



NWS BANK plc

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 28 FEBRUARY 1997



**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1997**

The Directors hereby submit their report and the accounts for the year ended 28 February 1997.

Results

The Group's profit before taxation amounted to £131.5 million (1996: £121.7 million). This includes £6 million (1996: £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 £96.6 million (1996: £72.2 million) the Directors recommend dividends of £14.5 million leaving a balance of £82.1 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 Code of Best Practice recommended in December 1992 by the Cadbury Committee and the Code of Best Practice contained within the Report by the Greenbury Committee.

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

The Group's freehold properties were revalued as at 31 December 1996 on the basis of open market value for existing use prepared by the Group's professionally qualified staff. The resulting deficit of £0.1 million has been charged to profit and loss account for the year.

Changes in property and equipment during the year are shown in Note 19 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.

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REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1997 (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.

Directors

The Directors as at 28 February 1997 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 1996</u>	<u>At 28 February 1997</u>
W.G. Barclay	38,796	43,221
A.J.J. Bochenski	28,153 *	28,468
I.M. Brown	17,448	22,621
Professor J.R. Browning	48,945	171,943
P.A. Burt	146,228	439,683
A.R. Christie	15,268	19,790
D.R. Fryatt	25,618 *	25,897
C.R. Halliwell	10,304	10,121
N. Lessels	52,000	52,000
R. Littler	29,094	33,235
R.J. Mee	51,980	49,744
J.A. Mercer	44,839	49,634
Sir Bruce Pattullo	224,851	404,045
Sir John Shaw	90,987	99,619

*At date appointed.

Options to subscribe for ordinary stock of Bank of Scotland were granted to or exercised by Directors during the year ended 28 February 1997 as follows:-

Executive Stock Options

	Options held as at <u>1.3.96</u>	Options <u>granted</u>	Options <u>exercised</u>	Options held as at <u>28.2.97</u>	Weighted average exercise <u>price</u>	Market price at date of <u>exercise</u>	Potential pre-tax gain at date of <u>exercise</u>	Closing weighted average exercise <u>price</u>
							<u>£000</u>	
W.G. Barclay	126,000	23,500	-	149,500	-	-	-	191.11p
A.J.J. Bochenski	* 65,000	-	-	65,000	-	-	-	172.80p
I.M. Brown	187,745	40,000	-	227,745	-	-	-	177.26p
J.R. Browning	388,546	50,000	220,546	218,000	102.32p	266.5p	362	227.32p
P.A. Burt	643,145	90,000	391,145	342,000	97.18p	275.5p	697	229.35p
A.R. Christie	94,000	23,500	-	117,500	-	-	-	208.31p
D.R. Fryatt	* 69,500	-	-	69,500	-	-	-	227.66p
C.R. Halliwell	111,311	23,500	42,311	92,500	107.32p	263.0p	66	232.44p
R. Littler	258,000	47,500	90,000	215,500	114.32p	275.7p	145	226.78p
R.J. Mee	103,311	23,500	43,311	83,500	107.60p	280.0p	75	236.09p
J.A. Mercer	315,163	59,500	70,163	304,500	107.01p	271.9p	116	209.54p
Sir Bruce Pattullo	900,301	-	331,801	568,500	82.34p	275.5p	641	173.10p

*At date appointed.

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**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1997 (continued)**

Directors (continued)

Executive Stock Options (continued)

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

Options granted prior to October 1995 were granted at an exercise price of the average market price for the three dealing days immediately prior to the date on which invitations to apply for options were issued.

Options granted in October 1995 and subsequently were granted at an exercise price of the average market price for the first three dealing days on which the Ordinary Stock is quoted ex dividend following announcement of the interim results and immediately prior to the date of grant. Such options are subject to a performance precondition and may be exercised only where growth in earnings per Ordinary Stock unit has exceeded the growth in the General Index of Retail Prices over a period of not less than three consecutive financial years by not less than 2 per cent per annum.

Options were granted in October 1996 at an exercise price of 273.67p per Ordinary Stock unit.

Outstanding options are exercisable between 1997 and 2006. No options lapsed during the year.

Savings Related Stock Options

	Options held as at <u>1.3.96</u>	Options granted	Options exercised	Options held as at <u>28.2.97</u>	Weighted average exercise price	Market price at date of exercise	Potential pre-tax gain at date of exercise <u>£000</u>	Closing weighted average exercise price
I.M. Brown	12,086	1,755	1,357	12,484	61.75p	239.5p	2	152.82p
A.R. Christie	6,365	881	784	6,462	95.60p	280.0p	1	160.79p
D.R. Fryatt	* 7,429	-	-	7,429	-	-	-	183.64p
C.R. Halliwell	7,208	1,954	-	9,162	-	-	-	175.28p
R. Littler	7,340	1,515	-	8,855	-	-	-	189.93p
R.J. Mee	5,082	2,273	-	7,355	-	-	-	211.28p
J.A. Mercer	4,495	2,273	-	6,768	-	-	-	211.58p

*At date appointed.

Options granted prior to 1995 were at a 20% discount to the market price on the fourth dealing day after the announcement of the interim results.

Options granted in November 1995 and subsequently are at an exercise price of 80% of the average market price for the first three dealing days on which the Ordinary Stock was quoted ex dividend following announcement of the interim results and immediately prior to the date of grant.

Options were granted in November 1996 at an exercise price of 218.93p per Ordinary Stock Unit.

Outstanding options are exercisable between 1997 and 2004. No options lapsed during the year.

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**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 28 FEBRUARY 1997 (continued)**

Directors (continued)

The market price of the Stock at 28 February 1997 was 341p per Ordinary Stock unit and the range during the year was 227.5p to 373.5p.

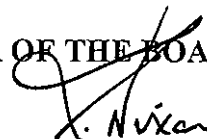
Full details of the Directors' shareholdings and options are contained in the Register of Directors' Interests which is available for inspection.

Mr.J.S. Brown was a Director during the year and resigned on 28 May 1996. Messrs. A.J.J. Bochenski and D.R. Fryatt were appointed as Directors on 8 November 1996.

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

14 April 1997

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 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 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.

REPORT OF THE AUDITORS
to the members of NWS BANK plc

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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.

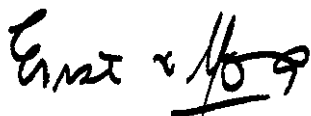
Basis of opinion

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 1997 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

14 April 1997

**ACCOUNTING POLICIES
FOR THE YEAR ENDED 28 FEBRUARY 1997**

The Group's accounting policies, which are unchanged from the previous year, 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 28 February 1997 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.

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 28 FEBRUARY 1997 (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 28 FEBRUARY 1997 (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.

Goodwill

Goodwill arising on acquisition is written off against reserves in the year in which it arises. Negative goodwill is credited to reserves.

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 28 FEBRUARY 1997**

	<u>Notes</u>	<u>1997</u> <u>£m</u>	<u>1996</u> <u>£m</u>
Interest receivable			
Interest receivable and similar income arising from debt securities		1.4	0.9
Other interest receivable	2	712.1	604.6
		<u>713.5</u>	<u>605.5</u>
Interest payable		(400.9)	(355.1)
Net interest income		312.6	250.4
Fees and commissions receivable		96.2	75.0
Fees and commissions payable		(50.7)	(33.0)
		45.5	42.0
Other operating income		1.7	1.8
Net operating income		359.8	294.2
Administrative expenses	3	171.2	132.3
Depreciation: Property and equipment	19	13.5	9.7
Provisions for bad and doubtful debts	13	57.0	43.5
		<u>241.7</u>	<u>185.5</u>
OPERATING PROFIT			
from continuing operations	4	118.1	108.7
Share of profits of associated undertakings		13.4	13.0
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		131.5	121.7
Tax on profit on ordinary activities	7	33.8	48.1
PROFIT FOR THE FINANCIAL YEAR		97.7	73.6
Applicable to minority shareholders		1.1	1.4
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	8	96.6	72.2
Dividends	9	14.5	15.7
RETAINED PROFIT	29	82.1	56.5

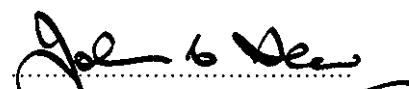
**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 28 FEBRUARY 1997**

	<u>1997</u> <u>£m</u>	<u>1996</u> <u>£m</u>
Profit attributable to shareholders	96.6	72.2
Currency translation differences	(0.5)	0.2
Total recognised gains and losses for the financial year	<u>96.1</u>	<u>72.4</u>

CONSOLIDATED BALANCE SHEET AS AT 28 FEBRUARY 1997

	Notes	1997	1996
		£m	£m
Assets			
Cash and balances at central banks		0.1	0.1
Loans and advances to banks	10,11	107.7	117.5
Loans and advances to customers	12	6,832.3	5,411.6
Debt securities	15	24.7	11.0
Shares in associated undertakings	16	7.9	7.4
Tangible fixed assets			
Operating lease assets	18	234.9	171.3
Property and equipment	19	76.0	63.0
		310.9	234.3
Other assets	20	39.6	31.5
Prepayments and accrued income		28.3	18.6
Total assets		7,351.5	5,832.0
Liabilities			
Deposits by banks	21	3,870.1	2,838.3
Customer accounts	22	2,054.1	1,759.0
Bills in issue	23	121.3	124.3
Other liabilities	24	158.5	142.9
Accruals and deferred income	25	308.9	240.4
Provisions for liabilities and charges			
Deferred taxation	26	216.4	202.5
		6,729.3	5,307.4
Capital resources			
Subordinated liabilities			
Dated loan capital	27	151.0	121.0
Undated loan capital	27	55.0	55.0
		206.0	176.0
Called up share capital	28	56.4	56.4
Share premium account		2.6	2.6
Profit and loss account	29	354.2	288.2
Shareholders' funds	30	413.2	347.2
Equity		393.2	327.2
Non-equity		20.0	20.0
Minority interests - equity		3.0	1.4
		622.2	524.6
		7,351.5	5,832.0
MEMORANDUM ITEM			
Commitments	31	698.4	654.5

Approved by the Board of Directors on 14 April 1997 and signed on its behalf by


 JOHN C. SHAW


 JOHN A. MERCER

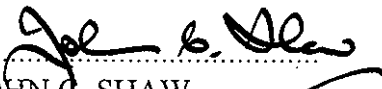
BALANCE SHEET AS AT 28 FEBRUARY 1997

	Notes	1997 £m	1996 £m
Assets			
Cash and balances at central banks		0.1	0.1
Loans and advances to banks	10,11	49.9	15.5
Loans and advances to customers	12	5,731.3	4,996.0
Debt securities	15	2.2	2.2
Shares in associated undertakings	16	6.2	6.2
Shares in subsidiary undertakings	17	92.4	39.5
Tangible fixed assets			
Property and equipment	19	60.3	51.3
Other assets	20	74.4	65.5
Prepayments and accrued income		14.0	12.1
Total assets		6,030.8	5,188.4
Liabilities			
Deposits by banks	21	3,173.1	2,650.7
Customer accounts	22	2,106.1	1,842.8
Other liabilities	24	57.2	69.6
Accruals and deferred income	25	166.2	149.9
Provisions for liabilities and charges			
Deferred taxation	26	9.5	8.3
		5,512.1	4,721.3
Capital resources			
Subordinated liabilities			
Dated loan capital	27	151.0	121.0
Undated loan capital	27	55.0	55.0
		206.0	176.0
Called up share capital	28	56.4	56.4
Share premium account		2.6	2.6
Profit and loss account	29	253.7	232.1
Shareholders' funds		312.7	291.1
Equity		292.7	271.1
Non-equity		20.0	20.0
		518.7	467.1
		6,030.8	5,188.4

MEMORANDUM ITEM

Commitments	31	76.5	44.0
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Approved by the Board of Directors on 14 April 1997 and signed on its behalf by


JOHN C. SHAW

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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

Interest receivable includes £6 million (1996: £14 million) in respect of additional finance lease rental income receivable following the denial of capital allowances to the Group.

3. ADMINISTRATIVE EXPENSES

	<u>1997</u> <u>£m</u>	<u>1996</u> <u>£m</u>
Staff costs		
Salaries	91.8	69.8
Social Security costs	6.2	5.0
Other pension costs (note 6)	4.7	3.3
	<u>102.7</u>	<u>78.1</u>
Other administration expenses	68.5	54.2
	<u>171.2</u>	<u>132.3</u>

Salaries include allocations to staff profit sharing schemes amounting to £6.7 million (1996: £6.1 million).

The average number of persons employed by the Group during the year was:

	<u>1997</u>	<u>1996</u>
Full time	4,282	3,414
Part time	240	228
	<u>4,522</u>	<u>3,642</u>

4. OPERATING PROFIT

	<u>1997</u> <u>£m</u>	<u>1996</u> <u>£m</u>
Group operating profit is all from continuing operations and is stated after crediting:		
Finance lease rentals	389.9	379.3
Operating lease rentals	81.4	59.1
Hire purchase rentals	839.1	581.6
Interest on loans to associated undertakings	28.1	38.1
Government grants	0.4	0.1
Leasing earnings equalisation	1.0	1.5
Income from listed investments - debt securities	1.2	0.6

and after charging:

Depreciation of operating lease assets	57.0	41.9
Operating lease charges - land and buildings	5.9	4.3
Emoluments of directors (note 5)	1.8	1.6
Auditors' remuneration - audit	0.5	0.4
- other	0.2	0.1

NOTES ON THE ACCOUNTS (continued)

5. EMOLUMENTS OF DIRECTORS

The aggregate emoluments of the Directors of the Company amounted to £1,762,347 (1996:£1,574,021) and included fees of £102,550 (1996:£99,417).

The emoluments of the Chairman were £25,000 (1996:£24,350) and the emoluments of the highest paid Director were £271,226 (1996:£243,598), including a performance related bonus of £45,000 (1996: £35,000), both exclusive of pension contributions.

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

	<u>1997</u>	<u>1996</u>
£5,001 - £10,000	4	4
£20,001 - £25,000	1	1
£35,001 - £40,000	-	1
£65,001 - £70,000	3	-
£130,001 - £135,000	-	1
£135,001 - £140,000	-	1
£145,001 - £150,000	-	1
£160,001 - £165,000	-	1
£165,001 - £170,000	2	-
£170,001 - £175,000	2	-
£175,001 - £180,000	-	1
£190,001 - £195,000	-	1
£215,001 - £220,000	1	1
£240,001 - £245,000	1	1
£270,001 - £275,000	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 fifteen years from 5 April 1995.

NOTES ON THE ACCOUNTS (continued)

7. TAXATION

	<u>1997</u>	<u>1996</u>
	<u>£m</u>	<u>£m</u>
Corporation tax	-	9.0
Group relief receivable	(22.7)	-
Relief for overseas taxation	(1.7)	(0.4)
Notional tax on property leases	37.9	14.4
Notional tax on leasing earnings equalisation	3.5	0.5
Transfer to leasing earnings equalisation	-	0.4
Transfer to deferred taxation	12.1	20.2
	<u>29.1</u>	<u>44.1</u>
Associated undertakings	4.7	4.0
	<u>33.8</u>	<u>48.1</u>

Taxation for the year is based on a corporation tax rate of 33%. The charge for the year is reduced by the net effect of deferred taxation not provided in the year of £15.4 million (1996: £6.9 million) and non-allowable provisions.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the profit attributable to Shareholders £51.7 million (1996: £57.3million) 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

	<u>1997</u>	<u>1996</u>
	<u>£m</u>	<u>£m</u>
Preference dividend : paid	1.0	1.0
: payable	0.9	0.9
	<u>1.9</u>	<u>1.9</u>
Ordinary dividend : proposed	12.6	13.8
	<u>14.5</u>	<u>15.7</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.

NOTES ON THE ACCOUNTS (continued)

11. LOANS AND ADVANCES TO BANKS

	Group		Company	
	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Repayable:				
On demand - Central banks	23.7	18.6	17.0	15.1
- Others	0.8	0.7	32.8	0.2
Within three months	48.1	31.3	-	-
Between three months and one year	15.3	3.5	0.1	0.1
Between one and five years	19.8	6.6	-	0.1
After five years	-	56.8	-	-
	<u>107.7</u>	<u>117.5</u>	<u>49.9</u>	<u>15.5</u>
Amounts include:				
Due from ultimate parent undertaking	-	-	32.4	-
Net investment in finance leases	<u>14.7</u>	<u>67.1</u>	<u>0.1</u>	<u>0.2</u>

12. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Repayable:				
On demand	623.9	656.4	3,230.1	2,907.5
Within three months	458.8	441.3	296.1	552.5
Between three months and one year	1,311.7	954.2	571.0	456.4
Between one and five years	2,681.8	1,888.9	1,243.5	912.5
After five years	1,912.0	1,595.0	463.2	204.4
	<u>6,988.2</u>	<u>5,535.8</u>	<u>5,803.9</u>	<u>5,033.3</u>
Provisions (note 13)	(144.6)	(111.6)	(72.6)	(37.3)
Interest in suspense (note 14)	(11.3)	(12.6)	-	-
	<u>6,832.3</u>	<u>5,411.6</u>	<u>5,731.3</u>	<u>4,996.0</u>
Amounts include, net of provisions:				
Net investment in				
- Finance leases	2,155.4	1,797.6	59.4	59.9
- Hire purchase contracts	2,004.8	1,277.7	1,381.8	1,136.2
Advances to associated undertakings	299.7	305.2	297.6	298.9
Advances to subsidiary undertakings	<u>-</u>	<u>-</u>	<u>3,357.4</u>	<u>2,891.7</u>

Of advances to subsidiary undertakings £2,734 million (1996: £2,357million) 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 £6.8 million (1996:£22.5million) 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	
1997	1996	1997	1996
<u>£m</u>		<u>£m</u>	<u>£m</u>
961.8	727.9	29.3	18.9

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

	Group		Company	
	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Contracted but not provided in the accounts	212.2	99.6	-	-

Included in Group loans and advances to customers are housing loans to nine (1996:seven) Directors of the Company which have been made in accordance with the terms of the Company's staff mortgage scheme and which amount to £826,025 (1996:£622,091).

Concentrations of exposure, net of provisions:

	Group		Company	
	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Construction companies	86.1	41.6	14.8	-
Property companies	269.8	180.5	146.0	139.8
Business and other services	1,168.6	960.2	424.2	259.8
Financial	206.2	229.3	33.6	65.5
Garages and distribution	438.8	417.0	55.3	48.0
Hotels and catering	292.2	253.2	4.7	6.0
Manufacturing industry	944.5	607.2	380.0	296.8
Nursing and residential care homes	7.6	6.7	-	-
Transport	319.9	224.5	77.1	43.7
Other commercial and agriculture	195.2	187.4	13.9	124.7
	3,928.9	3,107.6	1,149.6	984.3
Individuals:				
Home mortgages	728.6	609.6	-	-
Other personal lending	1,875.1	1,389.2	926.7	821.1
	2,603.7	1,998.8	926.7	821.1
Associated undertakings	299.7	305.2	297.6	298.9
Subsidiary undertakings	-	-	3,357.4	2,891.7
	6,832.3	5,411.6	5,731.3	4,996.0

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 1996	71.6	44.9	116.5
Exchange adjustments	(0.4)	(0.1)	(0.5)
Subsidiaries acquired	18.5	2.6	21.1
Amounts written off	(48.3)	-	(48.3)
New provisions less releases	51.7	10.3	62.0
At 28 February 1997	<u>93.1</u>	<u>57.7</u>	<u>150.8</u>

Provided against:

Loans and advances to customers			144.6
Operating leases			6.2
			<u>150.8</u>

New provisions less releases	51.7	10.3	62.0
Recoveries of amounts previously written off	(5.0)	-	(5.0)
Net charge to revenue	<u>46.7</u>	<u>10.3</u>	<u>57.0</u>

Company	<u>Specific</u> <u>£m</u>	<u>General</u> <u>£m</u>	<u>Total</u> <u>£m</u>
At 1 March 1996	22.8	14.5	37.3
Subsidiaries acquired	2.8	0.8	3.6
Amounts written off	(17.8)	-	(17.8)
New provisions less releases	46.2	3.3	49.5
At 28 February 1997	<u>54.0</u>	<u>18.6</u>	<u>72.6</u>

Provided against:

Loans and advances to customers			<u>72.6</u>
---------------------------------	--	--	-------------

New provisions less releases	46.2	3.3	49.5
Recoveries of amounts previously written off	(3.4)	-	(3.4)
Net charge to revenue	<u>42.8</u>	<u>3.3</u>	<u>46.1</u>

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 <u>£m</u>
At 1 March 1996	12.6
Interest placed in suspense in the year	1.7
Interest recovered	(0.1)
Amounts written off	(2.9)
At 28 February 1997	<u>11.3</u>

The aggregate amount of gross advances at 28 February 1997 on which interest is being held in suspense amounts to £54.8 million for the Group (1996:£52.6million) and £Nil for the Company (1996:£Nil). The aggregate advances, net of specific provisions, amount to £16.1 million for the Group (1996:£12.8million) and £Nil for the Company (1996:£Nil).

15. DEBT SECURITIES

	<u>1997</u>		<u>1996</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	22.5	22.6	8.8	8.9
Group and Company				
Issued by others				
Associated undertakings (subordinated)	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>
	<u>24.7</u>	<u>24.8</u>	<u>11.0</u>	<u>11.1</u>
Debt securities mature:				
Within one year	13.4		8.8	
In more than one year	<u>11.3</u>		<u>2.2</u>	
	<u>24.7</u>		<u>11.0</u>	
Analysis by listing status:				
Listed	22.5		8.8	
Unlisted	<u>2.2</u>		<u>2.2</u>	
	<u>24.7</u>		<u>11.0</u>	

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
	£m	£m	£m	£m	£m	£m
Cost:						
At 1 March 1996	9.0	2.2	11.2	-	2.2	2.2
Exchange adjustments	(0.5)	-	(0.5)	-	-	-
Additions	25.5	-	25.5	-	-	-
Disposals	(11.2)	-	(11.2)	-	-	-
At 28 February 1997	<u>22.8</u>	<u>2.2</u>	<u>25.0</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>
Amortisation:						
At 1 March 1996	0.2	-	0.2			
Charge for year	<u>0.1</u>	<u>-</u>	<u>0.1</u>			
At 28 February 1997	<u>0.3</u>	<u>-</u>	<u>0.3</u>			
Net book values:						
At 28 February 1997	<u>22.5</u>	<u>2.2</u>	<u>24.7</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>
At 1 March 1996	<u>8.8</u>	<u>2.2</u>	<u>11.0</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>

16. SHARES IN ASSOCIATED UNDERTAKINGS

	Group		Company	
	Cost	Equity accounting adjustment	Book value	Cost and book value
	£m	£m	£m	£m
At 1 March 1996	7.5	(0.1)	7.4	6.2
Retained profits	<u>0.5</u>	<u>-</u>	<u>0.5</u>	<u>-</u>
At 28 February 1997	<u>8.0</u>	<u>(0.1)</u>	<u>7.9</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 £511.3 million (1996:£426.5million).

Details of the principal associated undertakings, all of which are unlisted, are shown on page 32.

NOTES ON THE ACCOUNTS (continued)

17. SHARES IN SUBSIDIARY UNDERTAKINGS

	<u>Banks</u> <u>£m</u>	<u>Others</u> <u>£m</u>	<u>Total</u> <u>£m</u>
Cost			
At 1 March 1996	20.1	35.5	55.6
Additional capital subscribed	3.0	44.9	47.9
Acquisitions	-	10.5	10.5
At 28 February 1997	<u>23.1</u>	<u>90.9</u>	<u>114.0</u>
Amounts written off			
At 1 March 1996	<u>16.1</u>	<u>-</u>	<u>16.1</u>
During the year	<u>-</u>	<u>5.5</u>	<u>5.5</u>
At 28 February 1997	<u>16.1</u>	<u>5.5</u>	<u>21.6</u>
Net book value at 28 February 1997	<u>7.0</u>	<u>85.4</u>	<u>92.4</u>
Net book value at 1 March 1996	<u>4.0</u>	<u>35.5</u>	<u>39.5</u>

Details of the principal subsidiary undertakings, all of which are unlisted, are shown on pages 31 and 32.

18. OPERATING LEASE ASSETS

	<u>Group</u> <u>£m</u>
Cost	
At 1 March 1996	239.2
Acquisition of subsidiary	64.4
Additions	112.5
Disposals	(90.8)
At 28 February 1997	<u>325.3</u>
Less: Depreciation	
At 1 March 1996	<u>63.0</u>
Acquisition of subsidiary	<u>13.7</u>
Disposals	<u>(49.5)</u>
Charge for year	<u>57.0</u>
At 28 February 1997	<u>84.2</u>
	<u>241.1</u>
Provisions (note 13)	<u>(6.2)</u>
Net book value at 28 February 1997	<u>234.9</u>
Net book value at 1 March 1996	<u>171.3</u>

At the balance sheet date contracted expenditure for operating lease assets was £5.5 million (1996:£7.2million).

NOTES ON THE ACCOUNTS (continued)

19. PROPERTY AND EQUIPMENT

Group	<u>Land and buildings</u>		<u>Equipment</u>	<u>Total</u>
	<u>Freehold</u>	<u>Short leasehold</u>		
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Cost or valuation				
At 1 March 1996	23.1	10.5	67.5	101.1
Exchange translation	-	(0.1)	(0.1)	(0.2)
Acquisition of subsidiary	0.9		0.6	1.5
Transfers	0.3	(0.3)	-	-
Additions	0.3	2.6	26.5	29.4
Transfers from fellow subsidiary			2.1	2.1
Disposals	-	-	(8.6)	(8.6)
Revaluation adjustment	(0.1)	-	-	(0.1)
At 28 February 1997	<u>24.5</u>	<u>12.7</u>	<u>88.0</u>	<u>125.2</u>
Depreciation				
At 1 March 1996		3.8	34.3	38.1
Acquisition of subsidiary		-	0.3	0.3
Transfers from fellow subsidiary		-	1.3	1.3
Disposals		-	(4.0)	(4.0)
Charge for year		1.2	12.3	13.5
At 28 February 1997		<u>5.0</u>	<u>44.2</u>	<u>49.2</u>
Net book values:				
At 28 February 1997	<u>24.5</u>	<u>7.7</u>	<u>43.8</u>	<u>76.0</u>
At 1 March 1996	<u>23.1</u>	<u>6.7</u>	<u>33.2</u>	<u>63.0</u>
Company				
Cost or valuation				
At 1 March 1996	16.6	8.7	62.1	87.4
Transfers	0.3	(0.3)	-	-
Additions	0.3	2.2	23.5	26.0
Disposals	-	-	(8.1)	(8.1)
Revaluation adjustment	(0.9)	-	-	(0.9)
At 28 February 1997	<u>16.3</u>	<u>10.6</u>	<u>77.5</u>	<u>104.4</u>
Depreciation				
At 1 March 1996		3.3	32.8	36.1
Disposals		-	(3.8)	(3.8)
Charge for year		1.0	10.8	11.8
At 28 February 1997		<u>4.3</u>	<u>39.8</u>	<u>44.1</u>
Net book values:				
At 28 February 1997	<u>16.3</u>	<u>6.3</u>	<u>37.7</u>	<u>60.3</u>
At 1 March 1996	<u>16.6</u>	<u>5.4</u>	<u>29.3</u>	<u>51.3</u>

continued.....

NOTES ON THE ACCOUNTS (continued)

19. PROPERTY AND EQUIPMENT (continued)

Cost or valuation of property comprises:

	Group				Company			
	Freehold		Short leasehold		Freehold		Short leasehold	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
At valuation	24.3	21.9	-	-	16.1	15.3	-	-
At cost	0.2	1.2	12.7	10.5	0.2	1.3	10.6	8.7
	<u>24.5</u>	<u>23.1</u>	<u>12.7</u>	<u>10.5</u>	<u>16.3</u>	<u>16.6</u>	<u>10.6</u>	<u>8.7</u>

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

	Group				Company			
	Freehold		Short leasehold		Freehold		Short leasehold	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
Cost	32.0	31.2	12.7	10.5	20.3	20.0	10.6	8.7
Accumulated depreciation	-	-	(5.0)	(3.8)	-	-	(4.3)	(3.3)
Net book value	<u>32.0</u>	<u>31.2</u>	<u>7.7</u>	<u>6.7</u>	<u>20.3</u>	<u>20.0</u>	<u>6.3</u>	<u>5.4</u>

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

The Group's freehold properties were valued as at 31 December 1996 on the basis of open market value for existing use by employees of a subsidiary undertaking, Edward Rushton Son & Kenyon Limited, who are members of the Royal Institution of Chartered Surveyors.

	Group and Company	
	1997	1996
	£m	£m
There are capital commitments as follows:		
Contracted but not provided in the accounts	<u>6.3</u>	<u>5.5</u>

20. OTHER ASSETS

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts owed by:				
Associated undertakings	-	8.8	-	8.5
Subsidiary undertakings	-	-	63.9	42.5
Trade debtors	32.3	18.0	9.0	12.7
Other	7.3	4.7	1.5	1.8
	<u>39.6</u>	<u>31.5</u>	<u>74.4</u>	<u>65.5</u>

NOTES ON THE ACCOUNTS (continued)

21. DEPOSITS BY BANKS

	Group		Company	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Repayable:				
On demand	17.2	43.2	-	7.9
Within three months	1,102.5	506.6	509.3	466.2
Between three months and one year	1,359.2	1,019.2	1,248.9	907.3
Between one and five years	1,345.8	1,186.7	1,369.5	1,186.7
After five years	45.4	82.6	45.4	82.6
	<u>3,870.1</u>	<u>2,838.3</u>	<u>3,173.1</u>	<u>2,650.7</u>
Amounts include:				
Due to ultimate parent undertaking	3.7	17.1	-	7.9
Due to fellow subsidiary undertakings	<u>3,829.9</u>	<u>2,739.2</u>	<u>3,171.1</u>	<u>2,640.8</u>

22. CUSTOMER ACCOUNTS

	Group		Company	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Repayable:				
On demand	51.7	70.2	124.2	130.2
Within three months	1,803.9	1,386.3	1,784.4	1,454.5
Between three months and one year	182.2	285.9	171.1	241.2
Between one and five years	15.3	15.6	26.4	16.9
After five years	1.0	1.0	-	-
	<u>2,054.1</u>	<u>1,759.0</u>	<u>2,106.1</u>	<u>1,842.8</u>
Amounts include:				
Due to subsidiary undertakings	<u>-</u>	<u>-</u>	<u>211.8</u>	<u>190.2</u>

23. BILLS IN ISSUE

	Group		Company	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Repayable within three months	<u>121.3</u>	<u>124.3</u>	<u>-</u>	<u>-</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.

NOTES ON THE ACCOUNTS (continued)

24. OTHER LIABILITIES

	Group		Company	
	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Leasing earnings equalisation	-	6.1	-	-
Corporation tax due within one year	76.5	68.5	3.0	5.2
Dividends payable	13.9	15.1	13.9	15.0
Trade creditors	68.1	53.2	40.3	49.4
	<u>158.5</u>	<u>142.9</u>	<u>57.2</u>	<u>69.6</u>

25. ACCRUALS AND DEFERRED INCOME

	Group		Company	
	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Interest payable	152.9	120.7	135.1	118.5
Other accruals	156.0	119.7	31.1	31.4
	<u>308.9</u>	<u>240.4</u>	<u>166.2</u>	<u>149.9</u>

26. DEFERRED TAXATION

	Group		Company	
	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Provided in the accounts:				
Short term timing differences	(3.8)	(7.4)	(0.2)	(0.4)
Capital allowances				
On assets leased to customers	216.7	206.8	6.2	5.6
On other assets	3.5	3.1	3.5	3.1
	<u>216.4</u>	<u>202.5</u>	<u>9.5</u>	<u>8.3</u>
At 1 March 1996	202.5	179.5	8.3	5.2
Acquisition of subsidiary	1.8	2.8	-	-
Arising during the year	12.1	20.2	1.2	3.1
At 28 February 1997	<u>216.4</u>	<u>202.5</u>	<u>9.5</u>	<u>8.3</u>
Not provided in the accounts:				
Capital allowances				
On assets leased to customers	72.1	56.8	-	-
On other assets	-	-	-	-
	<u>72.1</u>	<u>56.8</u>	<u>-</u>	<u>-</u>

NOTES ON THE ACCOUNTS (continued)

27. 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	
	1997	1996
	<u>£m</u>	<u>£m</u>
31 December 2003 or later	151.0	121.0
Perpetual loans	55.0	55.0
	<u>206.0</u>	<u>176.0</u>

With effect from 1 September 1996 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. Prior to 1 September 1996 interest was payable at 92.5 basis points over the three month LIBOR rate on both the dated and undated loan capital. £30 million of additional dated loan capital was acquired from Bank of Scotland on 31 January 1997.

28. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	1997	1996	1997	1996
	<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.

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.

29. RESERVES

	Group	Associated undertakings	Total	Company
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Profit and loss account				
At 1 March 1996	288.3	(0.1)	288.2	232.1
Goodwill written off	(15.6)	-	(15.6)	(15.6)
Currency translation differences	(0.5)	-	(0.5)	-
Retained profit for the year	81.6	0.5	82.1	37.2
At 28 February 1997	<u>353.8</u>	<u>0.4</u>	<u>354.2</u>	<u>253.7</u>

The cumulative amount of goodwill on acquisitions written off in the Group reserves is £21.3 million (1996: £5.7million).

NOTES ON THE ACCOUNTS (continued)

30. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1997</u>	<u>1996</u>
	<u>£m</u>	<u>£m</u>
Profit attributable to shareholders	96.6	72.2
Dividends	(14.5)	(15.7)
Goodwill written off	(15.6)	(3.8)
Other recognised gains and losses	(0.5)	0.2
	<u>66.0</u>	<u>52.9</u>
Shareholders' funds brought forward	347.2	294.3
Shareholders' funds carried forward	<u>413.2</u>	<u>347.2</u>

31. MEMORANDUM ITEMS

Contingent liabilities

No contingent liabilities exist for either Group or Company at 28 February 1997 (1996:£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	
	<u>Contract amount</u>		<u>Contract amount</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</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	77.4	72.3	17.2	6.9
less than one year	621.0	582.2	59.3	37.1
	<u>698.4</u>	<u>654.5</u>	<u>76.5</u>	<u>44.0</u>

32. 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>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</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	0.5	0.4	0.4	0.4
In over five years	3.8	4.2	3.4	3.7
	<u>4.4</u>	<u>4.7</u>	<u>3.8</u>	<u>4.1</u>

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

NOTES ON THE ACCOUNTS (continued)

33. 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	
	1997	1996	1997	1996	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Group						
Exchange rate contracts						
Residual maturity:						
One to five years	<u>37.7</u>	<u>41.0</u>	<u>0.9</u>	<u>1.5</u>	<u>-</u>	<u>-</u>
Interest rate contracts						
Residual maturity:						
One year or less	834.9	399.2	0.7	0.9	1.6	1.9
One to five years	878.8	574.4	2.9	2.0	8.9	5.9
Over five years	504.3	319.9	0.3	1.8	7.1	4.2
	<u>2,218.0</u>	<u>1,293.5</u>	<u>3.9</u>	<u>4.7</u>	<u>17.6</u>	<u>12.0</u>
Company						
Exchange rate contracts						
Residual maturity:						
One to five years	<u>37.7</u>	<u>41.0</u>	<u>0.9</u>	<u>1.5</u>	<u>-</u>	<u>-</u>
Interest rate contracts						
Residual maturity:						
One year or less	792.7	314.3	0.5	0.9	1.2	1.8
One to five years	761.7	498.3	2.5	1.9	8.1	5.6
Over five years	501.9	319.9	0.3	1.8	7.2	4.2
	<u>2,056.3</u>	<u>1,132.5</u>	<u>3.3</u>	<u>4.6</u>	<u>16.5</u>	<u>11.6</u>

34. ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

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

	Group	
	1997	1996
	<u>£m</u>	<u>£m</u>
Assets	613.5	300.9
Liabilities	<u>596.9</u>	<u>353.8</u>

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)**35. 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.

36. RELATED PARTY TRANSACTIONS

In accordance with the exemption afforded by Financial Reporting Standard No.8, 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:

Credited against administrative expenses are charges of £12.1 million (1996:£11.4 million) for administrative services provided to Automobile Association Financial Services Limited, RFS Limited, NFU Mutual Finance Limited and First Retail Finance (Chester) Limited, associated undertakings of NWS BANK plc. At the year end the balance owing from these companies in relation to these transactions was £nil (1996:£nil).

37. POST BALANCE SHEET EVENT

On 1 March 1997 the Company acquired the whole of the issued share capital of Kellock Holdings Limited from the Governor and Company of the Bank of Scotland.

**SUBSIDIARY AND ASSOCIATED UNDERTAKINGS
AS AT 28 FEBRUARY 1997**

PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS	Percentage of equity capital and voting rights held by <u>NWS BANK plc</u>	Principal activity	Accounting reference date
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	100	Banking	28 February
First Mutual Contracts Limited	100	Contract Hire	28 February
Flexifly Limited	100	Leasing	28 February
Forthright Finance Limited	100	Finance	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
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
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

continued.....

SUBSIDIARY AND ASSOCIATED UNDERTAKINGS
AS AT 28 FEBRUARY 1997 (continued)

PRINCIPAL OPERATING SUBSIDIARY UNDERTAKINGS (continued)	Percentage of equity capital and voting rights held by <u>NWS BANK plc</u>	Principal activity	Accounting reference date
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
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 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.

ASSOCIATED UNDERTAKINGS	Percentage of equity capital and voting rights held by <u>NWS BANK plc</u>	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
Ruby Aircraft Leasing and Trading Limited	20	31 March
Sapphire Aircraft Leasing and Trading Limited	20	31 March

All associated companies are incorporated in the United Kingdom.

#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.