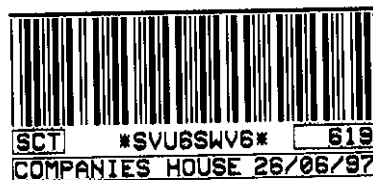


NWS 12 LIMITED

ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1996

Q.



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996

The Directors hereby submit their Report and the accounts for the year ended 31 December 1996.

Directors' accounting responsibilities

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the year and of the profit or loss for the year. The Directors consider that in preparing these financial statements 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 company and to prevent and detect fraud and other irregularities.

Results	£000
The accounts of the company show a profit for the financial year of	3,429
A dividend is proposed of	3,425
	4
The balance brought forward at 1 January 1996 was	12
Leaving a balance to be carried forward of	16

Activities of the company

The principal activity of the company is the provision of finance and associated services. The company has conducted its activities throughout the year in a satisfactory manner.

No significant change in the company's activities is foreseen at the present time.

Directors

The Directors of the company as at 31 December 1996 were:-

J.A. Mercer	A.J.J. Bochenski
R. Littler	J.S. Hammond
M.R. Perry	T.J. Skinner

Mr J.S. Brown was a Director during the year and resigned on 28 May 1996.

The interests of Messrs. J.A. Mercer, R. Littler and A.J.J. Bochenski in the companies within the Bank of Scotland Group, and options to subscribe for Bank of Scotland 25p Stock Units granted or exercised during the year, are disclosed in the accounts of NWS BANK plc, the immediate parent undertaking. The interests of the other Directors were as follows:-

Continued.....

REPORT OF THE DIRECTORS (continued)

Directors (continued)

Bank of Scotland Ordinary Stock Units of 25p eachBeneficially owned

	<u>At 1 January 1996</u>	<u>At 31 December 1996</u>
M.R. Perry	62,066	67,905
J.S. Hammond	18,300	22,376
T.J. Skinner	11,011	13,307

Executive Stock Options

	Options held as at <u>1.1.96</u>	Options <u>granted</u>	Options <u>exercised</u>	Options held as at <u>31.12.96</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
M.R. Perry	48,500	12,000	-	60,500	-	-	-	224.96p
J.S. Hammond	24,000	3,500	-	27,500	-	-	-	215.62p
T.J. Skinner	40,500	5,500	15,000	31,000	114.52p	277p	24	220.46p

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>1.1. 96</u>	Options <u>granted</u>	Options <u>exercised</u>	Options held as at <u>31.12.96</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
M.R. Perry	9,264	997	1,095	9,166	76.62p	280p	2	148.59p
J.S. Hammond	2,053	-	784	1,269	95.60p	280p	1	111.38p

continued....

REPORT OF THE DIRECTORS (continued)

Directors (continued)

Savings Related Stock Options (continued)

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.

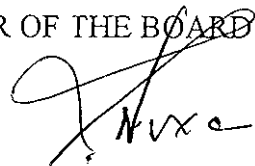
Outstanding options are exercisable between 1997 and 2004. No options lapsed during the year.

The market price of the Stock at 31 December 1996 was 308.5p and the range during the year was 228p to 312p.

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

The Articles of Association do not provide for the retirement of Directors by rotation.

BY ORDER OF THE BOARD



R. NIXON
Secretary

NWS House
City Road,
CHESTER

11 April 1997

We have audited the attached accounts which have been prepared under the historical cost convention and on the basis of the stated accounting policies.

Respective responsibilities of directors and auditors

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

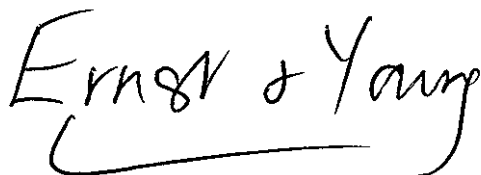
Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1996 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG
Chartered Accountants
Registered Auditor
LIVERPOOL

11 April 1997

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1996**

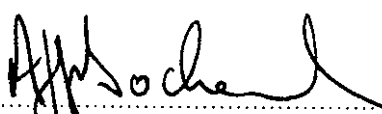
	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
TURNOVER	2	15,238	11,628
Finance and trading costs		<u>9,646</u>	<u>7,411</u>
GROSS PROFIT		5,592	4,217
Administration expenses		<u>272</u>	<u>252</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,3	5,320	3,965
Tax on profit on ordinary activities	4	<u>1,891</u>	<u>1,496</u>
PROFIT FOR THE FINANCIAL YEAR		3,429	2,469
Proposed dividend		<u>3,425</u> 4	<u>2,475</u> (6)
Balance brought forward		<u>12</u>	<u>18</u>
BALANCE CARRIED FORWARD		<u>16</u>	<u>12</u>

There are no recognised gains and losses other than those shown above.

BALANCE SHEET AS AT 31 DECEMBER 1996

	Notes	1996 £000	1995 £000
FIXED ASSETS			
Tangible assets	5	7,638	5,850
Investment	6	<u>1</u> 7,639	<u>1</u> 5,851
CURRENT ASSETS			
Debtors : receivable within one year		63,115	36,908
: receivable after one year		145,025	141,788
	7	<u>208,140</u>	<u>178,696</u>
CREDITORS: payable within one year	8	(185,999)	(158,695)
NET CURRENT ASSETS		<u>22,141</u>	<u>20,001</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		29,780	25,852
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	9	(23,245)	(19,196)
DEFERRED INCOME			
Government grants	10	(221)	-
Leasing earnings equalisation	11	<u>(3,764)</u> 2,550	<u>(4,110)</u> 2,546
CAPITAL AND RESERVES			
Called up share capital	12	1,924	1,924
Share premium		610	610
Profit and loss account		16	12
EQUITY SHAREHOLDERS' FUNDS	13	<u>2,550</u>	<u>2,546</u>

Approved by the Board of Directors on 11 April 1997 and signed on its behalf by

 DIRECTOR
A.J.J. BOCHENSKI

NOTES ON THE ACCOUNTS**1. ACCOUNTING POLICIES****Accounting convention**

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with applicable Accounting Standards and with S226 of, and schedule 4 to, the Companies Act 1985.

Finance leases and operating leases

The net investment in finance leases is included as a receivable in debtors.

Equipment which is on hire under operating lease agreements is treated as a fixed asset.

Leasing earnings and depreciation

The earnings element of leasing rentals is credited to revenue, after making a deduction for certain initial expenses, in proportion to the funds invested in the related contracts. The balance of operating lease rentals receivable during the year not attributable to earnings is applied as depreciation of the relative assets leased to customers.

Leasing earnings equalisation

Tax benefits resulting from reductions in the rate of corporation tax are treated as deferred income and transferred to the leasing earnings equalisation account. They are credited to revenue, grossed up at the prevailing corporation tax rate, over the period of the related leasing contracts.

Deferred taxation

Deferred taxation is provided on the liability method on those timing differences which are considered likely to reverse in the foreseeable future.

Provision for bad debts

Provision is made:-

- (i) specifically against individual balances considered to be of doubtful recoverability;
- (ii) as a general provision against finance debtors to cover unforeseen contingencies.

2. TURNOVER

Turnover, all of which arose from activities within the United Kingdom, represents finance charges earned on leasing agreements, leasing earnings equalisation and income from associated services.

The turnover and pre-tax profit are attributable to one continuing activity, the provision of finance and associated services.

NOTES ON THE ACCOUNTS (continued)

**3. PROFIT ON ORDINARY ACTIVITIES
BEFORE TAXATION**

<u>1996</u>	<u>1995</u>
<u>£000</u>	<u>£000</u>

Profit is stated after crediting:

Finance lease rentals	29,344	20,827
Operating lease rentals	1,330	790
Government grants	7	-
Leasing earnings equalisation	<u>516</u>	<u>505</u>

and after charging:

Intra group interest	8,863	6,773
Bank interest	30	50
Depreciation of operating lease assets	877	511
Directors' remuneration	-	-
Auditors' remuneration - audit	7	6
- other	<u>-</u>	<u>-</u>

The company has no employees. It uses the services of its immediate parent undertaking for which a management charge, included in administration expenses, is made.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

<u>1996</u>	<u>1995</u>
<u>£000</u>	<u>£000</u>

The tax charge based on the profit for the year is made up as follows:

Group relief receivable	(2,330)	(3,215)
Transfer to deferred taxation	4,049	4,005
Transfer to leasing earnings equalisation	-	402
Notional tax on government grants	2	-
Notional tax on leasing earnings equalisation	<u>170</u>	<u>167</u>
	<u>1,891</u>	<u>1,359</u>

Adjustments relating to prior years:

Corporation tax	<u>-</u>	<u>137</u>
	<u>1,891</u>	<u>1,496</u>

The tax charge for the year is based on a corporation tax rate of 33%.

NOTES ON THE ACCOUNTS (continued)

5. FIXED TANGIBLE ASSETS
OPERATING LEASE ASSETS

Cost	£000
At 1 January 1996	6,353
Additions	3,384
Disposals	(1,385)
At 31 December 1996	<u>8,352</u>
Depreciation	
At 1 January 1996	503
Disposals	(666)
Charge for year	877
At 31 December 1996	<u>714</u>
Net book value at 31 December 1996	<u>7,638</u>

6. FIXED ASSET INVESTMENTS

The company owns all the issued share capital of Industrial Bank of Scotland Limited which is registered in England and Wales. Group accounts are not submitted as the company is a wholly owned subsidiary undertaking of another body corporate (see note 14).

7. DEBTORS

	<u>1996</u> <u>Receivable</u>			<u>1995</u> <u>Receivable</u>		
	within one year £000	after one year £000	<u>Total</u> £000	within one year £000	after one year £000	<u>Total</u> £000
Finance lease debtors	48,131	144,787	192,918	21,816	141,650	163,466
Amount owed by subsidiary undertaking	145	-	145	145	-	145
Group relief receivable	2,332	-	2,332	3,215	-	3,215
VAT	9,312	-	9,312	8,842	-	8,842
Other debtors	3,195	238	3,433	2,890	138	3,028
	<u>63,115</u>	<u>145,025</u>	<u>208,140</u>	<u>36,908</u>	<u>141,788</u>	<u>178,696</u>

The cost of assets acquired during the year for the purpose of finance leasing was £55,423,585 (1995: £51,965,449).

NOTES ON THE ACCOUNTS (continued)

8. CREDITORS: payable within one year	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Amount owed to immediate parent undertaking and fellow subsidiaries	158,272	120,203
Proposed dividend	3,425	2,475
Other creditors	24,302	36,017
	<u>185,999</u>	<u>158,695</u>
9. DEFERRED TAXATION	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Full provision has been made as follows:		
Capital allowances on assets leased to customers	23,309	19,249
Short term timing differences	(64)	(53)
	<u>23,245</u>	<u>19,196</u>
10. GOVERNMENT GRANTS		<u>1996</u> <u>£000</u>
Balance at 1 January 1996		-
Grants receivable on leased assets purchased during the year		226
Credit to profit and loss account (notes 3 and 4)		(5)
Balance at 31 December 1996		<u>221</u>
11 LEASING EARNINGS EQUALISATION		<u>£000</u>
Balance at 1 January 1996		4,110
Credit to profit and loss account (notes 3 and 4)		(346)
Balance at 31 December 1996		<u>3,764</u>
12. SHARE CAPITAL	<u>1996</u>	<u>1995</u>
Ordinary shares of £1 each		
Authorised	<u>2,500,000</u>	<u>2,500,000</u>
Allotted, called up and fully paid	<u>1,923,909</u>	<u>1,923,909</u>
13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Shareholders' funds at 1 January	2,546	2,552
Profit for the financial year	3,429	2,469
Dividend	(3,425)	(2,475)
Other recognised gains and losses	-	-
Shareholders' funds at 31 December	<u>2,550</u>	<u>2,546</u>

NOTES ON THE ACCOUNTS (continued)**14. PARENT UNDERTAKINGS**

The parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member is the Governor and Company of the Bank of Scotland, constituted by Act of the Scottish Parliament in 1695, and the parent undertaking of the smallest such group is NWS BANK plc, registered in England and Wales. As a wholly owned subsidiary undertaking the company is exempt from including a statement of cash flows in its accounts. The 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 and copies of NWS BANK plc's accounts can be obtained from City Road, Chester.

The company is an integral part of the NWS Group's activities and NWS BANK plc has indicated its intention to continue to provide sufficient finance to the company to enable it to continue trading for at least one year from the date of approval of these accounts.

15. RELATED PARTY TRANSACTIONS

In accordance with the exemptions afforded by Financial Reporting Standard No.8, there were no reportable transactions with related parties.