COMPANY NUMBER 392902

CAPITAL BANK

(A BANK OF SCOTLAND GROUP COMPANY)

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 28 FEBRUARY 1999

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1999

The Directors hereby submit their Report and the Accounts for the year ended 28 February 1999.

Results

The Group's profit before taxation amounted to £166.1 million (1998: £113.6 million after a write down of leases of £34.1 million arising from reductions in the rate of corporation tax). The profit attributable to the shareholders of £27.3 million (1998:£101.3 million) is after charging £70.6 million in respect of a move to full provisioning for deferred taxation on assets leased to customers. Out of the profit attributable to the shareholders, the Directors recommend dividends of £10.3 million leaving a balance of £17.0 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.

Corporate Governance

The company conducts its affairs in full cognisance of the provisions of the Combined Code of Best Practice. The disclosure requirements in relation to the Bank of Scotland Group are given in the Report and Accounts of the parent undertaking, the Governor and Company of the Bank of Scotland.

Property and equipment

Changes in property and equipment during the year are shown in Note 18 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 gives 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 is an integral part of the personnel policy applicable to all employees of the company.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1999 (continued)

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. The average number of days credit taken at 28 February 1999 was 22 days.

Directors

The Directors as at 28 February 1999 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	
	At 1 March 1998	At 28 February 1999
W.G. Barclay	46,081	49,356
A.J.J. Bochenski	30,780	32,352
I.M. Brown	10,287	135,675
P.A. Burt	391,118	301,240
A.R. Christie	22,110	26,338
D.R. Fryatt	28,294	29,784
C.R. Halliwell	12,430	13,666
R. Littler	35,832	38,056
J.N. Maclean	5,000	5,000
C. Matthew	34,264	35,965
R.J. Mee	48,884	59,174
J.A. Mercer	47,763	32,662
P.R. Oakes	6,945	11,979
I.W. St. C. Scott	183,997	164,210
Sir John Shaw	102,305	106,695

Mr. I.W.St.C. Scott also had an interest in 1,453 (1998:1,377) ordinary shares in Bank of Western Australia Limited.

Options to subscribe for ordinary stock of Bank of Scotland were granted to or exercised by Directors during the year ended 28 February 1999 as follows:-.

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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1999 (continued)

Directors (continued)

Executive Stock Options

	Options held as at 1.3.98	Options granted	Options exercised	Options held as at 28.2.99
W.G. Barclay	90,500	15,500	-	106,000
A.J.J.Bochenski	60,600	15,500	-	76,100
I.M. Brown	251,745	-	123,245	128,500
P.A. Burt	395,000	60,000	-	455,000
A.R. Christie	133,500	15,500	94,000	55,000
D.R. Fryatt	65,100	15,500	-	80,600
C.R. Halliwell	90,500	15,500	51,000	55,000
R. Littler	183,500	33,000	60,000	156,500
C. Matthew	288,852	35,000	162,852	161,000
R.J. Mee	83,500	15,500	-	99,000
J.A. Mercer	194,500	-	75,000	119,500
P.R. Oakes	56,000	15,500	-	71,500
I.W. St. C. Scott	237,000	17,650	48,000	206,650

Bank of Scotland policy is to make an annual grant of options over the ten year life of the Executive Stock Option Schemes.

Savings Related Stock Options

	Options held as at 1.3.98	Options granted	Options exercised	Options held as at 28.2.99
I.M. Brown	10,481	-	941	9,540
A.R. Christie	7,774	-	2,796	4,978
D.R. Fryatt	8,526	313	-	8,839
C.R. Halliwell	9,799	667	-	10,466
R. Littler	9,099	-	-	9,099
R.J. Mee	9,286	-	-	9,286
J.A. Mercer	7,138	63	-	7,201
P.R. Oakes	6,466	1,364	941	6,889

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

Year 2000

The CAPITAL BANK Group is fully aware of the potential of the century date change and other risk-sensitive date changes in the new millennium to cause disruption to computer systems. The Group has a project, which commenced in 1996, designed to ensure that the "Year 2000" problem is resolved without material impact on its operations.

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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1999 (continued)

Year 2000 (continued)

The project is well advanced and the main computer systems, with only a few exceptions, have been converted and compliance tested and are now "Year 2000 compliant". The exceptions, together with any remaining non-critical applications and external interface testing with third parties' systems are scheduled to be completed and tested for "Year 2000 compliance" by the end of June 1999. During the remainder of 1999, any further third party interface testing required will be carried out together with the completion and testing of continuity and contingency plans.

Within CAPITAL BANK the Year 2000 project is managed by a Project Task Force which reports to the Year 2000 Steering Committee, chaired by an Executive Director. The Executive Board reviews the progress of the project at least monthly and overall Group progress is monitored quarterly by the Group Audit Committee.

The cost of the entire Year 2000 project for the CAPITAL BANK Group from commencement to 31 December 1999 is estimated at £13.8 million of which approximately £12.0 million has been spent to date and written off to profit and loss account.

The Year 2000 Information and Readiness Disclosure Act (USA) (the Act) was signed into law on 19 October 1998. Pursuant to the Act, the foregoing statement is being designated as a "Year 2000 Readiness Disclosure" as defined in the Act.

Economic and Monetary Union (EMU)

In January the euro was successfully launched as a new currency, albeit notes and coins will not appear until 2002. If the Government's economic tests are met and if the proposed referendum supports UK membership of EMU and if Britain adopts the euro as its currency, then the Group will be involved in significant investment in systems, both prior to entry and during the transition period, which is likely to be at least of an equivalent quantum to the cost of the Year 2000 project.

Auditors

Following a decision to appoint a single firm for the audit of all Bank of Scotland Group companies and a subsequent tendering process, the Board has decided to seek approval at the Annual General Meeting of the company to the appointment of KPMG Audit Plc as Auditors.

The Board wishes to acknowledge the quality of service provided by Ernst & Young as Auditors over many years.

BY ORDER OF THE BOARD

R Nixon

R. NIXON
Secretary

Capital House
Queens Park Road
Handbridge
CHESTER
CH88 3AN

8 April 1999

DIRECTORS' ACCOUNTING RESPONSIBILITIES

The Directors are required to prepare financial statements for each financial year which comply with Part V11 of the Companies Act 1985 and which give a true and fair view of the state of affairs of the company 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 financial statements on pages 7 to 32 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 Part V11 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.

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 maintenance of systems of internal control, the effectiveness of which they regularly review. These controls are designed to provide reasonable (but cannot provide absolute) assurance on the reliability of the Group's systems for the identification and management of risk, the maintenance of proper control over the assets and liabilities of the Group and on the accuracy and reliability of the Group's information systems.

REPORT OF THE AUDITORS
to the members of CAPITAL BANK plc

We have audited the accounts on pages 7 to 32 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 5 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 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 accounts give a true and fair view of the state of affairs of the company and of the Group as at 28 February 1999 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

ERNST & YOUNG
Registered Auditor
LIVERPOOL

8 April 1999

ACCOUNTING POLICIES

The Group's accounting policies, detailed below, are unchanged other than those arising from implementation of FRS 9 "Associates and Joint Ventures", FRS 10 "Goodwill and Intangible Assets" and FRS 11 "Impairment of Fixed Assets and Goodwill". The effect of these changes on the current year results is not material.

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 28 February 1999 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.

Joint Ventures

The attributable share of the results of joint ventures is included using the gross equity method of accounting. The share of results of joint ventures is based on audited management accounts made up to 28 February 1999 for those joint ventures with other accounting reference dates.

Shares in joint ventures 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 joint ventures are stated at cost.

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ACCOUNTING POLICIES (continued)

Finance leases, instalment credit and operating leases

Income from assets leased to customers, including the release of government grants, 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.

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. Mortgage incentive costs are charged to profit and loss account as they are incurred.

Goodwill

Goodwill arising on acquisitions prior to 1 March 1998 was written off against reserves in the year in which it arose. Negative goodwill was credited to reserves. Goodwill arising on acquisitions after 1 March 1998 is capitalised and included within intangible fixed assets. Goodwill is amortised by equal instalments over its estimated useful life. Impairment charges are included within operating profit. If a subsidiary is subsequently sold or closed any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

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ACCOUNTING POLICIES (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. Impairment charges are included within operating profit.

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.

Foreign currencies

Assets and liabilities 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 fixed assets are taken to reserves except to the extent that they are offset by corresponding differences arising in the translation of related borrowing. All other exchange differences are included in operating profit.

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 28 FEBRUARY 1999

	Notes	1999 £m	1998 £m
Interest receivable			
Interest receivable and similar income arising from debt securities		1.8	1.9
Other interest receivable		1,147.1	922.2
Write down of leased assets	6	-	(34.1)
		1,148.9	890.0
Interest payable		(689.2)	(536.0)
Net interest income		**459.7**	**354.0**
Fees and commissions receivable		165.2	132.9
Fees and commissions payable		(86.8)	(72.8)
		78.4	60.1
Other operating income		1.4	4.6
Net operating income from continuing operations		**539.5**	**418.7**
Administrative expenses	2	259.0	228.1
Depreciation: Property and equipment	18	21.0	17.5
Provisions for bad and doubtful debts	12	112.9	83.3
		392.9	328.9
OPERATING PROFIT from continuing operations	**3**	**146.6**	**89.8**
Share of profits of joint ventures		19.5	23.8
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**166.1**	**113.6**
Tax on profit on ordinary activities	6	136.1	11.3
PROFIT FOR THE FINANCIAL YEAR		**30.0**	**102.3**
Applicable to minority shareholders (equity)		2.7	1.0
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	7	**27.3**	**101.3**
Dividends	8	10.3	16.9
RETAINED PROFIT	28	**17.0**	**84.4**

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 28 FEBRUARY 1999

	1999 £m	1998 £m
Profit attributable to shareholders	27.3	101.3
Currency translation differences	(0.1)	(2.0)
Total recognised gains and losses for the financial year	**27.2**	**99.3**

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 10.

CONSOLIDATED BALANCE SHEET AS AT 28 FEBRUARY 1999

	Notes	1999 £m	1998 £m
Assets			
Cash and balances at central banks		0.1	0.1
Loans and advances to banks	9,10	232.3	189.7
Loans and advances to customers	11	10,926.3	9,198.5
Debt securities	14	24.6	29.6
Shares in joint ventures : gross assets		869.5	801.8
: gross liabilities		(857.9)	(788.4)
	15	11.6	13.4
Tangible fixed assets			
Operating lease assets	17	569.0	370.0
Property and equipment	18	108.7	91.1
		677.7	461.1
Other assets	19	65.2	100.2
Prepayments and accrued income		78.3	67.6
Total assets		**12,016.1**	**10,060.2**
Liabilities			
Deposits by banks	20	7,799.2	5,478.8
Customer accounts	21	2,189.4	2,740.6
Bills in issue	22	45.5	203.3
Other liabilities	23	268.5	204.6
Accruals and deferred income	24	443.6	398.4
Provisions for liabilities and charges			
Deferred taxation	25	292.0	214.0
		11,038.2	**9,239.7**
Capital resources			
Subordinated liabilities			
Dated loan capital	26	290.0	230.0
Undated loan capital	26	95.0	55.0
		385.0	285.0
Called up share capital	27	130.4	92.4
Share premium account		2.6	2.6
Profit and loss account	28	453.5	436.6
Shareholders' funds including non-equity interests	29	586.5	531.6
Minority interests - equity		6.4	3.9
		977.9	820.5
		12,016.1	**10,060.2**
MEMORANDUM ITEM			
Commitments	30	970.0	794.2

Approved by the Board of Directors on 8 April 1999 and signed on its behalf by

JOHN C. SHAW

JOHN A. MERCER

BALANCE SHEET AS AT 28 FEBRUARY 1999

	Notes	1999 £m	1998 £m
Assets			
Cash and balances at central banks		0.1	0.1
Loans and advances to banks	9,10	51.0	59.2
Loans and advances to customers	11	9,441.7	7,825.8
Debt securities	14	2.2	2.2
Shares in joint ventures	15	6.7	6.2
Shares in subsidiary undertakings	16	141.1	132.4
Tangible fixed assets			
Property and equipment	18	90.6	73.4
Other assets	19	106.5	121.8
Prepayments and accrued income		46.0	37.9
Total assets		**9,885.9**	**8,259.0**
Liabilities			
Deposits by banks	20	6,738.9	4,604.5
Customer accounts	21	1,852.4	2,623.5
Other liabilities	23	63.3	62.8
Accruals and deferred income	24	289.6	239.8
Provisions for liabilities and charges			
Deferred taxation	25	6.7	9.7
		8,950.9	**7,540.3**
Capital resources			
Subordinated liabilities			
Dated loan capital	26	290.0	230.0
Undated loan capital	26	95.0	55.0
		385.0	285.0
Called up share capital	27	130.4	92.4
Share premium account		2.6	2.6
Profit and loss account	28	417.0	338.7
Shareholders' funds		550.0	433.7
Equity		456.0	377.7
Non-equity		94.0	56.0
		935.0	718.7
		9,885.9	**8,259.0**
MEMORANDUM ITEM			
Commitments	30	214.6	88.9

Approved by the Board of Directors on 8 April 1999 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, the Republic of Ireland and Australia. The activities in the Republic of Ireland and Australia are not separately disclosed on the basis of materiality.

2. ADMINISTRATIVE EXPENSES

	1999 £m	1998 £m
Staff costs		
Salaries	136.8	123.0
Social Security costs	10.2	8.5
Other pension costs (note 5)	7.9	6.7
	154.9	138.2
Other administration expenses	104.1	89.9
	259.0	228.1

Salaries include allocations to staff profit sharing schemes amounting to £12.7 million (1998: £10.4 million).

The average number of persons employed by the Group during the year was:	1999	1998
Full time	5,541	5,418
Part time	428	265
	5,969	5,683

3. OPERATING PROFIT

	1999 £m	1998 £m
Group operating profit is all from continuing operations and is stated after crediting:		
Finance lease rentals	449.0	337.4
Operating lease rentals	236.0	105.6
Hire purchase instalments	1,060.5	860.1
Interest on loans to joint ventures	88.3	40.0
and after charging:		
Intra group interest	487.7	354.3
Depreciation of operating lease assets	187.1	76.5
Operating lease charges - land and buildings	7.7	6.7
Emoluments of directors (note 4)	2.8	2.2
Auditors' remuneration - audit	0.6	0.6
- other	0.6	1.1

NOTES ON THE ACCOUNTS (continued)

4. EMOLUMENTS OF DIRECTORS

The aggregate emoluments of the Directors of the Company amounted to £2,762,766 (1998: £2,180,248) and included fees of £173,500 (1998 :£135,760). The number of Directors who exercised share options during the year, including the highest paid Director, was 8 (1998:8); 15 (1998: 15) Directors are members of defined benefit pension schemes.

The emoluments of the highest paid Director were £363,739 (1998:£318,621), including a performance related bonus of £85,000 (1998: £75,000), exclusive of pension contributions, and his accrued pension at the end of the year was £138,580 (1998: £129,312).

5. 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 1998 at which date the market value of the scheme assets was £137.7 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 120% of members' accrued benefits. The company is taking credit for the surplus within the pension fund by making reduced contributions over sixteen years from 5 April 1998.

6. TAXATION

	1999	1998
	£m	£m
Corporation tax at 31%	50.0	7.0
Overseas taxation	1.5	(0.6)
Transfer to/(from) deferred taxation	77.8	(2.6)
	129.3	3.8
Share of joint ventures' taxation	6.8	7.5
	136.1	11.3

The charge for deferred taxation in the year to 28 February 1999 includes an additional provision of £70.6 million in respect of a move to full provisioning for deferred taxation on assets leased to customers. The changes in the standard rate of corporation tax for 1998 and 1999 reduced the deferred tax liability in the year to 28 February 1998, predominantly in respect of finance lease receivables. A write down of finance leases of £34.1 million was charged to the profit before tax in the year to 28 February 1998 and, accordingly, a corresponding reduction of £28.2 million in the deferred tax liability was recognised in the tax charge.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to shareholders £88.7 million (1998: £101.9 million) has been dealt with in the accounts of CAPITAL 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 CAPITAL BANK plc.

8. DIVIDENDS

		1999	1998
		£m	£m
Preference dividend	: paid	1.8	0.6
	: payable	3.5	3.5
		5.3	4.1
Ordinary dividend	:paid	-	7.6
	:proposed	5.0	5.2
		5.0	12.8
		10.3	16.9

9. 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.

10. LOANS AND ADVANCES TO BANKS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Repayable:				
On demand - Central banks	20.1	27.5	11.6	20.5
- Others	5.2	76.6	39.4	38.7
Within three months	196.0	72.2	-	-
Between three months and one year	3.1	3.1	-	-
Between one and five years	7.9	9.2	-	-
After five years	-	1.1	-	-
	232.3	189.7	51.0	59.2
Amounts include:				
Due from ultimate parent undertaking	-	-	37.2	38.6
Net investment in finance leases	12.0	15.5	-	-

NOTES ON THE ACCOUNTS (continued)

11. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Repayable:				
On demand	1,770.8	1,170.7	4,484.4	4,106.3
Within three months	680.8	1,007.0	1,024.2	874.7
Between three months and one year	1,740.3	1,463.3	1,175.5	798.6
Between one and five years	4,085.2	3,343.9	2,385.9	1,764.2
After five years	2,884.2	2,388.1	497.8	363.2
	11,161.3	9,373.0	9,567.8	7,907.0
Provisions (note 12)	(219.5)	(162.7)	(125.2)	(81.1)
Interest in suspense (note 13)	(15.5)	(11.8)	(0.9)	(0.1)
	10,926.3	9,198.5	9,441.7	7,825.8
Amounts include, net of provisions:				
Net investment in				
- Finance leases	2,378.2	2,251.3	74.1	66.3
- Hire purchase contracts	3,477.4	2,837.4	2,505.6	1,950.2
Advances to joint ventures	960.3	855.1	960.3	812.7
Advances to subsidiary undertakings	-	-	4,751.8	4,196.4

Of advances to subsidiary undertakings £3,433 million (1998: £3,130 million) is repayable on demand. However, as each subsidiary is an integral part of the CAPITAL BANK Group's activities, CAPITAL 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 £0.3 million (1998:£1.1 million) for the Group and company for which related leases exist with third party finance lessors.

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

Group		Company	
1999	1998	1999	1998
£m	£m	£m	£m
871.1	812.2	34.5	31.4

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

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Contracted but not provided in the accounts	170.9	22.7	-	-

NOTES ON THE ACCOUNTS (continued)

11. LOANS AND ADVANCES TO CUSTOMERS (continued)

Included in Group loans and advances to customers are housing loans to eight (1998:nine) Directors of the company which have been made in accordance with the terms of the company's staff mortgage scheme and which amount to £732,259 (1998:£802,880).

Concentrations of exposure, net of provisions:

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Loans and advances to customers:				
Agriculture, forestry and fishing	44.4	40.4	38.4	49.8
Energy	173.2	135.6	0.2	-
Manufacturing industry	1,177.9	1,064.6	474.3	405.2
Construction and property	385.0	336.3	366.9	245.1
Hotels, restaurants and wholesale and retail trade	499.9	271.3	287.5	192.1
Transport, storage and communication	739.1	1,016.8	103.6	109.6
Financial	436.6	183.5	19.7	18.4
Other services	1,562.2	1,445.8	425.7	326.7
	5,018.3	4,494.3	1,716.3	1,346.9
Individuals:				
Home mortgages	1,234.1	841.5	0.9	-
Other personal lending	3,713.6	3,005.3	2,012.4	1,470.0
	4,947.7	3,846.8	2,013.3	1,470.0
Joint ventures	960.3	857.4	960.3	812.7
Subsidiary undertakings	-	-	4,751.8	4,196.2
	10,926.3	9,198.5	9,441.7	7,825.8

12. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Specific	General	Total
Group	£m	£m	£m
At 1 March 1998	94.8	75.5	170.3
Amounts written off	(70.0)	-	(70.0)
New provisions less releases	115.8	7.2	123.0
At 28 February 1999	140.6	82.7	223.3
Provided against:			
Loans and advances to customers			219.5
Operating leases			3.8
			223.3
New provisions less releases	115.8	7.2	123.0
Recoveries of amounts previously written off	(10.1)	-	(10.1)
Net charge to revenue	105.7	7.2	112.9

NOTES ON THE ACCOUNTS (continued)

12. PROVISIONS FOR BAD AND DOUBTFUL DEBTS (continued)

Company	Specific £m	General £m	Total £m
At 1 March 1998	58.4	22.7	81.1
Amounts written off	(38.2)	-	(38.2)
New provisions less releases	76.0	6.3	82.3
At 28 February 1999	96.2	29.0	125.2
Provided against:			
Loans and advances to customers			125.2
New provisions less releases	76.0	6.3	82.3
Recoveries of amounts previously written off	(3.3)	-	(3.3)
Net charge to revenue	72.7	6.3	79.0

13. 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 is shown below:

	Group £m	Company £m
At 28 February 1999	15.5	0.9
At 1 March 1998	11.8	0.1

The aggregate amount of gross advances at 28 February 1999 on which interest is being held in suspense amounts to £87.7 million for the Group (1998:£68.1 million) and £15.3 million for the company (1998:£2.4 million). The aggregate advances, net of specific provisions, amount to £21.0 million for the Group (1998:£17.0 million) and £5.8 million for the company (1998: £0.5 million).

NOTES ON THE ACCOUNTS (continued)

14. DEBT SECURITIES

	1999 Book value £m	1999 Market value £m	1998 Book value £m	1998 Market value £m
Investment securities				
Group				
Issued by public bodies				
Government securities	22.4	22.6	27.4	27.5
Group and company				
Issued by others				
Joint ventures (subordinated))	2.2	2.2	2.2	2.2
	24.6	24.8	29.6	29.7

	1999	1998
Debt securities mature:		
Within one year	21.9	24.5
In more than one year	2.7	5.1
	24.6	29.6
Analysis by listing status:		
Listed	22.4	27.4
Unlisted	2.2	2.2
	24.6	29.6

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

	Group: Issued by public bodies £m	Group: Issued by others £m	Group: Total £m	Company: Issued by other than public bodies £m
Cost:				
At 1 March 1998	27.7	2.2	29.9	2.2
Exchange adjustments	0.2	-	0.2	-
Additions	0.6	-	0.6	-
Disposals	(6.1)	-	(6.1)	-
At 28 February 1999	22.4	2.2	24.6	2.2
Amortisation:				
At 1 March 1998	0.3	-	0.3	
Realisations	(0.3)	-	(0.3)	
At 28 February 1999	-	-	-	
Net book values:				
At 28 February 1999	22.4	2.2	24.6	2.2
At 1 March 1998	27.4	2.2	29.6	2.2

NOTES ON THE ACCOUNTS (continued)

15. SHARES IN JOINT VENTURES

	Group			Company
	Cost	Equity accounting adjustment	Book value	Cost and book value
	£m	£m	£m	£m
At 1 March 1998	7.1	6.3	13.4	6.2
Retained losses	-	(2.3)	(2.3)	-
Additions	0.5	-	0.5	0.5
At 28 February 1999	7.6	4.0	11.6	6.7

Advances to joint ventures are included in loans and advances to customers (note 11) and debt securities (note 14).

Details of the principal joint ventures, all of which are unlisted, are shown on page 32.

16. SHARES IN SUBSIDIARY UNDERTAKINGS

	Banks	Others	Total
	£m	£m	£m
Cost			
At 1 March 1998	23.1	130.9	154.0
Additional capital subscribed	-	8.2	8.2
Exchange differences	0.5	-	0.5
At 28 February 1999	23.6	139.1	162.7
Amounts written off			
At 1 March 1998 and at 28 February 1999	16.1	5.5	21.6
Net book value at 28 February 1999	7.5	133.6	141.1
Net book value at 1 March 1998	7.0	125.4	132.4

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

NOTES ON THE ACCOUNTS (continued)

17. OPERATING LEASE ASSETS

	Group
	£m
Cost	
At 1 March 1998	467.6
Additions	662.0
Disposals	(348.6)
At 28 February 1999	781.0
Less:Depreciation	
At 1 March 1998	90.0
Disposals	(68.9)
Charge for year	187.1
At 28 February 1999	208.2
	572.8
Provisions (note 12)	(3.8)
Net book value at 28 February 1999	569.0
Net book value at 1 March 1998	370.0

At the balance sheet date contracted expenditure for operating lease assets was £8.9 million (1998: £17.8 million).

18. PROPERTY AND EQUIPMENT

	Land and buildings			
		Short		
	Freehold	leasehold	Equipment	Total
Group	£m	£m	£m	£m
Cost or valuation				
At 1 March 1998	30.4	15.0	109.0	154.4
Exchange translation	-	(0.1)	(0.1)	(0.2)
Transfers	-	(1.7)	1.7	-
Additions	13.3	1.4	32.6	47.3
Disposals	(0.2)	(0.1)	(18.9)	(19.2)
At 28 February 1999	43.5	14.5	124.3	182.3
Depreciation				
At 1 March 1998		6.3	57.0	63.3
Exchange translation		-	(0.1)	(0.1)
Transfers		(0.6)	0.6	-
Disposals		(0.1)	(10.5)	(10.6)
Charge for year		1.3	19.7	21.0
At 28 February 1999		6.9	66.7	73.6
Net book values:				
At 28 February 1999	43.5	7.6	57.6	108.7
At 1 March 1998	30.4	8.7	52.0	91.1

continued......

NOTES ON THE ACCOUNTS (continued)

18. PROPERTY AND EQUIPMENT (continued)

Company	Land and buildings Freehold £m	Land and buildings Short leasehold £m	Equipment £m	Total £m
Cost or valuation				
At 1 March 1998	22.2	12.4	93.5	128.1
Additions	13.3	0.6	28.3	42.2
Disposals	(0.2)	(0.1)	(16.4)	(16.7)
At 28 February 1999	35.3	12.9	105.4	153.6
Depreciation				
At 1 March 1998		5.3	49.4	54.7
Disposals		(0.1)	(8.6)	(8.7)
Charge for year		1.1	15.9	17.0
At 28 February 1999		6.3	56.7	63.0
Net book values:				
At 28 February 1999	35.3	6.6	48.7	90.6
At 1 March 1998	22.2	7.1	44.1	73.4

Cost or valuation of property comprises:

	Group				Company			
	Freehold		Short leasehold		Freehold		Short leasehold	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
At valuation	24.1	24.3	-	-	16.1	16.1	-	-
At cost	19.4	6.1	14.5	15.0	19.2	6.1	12.9	12.4
	43.5	30.4	14.5	15.0	35.3	22.2	12.9	12.4

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

	Group				Company			
	Freehold		Short leasehold		Freehold		Short leasehold	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Cost	50.9	37.9	14.5	15.0	39.3	26.2	12.9	12.4
Accumulated depreciation	-	-	(6.9)	(6.3)	-	-	(6.3)	(5.3)
Net book value	50.9	37.9	7.6	8.7	39.3	26.2	6.6	7.1

continued......

NOTES ON THE ACCOUNTS (continued)

18. PROPERTY AND EQUIPMENT (continued)

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

The property valuations in 1996, on the basis of open market value for existing use, were carried out by employees of a subsidiary undertaking who are members of the Royal Institution of Chartered Surveyors.

There are capital commitments as follows:	Group and Company	
	1999	1998
	£m	£m
Contracted but not provided in the accounts	8.7	15.3

19. OTHER ASSETS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Group relief receivable	-	-	-	1.1
Amounts owed by:				
Joint ventures	12.0	8.5	12.0	8.5
Subsidiary undertakings	-	-	67.2	91.4
Trade debtors	41.9	79.7	24.9	19.2
Other	11.3	12.0	2.4	1.6
	65.2	100.2	106.5	121.8

20. DEPOSITS BY BANKS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Repayable:				
On demand	3.3	45.4	-	-
Within three months	3,309.8	1,218.3	2,848.7	862.7
Between three months and one year	1,660.1	941.1	1,486.1	818.8
Between one and five years	2,791.0	3,167.9	2,393.9	2,837.9
After five years	35.0	106.1	10.2	85.1
	7,799.2	5,478.8	6,738.9	4,604.5
Amounts include:				
Due to ultimate parent undertaking	-	27.9	-	-
Due to fellow subsidiary undertakings	7,757.8	5,428.9	6,736.9	4,599.5

NOTES ON THE ACCOUNTS (continued)

21. CUSTOMER ACCOUNTS

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Repayable:				
On demand	53.2	239.0	115.5	104.7
Within three months	1,697.5	1,854.6	1,409.3	1,846.9
Between three months and one year	338.2	622.8	305.5	631.9
Between one and five years	86.0	23.6	22.1	39.4
After five years	14.5	0.6	-	0.6
	2,189.4	2,740.6	1,852.4	2,623.5
Amounts include:				
Due to subsidiary undertakings	-	-	106.3	238.9

22. BILLS IN ISSUE

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Repayable:				
Within three months	36.5	203.3	-	-
Between three months and one year	9.0	-	-	-
	45.5	203.3	-	-

23. OTHER LIABILITIES

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Corporation tax due within one year	109.9	79.1	8.6	-
Dividends payable	8.5	8.7	8.5	8.7
Trade creditors	150.1	116.8	46.2	54.1
	268.5	204.6	63.3	62.8

4. ACCRUALS AND DEFERRED INCOME

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Interest payable	210.3	190.7	210.3	183.1
Other accruals	233.3	207.7	79.3	56.7
	443.6	398.4	289.6	239.8

NOTES ON THE ACCOUNTS (continued)

25. DEFERRED TAXATION

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
Provided in the accounts:				
Short term timing differences	(9.6)	(1.7)	(2.5)	(0.1)
Capital allowances				
On assets leased to customers	294.0	211.8	6.3	6.2
On other assets	7.6	3.9	2.9	3.6
	292.0	214.0	6.7	9.7
At 1 March 1998	214.0	216.4	9.7	9.5
Exchange differences	0.2	0.2	-	-
Arising during the year	77.8	(2.6)	(3.0)	0.2
At 28 February 1999	292.0	214.0	6.7	9.7
Not provided in the accounts:				
Capital allowances				
On assets leased to customers	-	70.6	-	-

6. 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	
	1999	1998
	£m	£m
31 December 2004 or later	290.0	230.0
Perpetual loans	95.0	55.0
	385.0	285.0

£60 million of additional dated loan capital and £40 million of additional undated loan capital was issued to Bank of Scotland on 29 January 1999.

Interest is payable on the dated loan capital and the undated loan capital respectively at 66.5 basis points and 91.0 basis points over the three month LIBOR rate attributable to a deposit of £1 million.

NOTES ON THE ACCOUNTS (continued)

27. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1999	1998	1999	1998
	£m	£m	£m	£m
Ordinary shares of £1 each	50.0	50.0	36.4	36.4
Irredeemable preference shares of £1 each	100.0	60.0	94.0	56.0
	150.0	110.0	130.4	92.4

The company increased its authorised share capital during the year by the creation of a further 40 million preference shares of £1 each, 38 million of which were issued to Bank of Scotland at par on 29 January 1999.

All of 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.

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.

28. RESERVES

	Group	Joint ventures	Total	Company
	£m	£m	£m	£m
Profit and loss account				
At 1 March 1998	430.3	6.3	436.6	338.7
Currency translation differences	(0.1)	-	(0.1)	(0.1)
Retained profit for the year	19.3	(2.3)	17.0	78.4
At 28 February 1999	449.5	4.0	453.5	417.0

The cumulative amount of goodwill on acquisitions written off in the Group reserves is £21.3 million (1998: £21.3 million).

29. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group	
	1999	1998
	£m	£m
Profit attributable to shareholders	27.3	101.3
Dividends	(10.3)	(16.9)
Preference capital subscribed	38.0	36.0
Other recognised gains and losses	(0.1)	(2.0)
	54.9	118.4
Shareholders' funds brought forward	531.6	413.2
Shareholders' funds carried forward	586.5	531.6
Equity shareholders' funds	492.5	475.6
Non-equity shareholders' funds	94.0	56.0
	586.5	531.6

30. MEMORANDUM ITEMS

Contingent liabilities

No contingent liabilities exist for either Group or Company at 28 February 1999 (1998:£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.

	Group		Company	
	Contract amount		Contract amount	
	1999	1998	1999	1998
Other commitments:	£m	£m	£m	£m
Undrawn formal standby facilities, credit lines and other irrevocable commitments to lend				
one year and over	64.4	87.0	16.6	17.1
less than one year	905.6	707.2	198.0	71.8
	970.0	794.2	214.6	88.9

i. 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	
	1999	1998	1999	1998
	£m	£m	£m	£m
Within one year	0.9	0.6	0.3	0.5
Between one and five years	2.6	0.8	0.6	0.8
In over five years	7.6	7.4	6.0	7.3
	11.1	8.8	6.9	8.6

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

32. EXCHANGE RATE AND INTEREST RATE CONTRACTS

The Group has entered into exchange rate and interest rate contracts as noted below exclusively for hedging purposes. The contract or notional principal amounts bear no relationship to the underlying risks involved and, accordingly, the credit risk weighted amount, using the Bank for International Settlements' capital adequacy rules, and the replacement costs are also stated.

	Contract or notional principal amount		Credit risk weighted amount		Replacement cost	
	1999	1998	1999	1998	1999	1998
	£m	£m	£m	£m	£m	£m
Group						
Exchange rate contracts						
Residual maturity:						
One year or less	0.5	-	-	-	-	-
One to five years	36.4	36.3	0.9	0.9	-	-
Over five years	47.9	-	1.8	-	-	-
	84.8	36.3	2.7	0.9	-	-
Interest rate contracts						
Residual maturity:						
One year or less	647.1	631.9	3.5	0.7	4.8	1.6
One to five years	1,165.6	1,178.4	8.4	4.2	13.9	8.2
Over five years	477.8	456.1	0.3	0.2	-	2.8
	2,290.5	2,266.4	12.2	5.1	18.7	12.6
Company						
Exchange rate contracts						
Residual maturity:						
One to five years	36.4	36.3	0.9	0.9	-	-
Over five years	47.9	-	1.8	-	-	-
	84.3	36.3	2.7	0.9	-	-
Interest rate contracts						
Residual maturity:						
One year or less	597.9	526.2	3.5	0.5	3.6	1.0
One to five years	1,119.0	1,122.2	8.3	4.2	13.7	7.7
Over five years	471.6	451.2	0.3	0.2	-	2.8
	2,188.5	2,099.6	12.1	4.9	17.3	11.5

3. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

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

	Group	
	1999	1998
	£m	£m
Assets	1,319.3	915.9
Liabilities	1,330.6	933.1

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

NOTES ON THE ACCOUNTS (continued)

34. 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. As a wholly owned subsidiary undertaking the company is exempt from including a statement of cash flows in its accounts. Bank of Scotland has included a consolidated statement of cash flows in its consolidated accounts. Copies of Bank of Scotland's accounts can be obtained from The Mound, Edinburgh.

35. RELATED PARTY TRANSACTIONS

In accordance with the exemption afforded by FRS 8 "Related Party Disclosures" , there is no disclosure in these financial statements of transactions within the Bank of Scotland Group.

During the year, in addition to those transactions disclosed separately in the accounts, the Group had the following transactions with related parties:

Charged against fees and commissions receivable is commission of £13.0 million (1998: £8.4 million) paid to Automobile Association Financial Services Limited, RFS Limited and First Retail Finance (Chester) Limited in respect of credit insurance business underwritten by CAPITAL BANK Group companies.

Credited against administrative expenses are charges of £20.6 million (1998:£16.3 million) for administrative services provided to Automobile Association Financial Services Limited, RFS Limited, NFU Mutual Finance Limited and First Retail Finance (Chester) Limited, joint ventures of CAPITAL BANK plc. At the year end the balance owing from these companies in relation to these transactions was £nil (1998:£nil).

SUBSIDIARY UNDERTAKINGS AND JOINT VENTURES AS AT 28 FEBRUARY 1999

PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS	Percentage of equity capital and voting rights held by CAPITAL BANK plc	Principal activity	Accounting reference date
CAPITAL BANK Cash Flow Finance Limited (formerly Kellock Limited)	100	Debt factoring	28 February
CAPITAL BANK Corporate Finance plc	100	Finance agency	28 February
CAPITAL BANK Leasing 1 Limited	100	Leasing	31 January
CAPITAL BANK Leasing 2 Limited	100	Leasing	28 February
CAPITAL BANK Leasing 3 Limited	100	Leasing	31 March
CAPITAL BANK Leasing 4 Limited	100	Leasing	30 April
CAPITAL BANK Leasing 5 Limited	100	Leasing	31 May
CAPITAL BANK Leasing 6 Limited	100	Leasing	30 June
CAPITAL BANK Leasing 7 Limited	100	Leasing	31 July
CAPITAL BANK Leasing 8 Limited	100	Leasing	31 August
CAPITAL BANK Leasing 9 Limited	100	Leasing	30 September
CAPITAL BANK Leasing 10 Limited	100	Leasing	31 October
CAPITAL BANK Leasing 11 Limited	100	Leasing	30 November
CAPITAL BANK Leasing 12 Limited	100	Leasing	31 December
CAPITAL BANK Meadowhall Investments Limited	100	Property investment	30 September
CAPITAL BANK Property Investments Limited	100	Property investment	31 December
CAPITAL BANK Vehicle Management Limited	100	Contract hire	28 February
Capital Finance Australia Limited	100	Finance	28 February
Capital Incentives plc	100	Promotional incentives	28 February
Daewoo Direct Finance Limited	100	Finance	28 February
Edward Rushton Son & Kenyon Limited	100	Valuers	28 February
Equity Bank Limited	99.65	Banking	28 February
First Mutual Contracts Limited	100	Contract Hire	28 February
Forthright Finance Limited	100	Finance	28 February
Godfrey Davis (Contract Hire) Limited	100	Contract hire	28 February
GUS Finance Limited	51	Finance	28 February
Inchcape Financial Services Limited	51	Finance	31 December
International Motors Finance Limited	51	Finance	28 February
Membership Services Finance plc	75	Finance	28 February
MVI Financial Services Limited	51	Finance	28 February
WS Trust Limited	100	Finance	28 February
St Andrew's Group plc	100	Insurance	28 February
The Mortgage Business plc	100	Mortgage loans	28 February

CAPITAL BANK plc and each of the above subsidiary undertakings are incorporated in the United Kingdom with the exception of Capital Finance Australia Limited and Equity Bank Limited which are incorporated in Australia and in the Republic of Ireland respectively.

SUBSIDIARY UNDERTAKINGS AND JOINT VENTURES AS AT 28 FEBRUARY 1999 (continued)

JOINT VENTURES	Percentage of equity capital and voting rights held by CAPITAL BANK plc	Accounting reference date
Automobile Association Financial Services Limited	50	31 December
First Retail Finance Limited	50	31 January
First Retail Finance (Chester) Limited	50	31 January
NFU Mutual Finance Limited*	50	31 December
RFS Limited*	50	31 December

All joint venture companies are incorporated in the United Kingdom. The principal activity of all the joint venture companies is finance.

*Although CAPITAL 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 joint ventures. Fractions of a percent in the equity capital have been rounded in the above disclosure. RFS Limited is excluded from consolidation as a subsidiary under S.229 (3) (a) of the Companies Act 1985.

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