305.2	193.0	298.9	383.4
Advances to subsidiary undertakings	-	-	2,891.7	2,520.7

Of advances to subsidiary undertakings £2,357m is repayable on demand. However, as each subsidiary is an integral part of the NWS Group's activities, NWS BANK plc has indicated its intention to continue to provide sufficient finance to enable them to continue trading for at least one year from the date of approval of the relevant accounts.

Included in net investment in finance leases are amounts receivable of £22.5m 1995:£53.6m) for the Group and Company for which related leases exist with third party finance lessors.

NOTES ON THE ACCOUNTS (continued)

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

The cost of equipment acquired during the year for the purpose of finance leasing was:-

Group		Company	
12 months to 29.2.96	14 months to 28.2.95	12 months to 29.2.96	14 months to 28.2.95
£m	£m	£m	£m
727.9	479.8	18.9	16.6

At the balance sheet date future commitments for finance lease assets were as follows:-

	Group		Company	
	29.2.96	28.2.95	29.2.96	28.2.95
	£m	£m	£m	£m
Contracted but not provided in the accounts	99.6	199.2	-	-

Included in Group loans and advances to customers are housing loans to seven (1995: eight) Directors of the Company which have been made in accordance with the terms of the Company's staff mortgage scheme and which amount to £622,091 (1995: £784,873).

Concentrations of exposure, net of provisions:

	Group		Company	
	29.2.96	28.2.95	29.2.96	28.2.95
	£m	£m	£m	£m
Business and other services	981.0	832.0	399.6	340.7
Financial	213.5	190.2	65.5	50.2
Garages, distribution, hotels and catering	637.5	652.4	54.0	49.3
Manufacturing industry	680.4	621.4	296.8	239.4
Transport	204.4	188.7	43.7	39.4
Other commercial and agriculture	171.9	223.9	124.7	60.3
	2,888.7	2,708.6	984.3	779.3
Individuals:				
Home mortgages	609.6	556.4	-	-
Other personal lending	1,608.1	1,134.8	821.1	663.6
	2,217.7	1,691.2	821.1	663.6
Associated undertakings	305.2	193.0	298.9	383.4
Subsidiary undertakings	-	-	2,891.7	2,520.7
	5,411.6	4,592.8	4,996.0	4,347.0

NOTES ON THE ACCOUNTS (continued)

13. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Group	<u>Specific</u> <u>£m</u>	<u>General</u> <u>£m</u>	<u>Total</u> <u>£m</u>
At 1 March 1995	78.7	28.5	107.2
Exchange adjustments	0.3	-	0.3
Subsidiaries acquired	0.6	1.2	1.8
Amounts written off	(41.2)	-	(41.2)
New provisions less releases	33.2	15.2	48.4
At 29 February 1996	<u>71.6</u>	<u>44.9</u>	<u>116.5</u>

Provided against:

Loans and advances to customers	111.6
Operating leases	4.9
	<u>116.5</u>

New provisions less releases	33.2	15.2	48.4
Recoveries of amounts previously written off	(4.9)	-	(4.9)
Net charge to revenue	<u>28.3</u>	<u>15.2</u>	<u>43.5</u>

Company	<u>Specific</u> <u>£m</u>	<u>General</u> <u>£m</u>	<u>Total</u> <u>£m</u>
At 1 March 1995	20.6	11.9	32.5
Amounts written off	(12.7)	-	(12.7)
New provisions less releases	14.9	2.6	17.5
At 29 February 1996	<u>22.8</u>	<u>14.5</u>	<u>37.3</u>

Provided against:

Loans and advances to customers			<u>37.3</u>
New provisions less releases	14.9	2.6	17.5
Recoveries of amounts previously written off	<u>(3.1)</u>	<u>-</u>	<u>(3.1)</u>
Net charge to revenue	11.8	2.6	14.4

NOTES ON THE ACCOUNTS (continued)

14. INTEREST IN SUSPENSE

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. The aggregate amount of interest held in suspense and the movements therein are shown below:

	Group £m
At 1 March 1995	19.7
Interest placed in suspense in the year	4.6
Interest recovered	(0.3)
Amounts written off	(11.4)
At 29 February 1996	<u>12.6</u>

The aggregate amount of gross advances at 29 February 1996 on which interest is being held in suspense amounts to £52.6m for the Group (1995:£99.9m) and £Nil for the Company (1995:£Nil). The aggregate advances, net of specific provisions, amount to £12.8m for the Group (1995:£36.6m) and £Nil for the Company (1995:£Nil).

15. DEBT SECURITIES

	<u>1996</u>		<u>1995</u>	
	<u>Book value £m</u>	<u>Market value £m</u>	<u>Book value £m</u>	<u>Market value £m</u>
Investment securities				
Group				
Issued by public bodies				
Government securities	8.8	8.9	8.6	8.6
Group and Company				
Issued by others				
Associated companies (subordinated)	<u>2.2</u> 11.0	<u>2.2</u> 11.1	<u>2.2</u> 10.8	<u>2.2</u> 10.8
Debt securities mature:				
Within one year	8.8		3.5	
In more than one year	<u>2.2</u> 11.0		<u>7.3</u> 10.8	
Analysis by listing status:				
Listed other than on a recognised UK exchange	8.8		8.6	
Unlisted	<u>2.2</u> 11.0		<u>2.2</u> 10.8	

continued.....

NOTES ON THE ACCOUNTS (continued)

15. DEBT SECURITIES (continued)

The movement on debt securities held for investment purposes is as follows:-

	Group			Company		
	Issued by public bodies	Issued by others	Total	Issued by public bodies	Issued by others	Total
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Cost:						
At 1 March 1995	8.6	2.2	10.8	-	2.2	2.2
Exchange adjustments	0.3	-	0.3	-	-	-
Additions	3.7	-	3.7	-	-	-
Disposals	(3.6)	-	(3.6)	-	-	-
At 29 February 1996	<u>9.0</u>	<u>2.2</u>	<u>11.2</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>
Amortisation:						
At 1 March 1995	-	-	-			
Charge for year	<u>0.2</u>	<u>-</u>	<u>0.2</u>			
At 29 February 1996	<u>0.2</u>	<u>-</u>	<u>0.2</u>			
Net book values:						
At 29 February 1996	<u>8.8</u>	<u>2.2</u>	<u>11.0</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>
At 1 March 1995	<u>8.6</u>	<u>2.2</u>	<u>10.8</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>

16. EQUITY SHARES

	<u>1996</u>		<u>1995</u>	
	Book value	Market value	Book value	Market value
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Group				
Investment securities - unlisted	<u>-</u>	<u>-</u>	<u>0.3</u>	<u>0.3</u>

Unlisted investments have been valued by the Directors.

NOTES ON THE ACCOUNTS (continued)

17. SHARES IN ASSOCIATED UNDERTAKINGS

	Group		Company	
	<u>Cost</u>	<u>Equity accounting adjustment</u>	<u>Book value</u>	<u>Cost and book value</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 March 1995	6.7	(0.3)	6.4	5.4
Additions	1.3	-	1.3	1.3
Disposals	(0.5)	-	(0.5)	(0.5)
Amount written off	-	(0.1)	(0.1)	-
Retained profits	-	0.3	0.3	-
At 29 February 1996	<u>7.5</u>	<u>(0.1)</u>	<u>7.4</u>	<u>6.2</u>

Advances to associated undertakings are included in loans and advances to customers (note 12) and debt securities (note 15). The Group's share of the finance debtors of associated undertakings is £426.5m (1995:£427.1m).

Details of the principal associated undertakings, all of which are unlisted, are shown on page 31.

18. SHARES IN SUBSIDIARY UNDERTAKINGS

	<u>Banks</u>	<u>Others</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Cost			
At 1 March 1995	20.1	26.1	46.2
Acquisitions	-	9.4	9.4
At 29 February 1996	<u>20.1</u>	<u>35.5</u>	<u>55.6</u>
Amounts written off			
At 1 March 1995 and at 29 February 1996	<u>16.1</u>	<u>-</u>	<u>16.1</u>
Net book value at 29 February 1996	<u>4.0</u>	<u>35.5</u>	<u>39.5</u>
Net book value at 1 March 1995	<u>4.0</u>	<u>26.1</u>	<u>30.1</u>

Details of the principal subsidiary undertakings, all of which are unlisted, are shown on pages 30 and 31.

NOTES ON THE ACCOUNTS (continued)

19. OPERATING LEASE ASSETS

Group
£m

Cost

At 1 March 1995	203.2
Acquisition of subsidiary	4.6
Additions	104.9
Disposals	(73.5)
At 29 February 1996	<u>239.2</u>

Less: Depreciation

At 1 March 1995	60.7
Acquisition of subsidiary	0.8
Disposals	(40.4)
Charge for year	41.9
At 29 February 1996	<u>63.0</u>
	<u>176.2</u>
Provisions (note 13)	4.9
Net book value at 29 February 1996	<u>171.3</u>
Net book value at 1 March 1995	<u>140.5</u>

At the balance sheet date authorised expenditure for operating lease assets was £7.2m (1995:£63.2m.).

20. PROPERTY AND EQUIPMENT

Group	Land and buildings		Assets in the course of construction	Equipment	Total
	Freehold	Short leasehold			
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 March 1995	23.0	7.5	0.5	54.7	85.7
Acquisition of subsidiary	-	0.4	-	0.7	1.1
Additions	0.2	2.3	-	19.0	21.5
Disposals	(0.1)	(0.2)	-	(6.9)	(7.2)
Transfers	-	0.5	(0.5)	-	-
At 29 February 1996	<u>23.1</u>	<u>10.5</u>	<u>-</u>	<u>67.5</u>	<u>101.1</u>
Depreciation					
At 1 March 1995		2.8		28.6	31.4
Acquisition of subsidiary		0.1		0.4	0.5
Disposals		(0.1)		(3.4)	(3.5)
Charge for year		1.0		8.7	9.7
At 29 February 1996		<u>3.8</u>		<u>34.3</u>	<u>38.1</u>
Net book values:					
At 29 February 1996	<u>23.1</u>	<u>6.7</u>	<u>-</u>	<u>33.2</u>	<u>63.0</u>
At 1 March 1995	<u>23.0</u>	<u>4.7</u>	<u>0.5</u>	<u>26.1</u>	<u>54.3</u>

continued.....

NOTES ON THE ACCOUNTS (continued)

20. PROPERTY AND EQUIPMENT (continued)

Company	Land and buildings		Assets in the course of construction	Equipment	Total
	<u>Freehold</u>	<u>Short leasehold</u>			
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Cost or valuation					
At 1 March 1995	16.5	7.1	0.5	52.9	77.0
Additions	0.2	1.2	-	15.8	17.2
Disposals	(0.1)	(0.1)	-	(6.6)	(6.8)
Transfers	-	0.5	(0.5)	-	-
At 29 February 1996	<u>16.6</u>	<u>8.7</u>	<u>-</u>	<u>62.1</u>	<u>87.4</u>
Depreciation					
At 1 March 1995		2.6		27.7	30.3
Disposals		(0.1)		(3.2)	(3.3)
Charge for year		0.8		8.3	9.1
At 29 February 1996		<u>3.3</u>		<u>32.8</u>	<u>36.1</u>
Net book values:					
At 29 February 1996	<u>16.6</u>	<u>5.4</u>	<u>-</u>	<u>29.3</u>	<u>51.3</u>
At 1 March 1995	<u>16.5</u>	<u>4.5</u>	<u>0.5</u>	<u>25.2</u>	<u>46.7</u>

Cost or valuation of property comprises:

	Group				Company			
	<u>Freehold</u>		<u>Short leasehold</u>		<u>Freehold</u>		<u>Short leasehold</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
At valuation	21.9	22.0	-	-	15.3	15.5	-	-
At cost	1.2	1.0	10.5	7.5	1.3	1.0	8.7	7.1
	<u>23.1</u>	<u>23.0</u>	<u>10.5</u>	<u>7.5</u>	<u>16.6</u>	<u>16.5</u>	<u>8.7</u>	<u>7.1</u>

On the historical cost basis, land and buildings would have been included as follows:

	Group				Company			
	<u>Freehold</u>		<u>Short leasehold</u>		<u>Freehold</u>		<u>Short leasehold</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Cost	31.2	31.0	10.5	7.5	20.0	19.9	8.7	7.1
Accumulated depreciation	-	-	(3.8)	(2.8)	-	-	(3.3)	(2.6)
Net book value	<u>31.2</u>	<u>31.0</u>	<u>6.7</u>	<u>4.7</u>	<u>20.0</u>	<u>19.9</u>	<u>5.4</u>	<u>4.5</u>

continued.....

NOTES ON THE ACCOUNTS (continued)

20. PROPERTY AND EQUIPMENT (continued)

The land and buildings are occupied by the Group for its own activities.

The property valuations in 1993, on an open market value basis, were carried out by independent professional valuers.

There are capital commitments as follows:	Group and Company	
	1996 £m	1995 £m
Contracted but not provided in the accounts	5.5	2.7
Authorised by the Board but not contracted	3.4	0.7
	<u>8.9</u>	<u>3.4</u>

21. OTHER ASSETS	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Amounts owed by:				
Associated undertakings	8.8	8.8	8.5	8.8
Subsidiary undertakings	-	-	42.5	53.5
Trade debtors	18.0	18.5	12.7	7.1
Other	4.7	3.8	1.8	1.6
	<u>31.5</u>	<u>31.1</u>	<u>65.5</u>	<u>71.0</u>
22. DEPOSITS BY BANKS	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Repayable:				
On demand	43.2	0.6	7.9	9.9
Within three months	506.6	759.4	466.2	736.3
Between three months and one year	1,019.2	593.8	907.3	590.1
Between one and five years	1,186.7	818.6	1,186.7	816.6
After five years	82.6	84.4	82.6	84.4
	<u>2,838.3</u>	<u>2,256.8</u>	<u>2,650.7</u>	<u>2,237.3</u>
Amounts include:				
Due to ultimate parent undertaking	17.1	-	7.9	9.9
Due to a fellow subsidiary undertaking - Bank of Scotland Treasury Services PLC	<u>2,739.2</u>	<u>2,226.2</u>	<u>2,640.8</u>	<u>2,223.1</u>

NOTES ON THE ACCOUNTS (continued)

23. CUSTOMER ACCOUNTS	Group		Company	
	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>
Repayable:				
On demand	70.2	6.4	130.2	1.1
Within three months	1,386.3	1,262.7	1,454.5	1,285.1
Between three months and one year	285.9	381.6	241.2	365.5
Between one and five years	15.6	40.8	16.9	40.5
After five years	1.0	-	-	-
	<u>1,759.0</u>	<u>1,691.5</u>	<u>1,842.8</u>	<u>1,692.2</u>
Amounts include:				
Due to subsidiary undertakings	-	-	190.2	53.5
24. BILLS IN ISSUE	Group		Company	
	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>
Repayable within three months	<u>124.3</u>	<u>51.4</u>	-	-
Bills in issue comprise sterling bills drawn and discounted under acceptance credit facilities by NWS Agencies Limited on behalf of its immediate parent undertaking, NWS BANK plc.				
25. OTHER LIABILITIES	Group		Company	
	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>
Leasing earnings equalisation	6.1	6.7	-	-
Corporation tax due within one year	68.5	66.7	5.2	10.0
Dividends payable	15.1	49.2	15.0	49.2
Trade creditors	53.2	56.2	49.4	38.6
	<u>142.9</u>	<u>178.8</u>	<u>69.6</u>	<u>97.8</u>
26. ACCRUALS AND DEFERRED INCOME	Group		Company	
	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>	<u>1996</u> <u>£m</u>	<u>1995</u> <u>£m</u>
Interest payable	120.7	91.0	118.5	90.3
Other accruals	119.7	94.7	31.4	33.1
	<u>240.4</u>	<u>185.7</u>	<u>149.9</u>	<u>123.4</u>

NOTES ON THE ACCOUNTS (continued)

27. DEFERRED TAXATION

	Group		Company	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Provided in the accounts:				
Short term timing differences	(7.4)	(7.4)	(0.4)	(0.5)
Capital allowances				
On assets leased to customers	206.8	184.7	5.6	3.5
On other assets	3.1	2.2	3.1	2.2
	<u>202.5</u>	<u>179.5</u>	<u>8.3</u>	<u>5.2</u>
At 1 March 1995	179.5	168.4	5.2	4.1
Arising during the year	23.0	11.1	3.1	1.1
At 29 February 1996	<u>202.5</u>	<u>179.5</u>	<u>8.3</u>	<u>5.2</u>
Not provided in the accounts:				
Capital allowances				
On assets leased to customers	56.8	49.9	-	1.3
On other assets	-	0.5	-	0.5
	<u>56.8</u>	<u>50.4</u>	<u>-</u>	<u>1.8</u>

28. LOAN CAPITAL

Loan capital comprises floating rate loans from Bank of Scotland which are subordinated to the claims of creditors and which are repayable as follows:

	Group and Company	
	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>
31 December 2002 or later	121.0	66.0
Perpetual loans	55.0	55.0
	<u>176.0</u>	<u>121.0</u>

Interest is payable on the loan capital at 92.5 basis points over the three month LIBOR rate attributable to a deposit of £1 million. £55 million of additional dated loan capital was acquired from Bank of Scotland on 15 February 1996.

29. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Ordinary shares of £1 each	50.0	50.0	36.4	36.4
Irredeemable preference shares of £1 each	20.0	20.0	20.0	20.0
	<u>70.0</u>	<u>70.0</u>	<u>56.4</u>	<u>56.4</u>

The preference shares carry a dividend of 9.375% per annum, payable half yearly in arrears on 31 March and 30 September. The dividend rights are non-cumulative.

continued.....

NOTES ON THE ACCOUNTS (continued)

29. SHARE CAPITAL (continued)

The preference shares carry no votes at meetings unless the most recent half-yearly dividend due thereon remains unpaid at the date of the meeting or the business of the meeting includes a resolution for the winding up of the company or the varying, altering or abrogating any of the rights, privileges, limitations or restrictions attaching to the preference shares, in which event each holder will be entitled to one vote on a show of hands or one vote per share on a poll.

On a winding up of the company the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, £1 per share plus any accrued dividend.

30. RESERVES

	<u>Group</u>	<u>Associated</u>	<u>Total</u>	<u>Company</u>
	<u>£m</u>	<u>undertakings</u>	<u>£m</u>	<u>£m</u>
Profit and loss account				
At 1 March 1995	235.6	(0.3)	235.3	190.5
Goodwill written off	(3.7)	(0.1)	(3.8)	-
Currency translation differences	0.2	-	0.2	-
Retained profit for the year	56.2	0.3	56.5	41.6
At 29 February 1996	<u>288.3</u>	<u>(0.1)</u>	<u>288.2</u>	<u>232.1</u>

The cumulative amount of goodwill on acquisitions written off in the Group reserves is £5.7m (1995: £1.9m).

31. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>12 months</u>	<u>14 months</u>
	<u>to 29.2.96</u>	<u>to 28.2.95</u>
	<u>£m</u>	<u>£m</u>
Profit attributable to shareholders	72.2	73.9
Dividends	(15.7)	(57.6)
Goodwill written off	(3.8)	-
Other recognised gains and losses	0.2	0.2
	<u>52.9</u>	<u>16.5</u>
Shareholders' funds brought forward	294.3	277.8
Shareholders' funds carried forward	<u>347.2</u>	<u>294.3</u>

32. MEMORANDUM ITEMS

Contingent liabilities

No contingent liabilities exist for either Group or Company at 29 February 1996 (1995: £NIL).

Commitments

The contract amounts noted below indicate the volume of business outstanding at the balance sheet date in respect of commitments undertaken for customers. They do not reflect the underlying credit or other risks.

continued.....

NOTES ON THE ACCOUNTS (continued)

32. MEMORANDUM ITEMS (continued)

Commitments (continued)

	Group		Company	
	<u>Contract amount</u>		<u>Contract amount</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Other commitments:				
Undrawn formal standby facilities, credit lines and other irrevocable commitments to lend				
one year and over	72.3	33.9	6.9	-
less than one year	582.2	479.3	37.1	116.2
	<u>654.5</u>	<u>513.2</u>	<u>44.0</u>	<u>116.2</u>

33. PROPERTY RENTALS

There are commitments to make payments in the following year in respect of non-cancellable operating leases for property which expire:-

	Group		Company	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Within one year	0.1	0.1	-	-
Between one and five years	0.4	0.4	0.4	0.4
In over five years	4.2	3.5	3.7	3.3
	<u>4.7</u>	<u>4.0</u>	<u>4.1</u>	<u>3.7</u>

The majority of leases of land and buildings are subject to rent reviews.

34. EXCHANGE RATE AND INTEREST RATE CONTRACTS

	Group		Company	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Exchange rate contracts for hedging purposes:				
Contract or notional principal amount	41.0	43.5	41.0	43.5
Credit risk weighted amount	1.5	1.1	1.5	1.1
Replacement cost	-	-	-	-
Interest rate contracts for hedging purposes:				
Contract or notional principal amount	1,293.5	1,140.6	1,132.5	1,116.9
Credit risk weighted amount	4.7	3.3	4.6	3.3
Replacement cost	<u>12.0</u>	<u>11.5</u>	<u>11.6</u>	<u>11.5</u>

NOTES ON THE ACCOUNTS (continued)

35. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

The aggregate amounts of assets and liabilities denominated in foreign currencies were as follows:-

	Group	
	<u>1996</u>	<u>1995</u>
	<u>£m</u>	<u>£m</u>
Assets	300.9	123.5
Liabilities	<u>353.8</u>	<u>168.2</u>

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

36. PARENT UNDERTAKING

The ultimate parent undertaking is the Governor and Company of the Bank of Scotland constituted by Act of the Scottish Parliament in 1695. Copies of Bank of Scotland's accounts can be obtained from The Mound, Edinburgh.

**SUBSIDIARY AND ASSOCIATED UNDERTAKINGS
AS AT 29 FEBRUARY 1996**

PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS	Percentage of equity capital and voting rights held by NWS BANK plc	Principal activity	Accounting reference date
Capital Finance Australia Limited	100	Finance	28 February
Capital Incentives plc	100	Promotional incentives	28 February
Edward Rushton Son & Kenyon Limited	100	Valuers	28 February
Equity Bank Limited	100	Banking	28 February
* Flexifly Limited	100	Leasing	28 February
* Glosstrips Limited	100	Leasing	28 February
Godfrey Davis (Contract Hire) Limited	100	Contract hire	28 February
IBOS Finance Limited	100	Leasing	31 December
IBOS Meadowhall Investments Limited	100	Property investment	30 September
International Motors Finance Limited	51	Finance	28 February
Membership Services Finance plc	75	Finance	28 February
MVI Financial Services Limited	51	Finance	28 February
NWS Agencies Limited	100	Treasury services	28 February
NWS Contract Hire Limited	100	Contract hire	28 February
NWS Corporate Finance plc	100	Finance agency	28 February
NWS Facilities Limited	100	Finance	28 February
NWS Property Investments (3) Limited	100	Property investment	31 March
NWS Property Investments (6) Limited	100	Property investment	30 June
NWS Property Investments (9) Limited	100	Property investment	30 September
NWS Property Investments Limited	100	Property investment	31 December
* NWS Trust Limited	100	Finance	28 February
NWS 1 Limited	100	Leasing	31 January
NWS 2 Limited	100	Leasing	28 February
NWS 3 Limited	100	Leasing	31 March
NWS 4 Limited	100	Leasing	30 April
NWS 5 Limited	100	Leasing	31 May
NWS 6 Limited	100	Leasing	30 June
NWS 7 Limited	100	Leasing	31 July
* NWS 8 Limited	100	Leasing	31 August
NWS 9 Limited	100	Leasing	30 September
NWS 10 Limited	100	Leasing	31 October
NWS 11 Limited	100	Leasing	30 November
* NWS 12 Limited	100	Leasing	31 December
* Seaforth Maritime (Highlander) Limited	100	Leasing	28 February
* Seaforth Maritime (Jarl) Limited	100	Leasing	28 February
The Mortgage Business plc	100	Mortgage loans	28 February

continued.....

**SUBSIDIARY AND ASSOCIATED UNDERTAKINGS
AS AT 29 FEBRUARY 1996 (continued)**

PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS (continued)	Percentage of equity capital and voting rights held by NWS BANK plc	Principal activity	Accounting reference date
Tower Hill Property Investments (1) Limited	90	Property investment	31 January
Tower Hill Property Investments (4) Limited	90	Property investment	30 April
Tower Hill Property Investments (7) Limited	90	Property investment	31 July
Tower Hill Property Investments (10) Limited	90	Property investment	31 October

NWS BANK plc and each of the above subsidiary undertakings are registered in England and Wales with the exception of Capital Finance Australia Limited and Equity Bank Limited which are incorporated in Australia and in the Republic of Ireland respectively, and those marked * which are registered in Scotland.

ASSOCIATED UNDERTAKINGS	Percentage of equity capital and voting rights held by NWS BANK plc	Accounting reference date
Automobile Association Financial Services Limited	50	31 December
First Retail Finance Limited	50	31 January
# NFU Mutual Finance Limited	50	31 December
# RFS Limited	50	31 December
Ruby Aircraft Leasing and Trading Limited	20	31 March
Sapphire Aircraft Leasing and Trading Limited	20	31 March

All associated companies are registered in England and Wales.

#Although NWS BANK plc owns more than 50% of the total equity of these companies, the voting rights attached to these holdings represent only 50% of the total voting rights and accordingly, in the absence of control, these companies are accounted for as if they are associated undertakings. Fractions of a percent in the equity capital have been rounded in the above disclosure.

JOINT VENTURE

The company has a 50% involvement in a joint venture, AA Financial Services, which has an accounting reference date of 31 December and whose principal place of business is NWS House, City Road, Chester.