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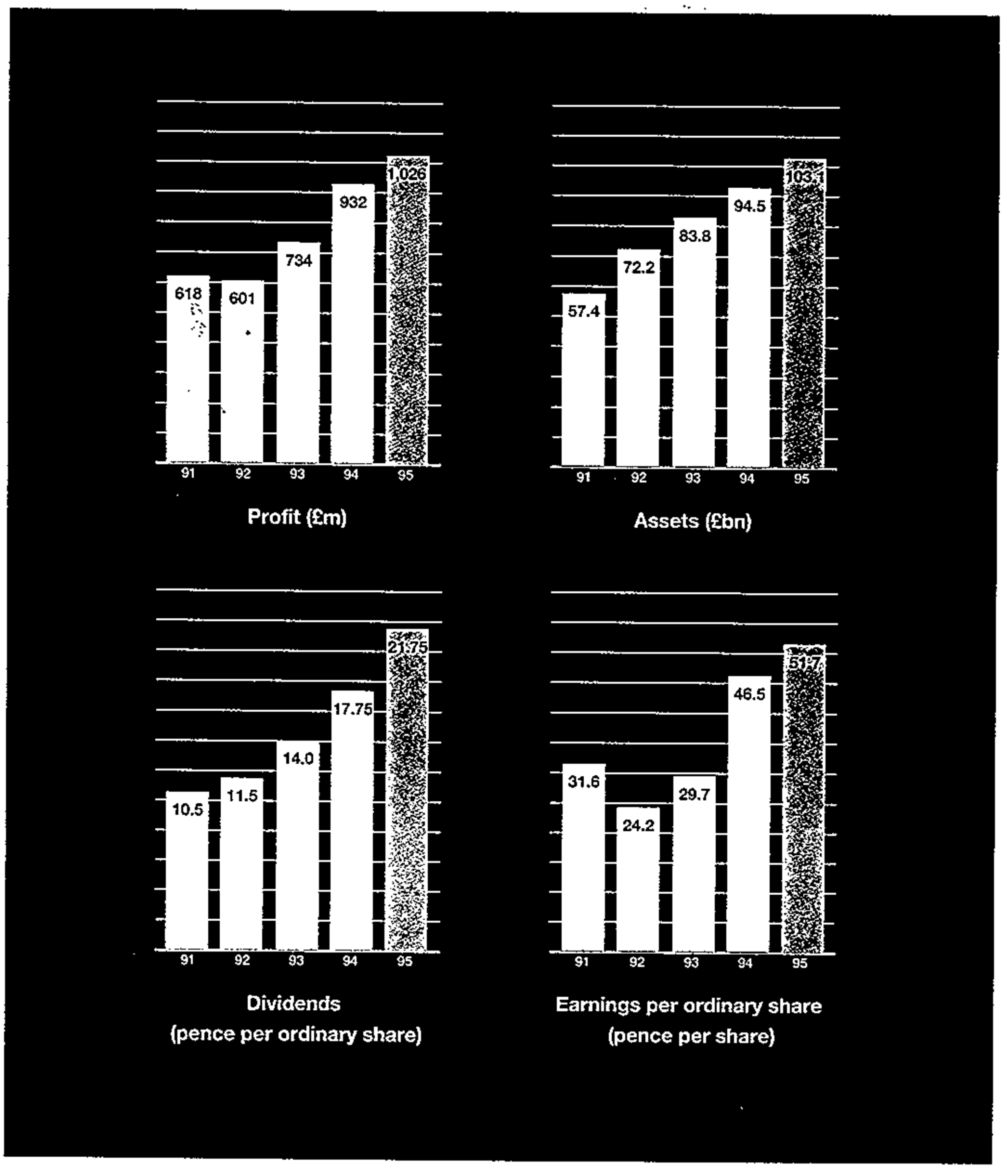
Abbey National plc Directors' Report & Accounts

Year ended 31 December 1995

Group Highlights 1995



Pre-tax profits increased from £932 million to £1,026 million

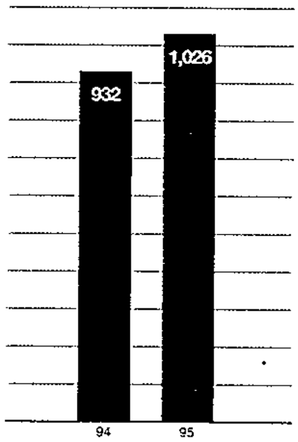
Total assets up 9% to £103.1 billion,
with a tier 1 capital ratio of 8.4% (1994: 9.1%)

Earnings per ordinary share up 11%

Proposed final net dividend of 14.5 pence per share
making the full year net dividend 21.75 pence, an increase of 23%

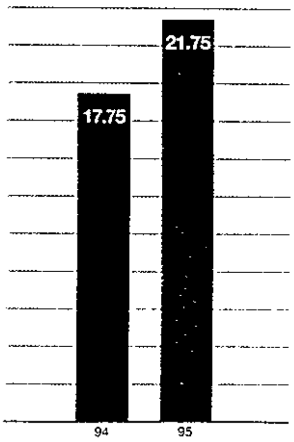
Chairman's Statement

In 1995 Abbey National passed two notable landmarks: pre-tax profits of over £1 billion and assets of over £100 billion. Profit rose by 10% to £1,026 million, and total assets rose by 9% to £103.1 billion. The Company also continued to widen the range of services it provides to customers in areas such as banking, general insurance and consumer credit. The proposed transfer of the National and Provincial Building Society's business, which is subject to a number of conditions, including approval by the Society's members and confirmation by the Building Societies Commission, is expected to strengthen further Abbey National's core business. The Board is proposing an increase in the full year dividend of 23% to 21.75 pence per share, as part of its on-going policy of providing strong dividend growth combined with prudent investment in the business.



Profit before tax (£m)

Up 10%



Dividend per share (pence)

Up 23%

The rapid pace of structural change in the personal financial services industry has continued throughout 1995. Since the end of 1994 Cheltenham & Gloucester has been absorbed by Lloyds Bank, followed by Lloyds' merger with TSB, the Halifax has merged with the Leeds prior to conversion to plc status and the Woolwich and the Alliance and Leicester building societies have announced their plans to convert. The proposed transfer of National and Provincial's business to Abbey National is of course another example of this process of consolidation. Such mergers and acquisitions are evidence of the increasing importance the industry places on scale of operations and market share. Abbey National is well placed to compete in the personal financial services market, with mortgage assets of £49 billion at the end of 1995 and a closing market capitalisation of £8.4 billion as at 31 December 1995, making the Company the 23rd largest listed on the London Stock Exchange, and the fifth largest banking Group based in the UK in terms of total assets.

National and Provincial

The proposed transfer of the business of National and Provincial will enable Abbey National to maintain its clear position as the UK's second largest mortgage lender, on the basis of loans outstanding. The combined mortgage market shares of the two organisations at 31 December 1995 were more than 50% higher than that of the third largest lender. The transfer makes sound strategic sense; National and Provincial's strength in the North will complement Abbey National's strong base in the South. Complemented by other distribution channels such as ATMs, telephones and direct mail, this will give our customers easy access to our services from anywhere in the UK.

Mortgage market

The housing market remained subdued in 1995, however the UK Retail Banking business achieved growth in mortgage assets, the majority of which came from organic growth. Abbey National's position as a market leader was reinforced by a unilateral mortgage rate reduction in October which was followed by our competitors, and this has since been followed by two further rate reductions. These moves benefited both our existing and new mortgage customers.

Abbey National Bank Account

Abbey National has continued to build on its strong position in the mortgage and savings markets, and has made further progress in its chosen market of personal financial services. Following the re-launch of the Abbey National Bank Account in May 1995 120,000 new accounts have been opened. This now gives us a total of 1.4 million bank accounts. The increasing emphasis we place on credit scoring helps ensure that the high quality of the portfolio is maintained. The account will play a central role in helping to achieve our aim of increasing the breadth of our customer relationships.

Abbey National has continued to diversify strongly into related markets

New activities

With the acquisition of First National Finance Corporation plc, the profits from the Consumer Credit operations increased by 58% to £49 million in 1995. In addition, this acquisition has proved to be earnings enhancing in 1995.

1995 also saw the launch of Abbey National General Insurance, Abbey National's joint venture with Commercial Union. This venture will enable Abbey National to offer a wider range of general insurance products across its entire customer base.

The one-third holding in Travellers Exchange Corporation plc will enable us to improve the currency exchange service available on the high street and will help us to take a greater share of this market. Already several Abbey National branches offer a full range of travel money services.

Abbey National has continued to diversify strongly into related markets. Our objective is to achieve substantially more of our profit from diversified sources in the medium term.

Life Assurance

In the Life Assurance Division, 1995 profit growth has been particularly pleasing against an industry background of substantially lower new business levels. Scottish Mutual Assurance's annual regular premium business doubled despite difficult market conditions and its investment performance improved substantially. In fact, premium income has more than tripled since Scottish Mutual joined the Abbey National Group in 1992, while costs have remained stable. Scottish Mutual's strategy for the future includes diversification into other markets, such as the forthcoming launch of an offshore operation in Dublin. Due to launch on 1 March 1996, Scottish Mutual International will initially target key UK independent financial advisers with high net worth customers wishing to invest offshore.

Abbey National Life's continued strong performance is increasingly less dependent on the UK mortgage business, with 59% of sales representing non-mortgage related products, proving an ability to sell a diversified range. This is also shown by Abbey National's successful entry to the PEP market - the Abbey National UK Growth PEP attracted funds of £154 million in its first nine months.

Treasury

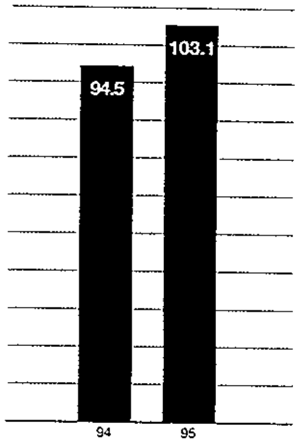
Abbey National Treasury Services plc (ANTS) has made good progress in a difficult year. During 1995 it took an active role in the international capital markets, including managing the issue of £300 million in the form of preference shares and Exchangeable Capital Securities on behalf of the Group. In addition, registration with the Securities and Exchange Commission in the United States enabled the raising of $750 million in late 1995 in the form of a Global Subordinated Bond, at low funding costs. Significant good quality finance leasing business was written in the second half of the year. The derivatives joint operation with Baring Brothers and Co. was terminated during the year and its successor, Abbey National Financial Products, started operating in October from premises in Baker Street.

Longer-term view

Welfare reforms and social change are beginning to make people take increasing responsibility for their own pensions, healthcare and life assurance provision. The extra support for people arranging their own long-term care insurance, announced in the 1995 Budget, will provide opportunities for Abbey National. Plans are underway for Scottish Mutual to expand in this growth area, helped by the acquisition in February 1995 of Pegasus Assurance Group which added healthcare and critical illness lines.

Staff commitment

I would like to thank our staff for their continued commitment and hard work. I am pleased that they will share in the success they have helped to create through the payment of a 7.5% profit share. Many staff have benefited from Abbey National's strong and sustained performance through the first Sharesave Scheme. Share options were priced at 149p and matured in July of this year - on the date of maturity the share price was 468p. We welcome the improvements and additions to the range of employee share schemes announced by the Government in 1995. Abbey National has offered SAYE schemes to staff for the past five years and the reduction of the savings period from five to three years, plus the lowering of the minimum monthly savings amount to £5, will make them an even more attractive way of linking staff's fortunes to that of the Company.



Total assets (£bn)
Up 9%

John Fry, Deputy Chairman of Abbey National, will retire following the Annual General Meeting in April. John joined Abbey National in 1961, and before becoming Deputy Chairman in 1995 held a wide range of senior positions in the Company including General Manager, Corporate Planning, Group Services Director and Managing Director, Insurance. He was responsible for overseeing Abbey National's flotation in 1989, and has played a leading role in making Abbey National the outstanding company it is today. He will be greatly missed.

Finally I would like to thank Sara Morrison, who retired from the Board as a non-executive director in June 1995, for her valuable contribution to the Company over the past 16 years.

The proposed dividend increase from 17.75p to 21.75p reflects our belief that we can achieve continued profit growth and diversification while maintaining tight control of costs. For the future, we plan to remain one of the UK's top personal financial services providers, confident that we have developed a strategic approach to ensure Abbey National's continued success in a rapidly changing marketplace.

Christopher Tugendhat

Lord Tugendhat
Chairman

Peter Birch CBE FCIB
Chief Executive

Chief Executive's Statement to Shareholders

The year 1995 has been one of upheaval in the personal financial services sector. Over-capacity, combined with slow growth in the sector and established organisations broadening their product ranges, has reinforced the trend towards consolidation. In 1944 - the year when the Abbey Road and the National Building Societies merged to form Abbey National - there were 905 building societies. By 1990, the year after Abbey National's conversion, this figure had declined to 117. The number now stands at 79.

Other factors have contributed to the change which the industry is experiencing. Nearly 115,000 jobs in the banking sector have disappeared since 1990, and between 1974 and 1994 around 4,000 bank and building society branches have closed. Technology is also changing the way in which banks do business with their customers.

Home ownership

Equally dramatic change has been seen in the home ownership figures. Since 1944 owner occupation in the UK has approximately doubled from around 30% to 67% in 1995. Growth has been rapid, but the market is now approaching maturity with a potential 70% ceiling. At the same time the share of UK mortgage assets held by building societies has declined by nearly one fifth since 1984, to 61%. Since 1944 Abbey National's share of the UK mortgage market has remained relatively constant - at between 11% and 12%. The proposed transfer of National and Provincial's business to Abbey National would bring about a major step change, taking the mortgage market share of the combined organisation to around 15%.

Blurring of boundaries

Competitive pressures have made the boundaries between banks, building societies and insurance companies less clear. Banks are now major players in the mortgage market, and many building societies are now selling banking products. Similarly, insurance companies are now considering offering savings accounts. For Abbey National, these factors underline the wisdom of diversifying into a range of related financial services, whilst continuing to specialise in the provision of personal financial services.

Abbey National's response

Abbey National foresaw these changes taking place at an early stage, and since conversion to plc status in 1989 has been at the forefront of the process of diversification. Both by organic growth and via acquisition, the treasury, insurance and consumer credit businesses have been developed alongside the retail operation. In August 1995, the acquisition of First National Finance Corporation plc strengthened Abbey National's position in the unsecured personal loans market.

Abbey National is a hybrid organisation rather than simply a savings and mortgage business. The Company has concentrated on using capital raised at conversion to ensure long-term success and growth in shareholder value by the strengthening of core businesses and by diversification. Despite one of the UK's worst housing recessions Abbey National has increased profit in every year since conversion with the exception of 1992, demonstrating the effectiveness of this strategy; and in the six years from conversion to 31 December 1995 the Company's market capitalisation had increased by nearly five fold.

In 1988 Abbey National was concentrated largely on its traditional businesses of savings and mortgages. Seven years later in 1995 the Company generated 33% of its profits before tax from its non UK Retail Banking Operations, and will continue to broaden its earnings base.

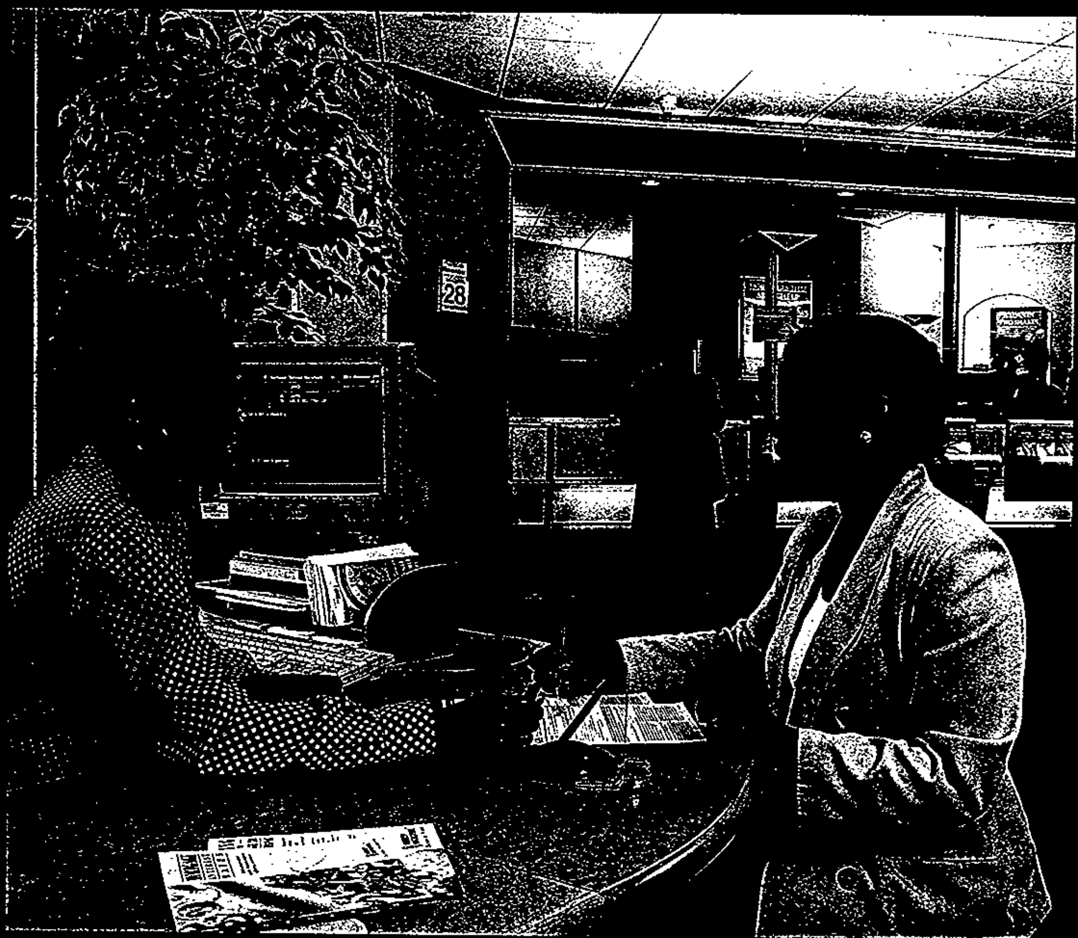
Cost efficiency

A broad range of high quality personal financial products in itself is not enough to ensure long term success. It must be matched by efficiency. Our current network of 675 branches is lean compared to many of our competitors. We are also careful to ensure that we employ the optimum number of staff to manage the business effectively.

Future

By 31 December 1995 Abbey National's share price had increased by nearly five fold since conversion to plc status in 1989. Dividends per ordinary share over the same period increased by two and a half times from 8.5 pence to 21.75 pence. Looking to the future Abbey National has set itself clear targets both in terms of the diversification of the business and the efficiency of our operations. We have a strong balance sheet with a tier 1 capital ratio of 8.4% at the end of 1995. This will give financial strength to pursue growth through both organic means and through acquisition - if the right opportunities arise. Abbey National will remain focused on the personal financial services sector. The Company will continue to be a leader rather than a follower in the markets it chooses to enter, as it works to enhance the value of shareholders' investments.

Peter Birch CBE FCIB
Chief Executive



Mrs. Shirley Hussain, Customer Service Assistant, Baker Street Branch

Excluding the reduction in provisions, profit before tax increased by 10%, reflecting strong income growth

Overview and Future Prospects

In 1995 Abbey National achieved a steady increase in profit in a particularly competitive environment, reflecting both continued growth in our core businesses and the benefits of the diversification strategy adopted since conversion to plc status in 1989. Profit before tax increased by 10% from £932 million to £1,026 million, reflecting continued growth in UK Retail Banking, Life Assurance and Treasury & Offshore and strong growth in Consumer Credit. With the effective tax rate reduced to 33.5%, profit after tax increased 12% to £682 million and earnings per share increased by 11% to 51.7 pence.

The UK Retail Banking business grew both mortgage assets and retail liabilities, achieving an estimated 9.2% share of the increase in UK mortgages outstanding (including £95 million of asset acquired with FNFC) and an estimated 3.4% share of the increase in UK liquid savings. The percentage of mortgage stock funded by wholesale deposits has remained unchanged at 21%. At the same time we demonstrated our ability to manage the balance between market share and margins by strengthening the UK retail net interest spread. The Abbey National Bank Account was re-launched in May 1995 and we now have 1.4 million bank accounts. Our general insurance joint venture was successfully launched in July and we are encouraged by the progress made so far.

Consumer Credit increased profits by 58%. This growth arose from the active marketing of Abbey National branded products and the acquisition of First National Finance Corporation in August.

Life Assurance increased new business levels at a time when the industry generally reported a decline in new business. Together, Abbey National Life and Scottish Mutual generated pre-tax profit of £105 million and continue to contribute a significant proportion of the Group's earnings.

Treasury & Offshore increased profit to £217 million. During 1995 it took an active part in the international capital markets. Abbey National Treasury Services (ANTS) managed the launch of the first Global Subordinated Bond by a UK bank and the issue of £100 million of Non-Cumulative Preference Shares and £200 million in Exchangeable Capital Securities on behalf of the Group, as part of the Group's ongoing programme of capital raising. This will give Abbey National flexibility in maintaining its capital structure during a period of growth, and the option to improve returns to shareholders through higher gearing.

Continental Europe continues to improve its performance as a result of lower loan provision charges.

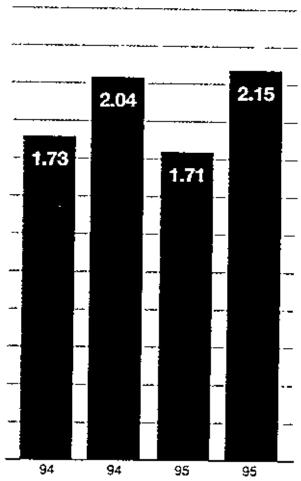
1995 was a year of change in the financial services markets. We believe that Abbey National is well placed to benefit from these changes as we continue to introduce new income streams whilst developing existing ones. This year we have undertaken investment aimed at building for the future, for instance, in the set up of our general insurance joint venture and the re-launch of the Abbey National Bank Account. This has contributed to a small increase in our cost:income ratio. The cost:income ratio should improve in the future as we benefit from our investments.

Analysis of Profit

Net interest income

	1995	1994
Net interest income (£m)	**1,584**	1,394
Net interest margin (%)	**1.71**	1.73
Average interest earning assets (£bn)	**92.3**	80.7
UK retail net interest spread (%)	**2.15**	2.04

Net interest income increased by 14% due to a 14% growth in average interest earning assets. The strong asset growth reflected the expansion of mortgage assets in UK Retail Banking, £1.4 billion of asset acquired with FNFC and growth in Treasury assets. The UK Retail net interest spread strengthened during the year reflecting Abbey National's ability to set mortgage rates and the reduced competition for savings deposits, partly offset by cashbacks and interest rate discounts on new business. The Group margin has benefited from the strengthened UK retail net interest spread and the addition of high margin asset acquired with FNFC. However, this was offset by the growth in the Treasury balance sheet, which typically has lower spreads.



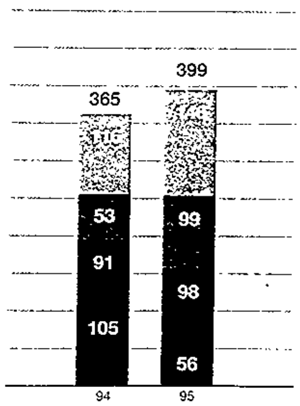
Net interest income (%)

Group net interest margin
UK retail net interest spread

Commissions, fees and other income

	1995 £m	1994 £m
Insurance commissions receivable	**146**	116
Other net fees and commissions receivable	**99**	53
Income from long term assurance business	**98**	91
Other income	**56**	105
Total	**399**	365

In total, commissions, fees and other income increased by 9%. Insurance commissions increased 26%, helped by a significant increase in general insurance income in the form of profit share received from panel insurers in respect of previous years' underwriting profits. Other net fees and commissions increased by 87% to £99 million, principally generated from higher banking income following the focus on sales of the Abbey National Bank Account. This was slightly offset by lower survey fees. Income from long term assurance business increased by 8%, with increased new business premiums from both Scottish Mutual Assurance and Abbey National Life. Other income fell 47% as a result of a reduction in Treasury investment dividend income following the disposal of certain dividend yielding investments at the end of 1994.



Commissions, fees and other income (£m)

Insurance commissions
Other net fees and commissions
Long term assurance income
Other income

One in every three households in the UK has a relationship with Abbey National

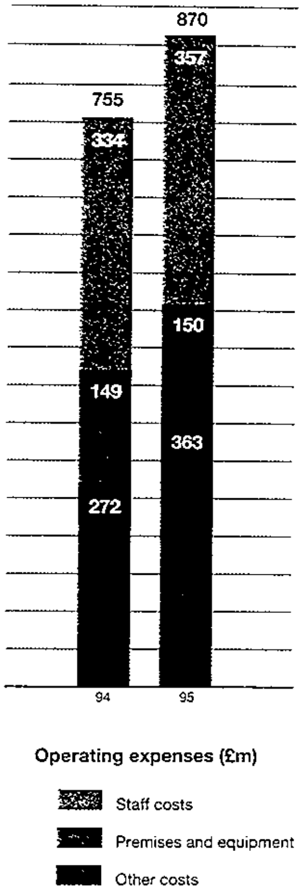
Above: Solihull branch

Below: Abbey National House, Glasgow

Abbey National is now one of the UK's largest life assurance operations

Operating expenses

	1995 £m	1994 £m
Staff costs	**357**	334
Premises and equipment costs	**150**	149
Other costs	**363**	272
Total	**870**	755



Operating expenses (£m)

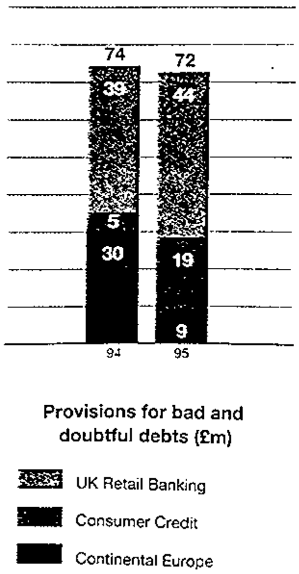
Total operating expenses increased by 15% (£115 million). This reflects the initiatives being undertaken to develop new and existing business in order to generate future profits. The Group cost:income ratio rose to 43.9% from 42.9% in 1994.

Staff costs increased by 7%, principally reflecting an increase in staff numbers from 17,376 at 31 December 1994 to 18,203 at 31 December 1995. Excluding the 1,056 staff who joined the Group with the acquisition of FNFC, total staff numbers fell by 229. This reflects the continued emphasis placed on the control of costs in the existing business and the sale of J.Trevor & Webster. Staff costs also included a 7.5% profit share payment to employees (1994: 10%).

Premises and equipment costs rose marginally by £1 million due to a higher charge for depreciation. Other costs were £91 million higher. This figure includes increased software costs of £52 million, marketing costs associated with the re-launch of the Bank Account, and costs associated with the expansion of Group activities, such as the general insurance joint venture and the proposed launch of Scottish Mutual International.

Provisions

	1995 £m	1994 £m
Bad and doubtful debts		
UK Retail Banking	44	39
Consumer Credit	19	5
Continental Europe	9	30
Total	72	74
Contingent liabilities and commitments	7	–
Amounts written off fixed asset investments	8	(2)



Provisions for bad and doubtful debts (£m)

Provisions for bad and doubtful debts were broadly flat in 1995. In UK Retail Banking, an increase in the rate of repossessions has been partly offset by a fall in arrears and lower average interest rates, leaving the provisions charge against residential properties broadly unchanged. There has been a £5 million increase in provisioning for cheque accounts, reflecting increased sales of the Abbey National Bank Account. The provisions charges for Consumer Credit increased by £14 million. This includes provisions for the Abbey National retail brand of £8 million (1994:£5 million), the remainder being provisions in FNFC. Continental Europe provisions charges fell to £9 million (1994:£30 million), an indication of the actions taken by management to stabilise loan quality.

Provisions for contingent liabilities and commitments principally reflect provisions on the sale of J.Trevor & Webster.

Central banks of leading economies around the world do business with Abbey National Treasury Services plc

Above: Treasury dealing room, London

Below: Abbey National Direct

Abbey National is the UK's second largest mortgage lender

The charge for amounts written off fixed asset investments includes general provisions made to reflect the credit risk of investment portfolios in Treasury & Offshore. This charge marks a continuation of the policy of building up a general provision against overall risk in an expanding book and does not indicate any deterioration in credit quality. Credit losses within these portfolios are nil. This reflects the maintenance of credit quality in Treasury & Offshore generally as it continues to pursue its policy of investing in high credit quality assets, with over 70% of counterparties being rated AA- or better.

Taxation

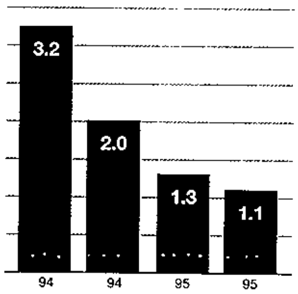
	1995	1994
Tax on profit on ordinary activities (£m)	**344**	322
Effective tax rate (%)	**33.5**	34.5

The charge for taxation increased by only 7%, despite a 10% increase in pre-tax profit, and the effective tax rate was reduced to 33.5%.

Review of Individual Operations

UK Retail Banking

	1995 £m	1994 £m
Net interest income	**1,190**	1,156
Commissions, fees and other income	**258**	188
Operating expenses	**(714)**	(655)
Provisions for bad and doubtful debts	**(44)**	(39)
Provisions for contingent liabilities and commitments	**(3)**	–
Profit before tax	**687**	650
Market share of increase in UK liquid savings (%)	**3.4 (est)**	12.4
Market share of UK liquid savings stock (%)	**8.2 (est)**	8.6
Market share of increase in UK mortgages outstanding (%):		
– organic	**8.6 (est)**	4.4
– by acquisition	**0.6 (est)**	13.0
Market share of UK mortgage stock (%)	**12.3 (est)**	12.4



Mortgages and Savings (£bn)

UK Retail Banking increased its profit before tax by 6% to £687 million.

Mortgage assets increased by £1.3 billion in 1995, including £95 million of asset acquired with FNFC, representing an estimated 9.2% share of the increase in UK mortgages outstanding. This reflects a sharp pick-up in lending in the second half of the year.

Abbey National also increased its share of liquid savings compared to the first half of 1995, attracting a £1.1 billion net inflow, which amounts to an estimated annual market share of 3.4%. This low market share was a feature of an environment where Abbey National required a lower level of savings deposits to fund mortgage lending.

Abbey National continues to manage the spread between its average lending rates and average funding rates

Net interest income increased by 3%, helped by the growth in mortgage assets during the year. Despite the competitive nature of the mortgage market, UK Retail Banking has been able to widen the spread between its average lending rates and average funding rates from 2.04% to 2.15% in 1995. The UK retail margin fell slightly to 2.52% (1994:2.60%) due to increased levels of capital allocated to Treasury to back balance sheet growth. A balance will continue to be sought between the spread earned and the attainment of market shares in both the mortgage and savings markets.

Commissions, fees and other income increased by 37%. This can be attributed to increased income from buildings and contents policies and from sales of personal banking products, including fees associated with Travelex. 120,000 new bank accounts were opened in the 8 months following the re-launch of the new Abbey National Bank Account and the number of primary accounts being opened has increased.

Growth in operating expenses was 9%. This growth includes costs associated with the launch of Abbey National General Insurance, and the re-launch of the Abbey National Bank Account.

There was a provisions charge of £44 million with £34 million (1994:£33 million) relating to residential mortgages. Since the end of 1994 the number of mortgages six months or more in arrears has been reduced by 2.5%, and there has been a 25% reduction in the stock of repossessed properties. However, repossessions for the year as a whole increased by 4% on 1994 which contributed to the slight rise in provisions. The average provision for capital losses and interest arrears for a repossessed property under offer has fallen to £13,300 from £15,700 at December 1994. Provisions charges against bank account balances and overdrafts were £12 million (£7 million in 1994). This was due to a significant increase in authorised overdraft balances following the promotion of the Abbey National Bank Account in 1995.

Consumer Credit

	1995	1994
Abbey National Brand		
Profit before taxation (£m)	**36**	31
Loan assets (£m)	**549**	381
FNFC (Consumer Credit Division)		
Profit before taxation (£m)	**13**	-
Loan assets (£m)	**1,080**	-
Total		
Profit before taxation (£m)	**49**	31
Loan assets (£m)	**1,629**	381

Pre-tax profit increased by 58%, reflecting the acquisition of FNFC and an increase in unsecured personal loan assets. This growth has arisen from active marketing of Abbey National unsecured loans which are arranged mainly through a telephone sales service and the addition of consumer credit business arising from the acquisition of FNFC in August, of which £513 million was unsecured personal loan assets. The acquisition of FNFC has been earnings enhancing in the year.

Life Assurance Operations

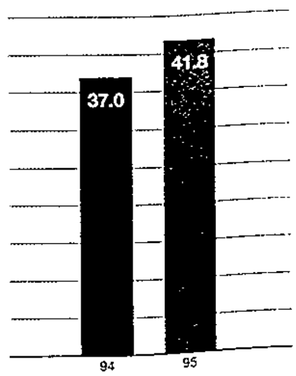
	1995 £m	1994 £m
Profit before taxation	**105**	94
Scottish Mutual new business premiums	**523**	471
Abbey National Life new business premiums	**434**	255

Life Assurance Operations, which comprises both Scottish Mutual Assurance and Abbey National Life, increased profit before tax by 12% to £105 million. Scottish Mutual (including Pegasus Assurance Group) contributed pre-tax profit of £51 million (1994:£46 million). Annualised premium income increased by 35% to £85 million, and total new business premium income increased by 11% against a reported industry fall of 16%. The strong performance of Scottish Mutual reflects a combination of good product design and effective links with independent financial advisers. Sales of regular premium pension business through intermediaries were particularly buoyant and doubled in 1995. Scottish Mutual incurred additional expenditure with the re-location of Pegasus from Bristol to Glasgow. There were also costs associated with the set up of the offshore operation, Scottish Mutual International (SMI) in Dublin. Premium income at Scottish Mutual has more than tripled since its acquisition, while costs have remained flat. Its operating expense ratio (the ratio of total management expenses plus commission to annualised new business) for 1995 was 102% (excluding SMI and Pegasus) - down from 114% in 1994, reflecting the increased efficiency of the Glasgow operation.

Abbey National Life (including Abbey National Unit Trust Managers) made a pre-tax profit of £54 million (1994:£48 million). Annualised premium income increased by 22% to £78 million and total new business premium income increased by 70%. The industry trend towards customer preference for single, rather than annual, premium contracts continued in 1995. The Abbey National UK Growth PEP launched in March has taken £154 million during the year, making it one of the UK's best selling PEPs from a standing start. The sale of non mortgage-related investment, pensions and protection products to UK Retail Banking customers accounted for 59% of policies sold, in particular Guaranteed Bonds and PEPs. These policies represent a major component of the Abbey National Life product offering.

Treasury & Offshore

	1995	1994
Profit before taxation (£m)	**217**	190
Total assets (£bn)	**41.8**	37.0



Treasury Operations total assets (£bn)

Treasury & Offshore pre-tax profit was 14% higher in 1995 at £217 million, despite operating in tough market conditions. This business benefited from the additional earnings coming from the increased level of capital allocated to it, with underlying earnings remaining steady.

Growth in assets of 13% was slower in 1995 than in 1994 (20%). In 1995 assets increased during the first half year but then reduced in the second half, reflecting tighter capital conditions following acquisitions and the anticipated capital requirements within the Group. Leasing assets increased in 1995 with deals undertaken in a range of sectors including automotive and oil. Treasury & Offshore continues to pursue its policy of investing in high credit quality assets with over 70% of counterparties being rated AA- or better.

1995 was the first full year of Abbey National's SEC registration, which has contributed to reduced funding costs for Abbey National in the international capital markets in the year.

Abbey National (Overseas) Limited, now known as Abbey National Treasury International Limited, was transferred to Abbey National Treasury Services (ANTS) in January 1995 and carries out wholesale and retail banking activities. During 1995 a range of structured retail products were offered to the expatriate markets, including growth and income bonds.

Abbey National Financial Products (ANFP) commenced operations in October 1993 as Abbey National Baring Derivatives, a joint operation with Baring Brothers & Co Limited (Barings). Following the appointment of an administrator to Barings in February 1995, the operation was renamed Abbey National Financial Products and came wholly under the management of ANTS. As a result of the sale to Internationale Nederlanden Groep N.V., Barings withdrew from the arrangement. In October, ANFP was relocated to Baker Street and is now generating new business and profits.

Operating expenses in Treasury & Offshore increased by £20 million reflecting a 20% increase in headcount and increased expenditure on the information technology infrastructure aimed at streamlining dealing and risk management analysis and processing. The increase in expenses also reflects the inclusion of the costs of ANFP within operating expenses. In previous years these costs were included within other income as fees payable.

Continental Europe

	1995 £m	1994 £m
Loss before taxation	**(22)**	(36)
Provisions charge	**9**	30

At £22 million, Continental Europe's pre-tax losses were substantially lower in 1995 compared to 1994 as a result of a reduction in the charge for provisions. The improvement occurred principally in France where the pre-tax loss was reduced to £8 million from £24 million, reflecting management actions taken to stabilise loan quality. In Spain, losses have also been reduced as the number of non-performing loans has fallen significantly. Losses in this operation include the impact of launch costs associated with the opening of nine new retail banking branches in the Madrid area where this business is now focused. Italy experienced tough operating conditions and it has increased the focus on quality lending and strengthening the management team.

Other Operations

	1995 £m	1994 £m
Profit before tax	**(10)**	3

This segment includes the results of Abbey National Independent Financial Advisers (ANIFA), Abbey National Homes, a number of investment companies, and J.Trevor & Webster (commercial estate agents) up until its disposal in November 1995. It also includes the commercial lending and property assets acquired with FNFC. The loss for this segment includes losses on disposal of £7.6 million relating to J.Trevor & Webster, and losses from the commercial and property assets of FNFC.

In 1995 ANIFA's benefit consulting division was extended through the acquisition of Kontax Pensions Limited, offering consulting and administration services, and Whitefoord & Foden Limited, consulting actuaries, establishing ANIFA as a leading adviser on employee benefit and pension schemes.

Since 1989 Abbey National's branch modernisation programme has increased the amount of space available to retail customers from 20,200 square metres to 60,500 square metres

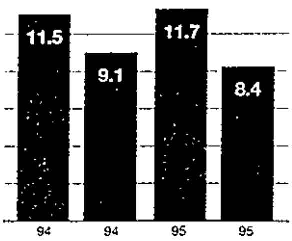
Above: King's Road branch, London

Below left: Cheque clearance, in Prescot Street, London

Below right: In-branch telephone banking services

Abbey National's telephone banking service has received over 1 million calls since its launch in May

Balance Sheet



Balance sheet (%)

Risk asset ratio
Tier 1 capital ratio

	1995	1994
Total assets (£bn)	**103.1**	94.5
Risk asset ratio (%)	**11.7**	11.5
Tier 1 capital ratio (%)	**8.4**	9.1

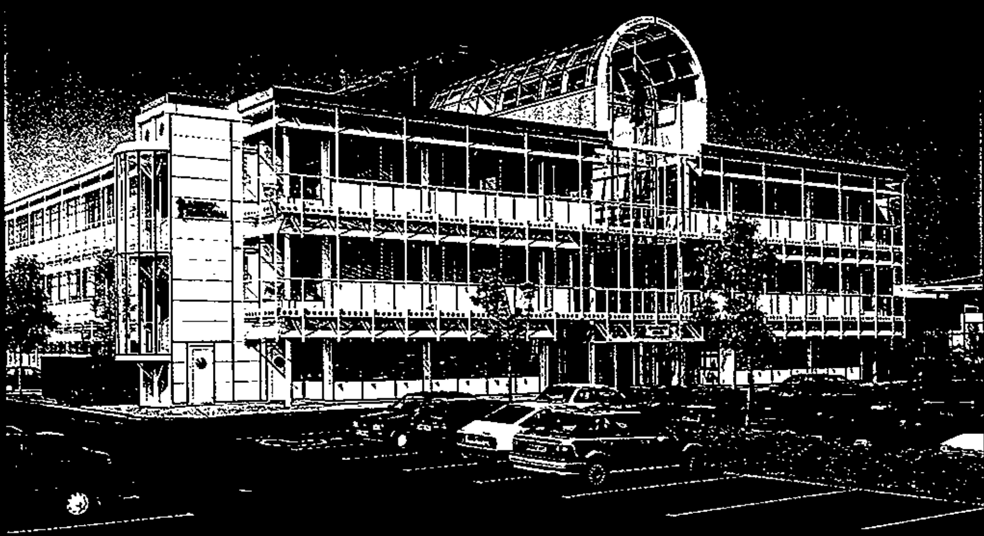
Total assets increased by 9%, or £8.6 billion in 1995, principally representing growth in Treasury assets of £4.8 billion, UK mortgage assets of £1.3 billion and £1.4 billion of assets acquired with FNFC. Of this growth, £6 billion was funded through the wholesale debt markets and £1 billion from retail sources. At 31 December, wholesale liabilities represented 57% of total funding. The percentage of UK mortgage assets funded from retail savings remained unchanged at 79%.

The Group's tier 1 ratio was reduced to 8.4% as a result of the growth in assets during the year, the write-off of goodwill on acquisitions, including £270 million on FNFC, and the increased dividend payment proposed for 1995. Abbey National issued £100 million undated preference shares in 1995. The risk asset ratio strengthened further to 11.7% being predominantly funded by Tier 2 subordinated debt issues, including a $750 million public issue in the US and £200 million in Exchangeable Capital Securities. In addition, Abbey National also issued a further £100 million undated preference shares in February 1996. Abbey National remained well-capitalised throughout the year, reflecting the importance to the Group of supporting its credit rating and retaining sufficient capital for expansion, while ensuring that shareholders benefit from the increased level of profit generated. Abbey National intends to seek authority at the Annual General Meeting to make market purchases of up to 10% of its ordinary shares, although there is no immediate intention of using such an authority. This will provide additional flexibility in the management of the Company's capital.

Capital expenditure during the year amounted to £127 million (1994:£114 million). This includes enhancements made to the UK retail branch network where, during the year, 82 of the 675 branches were extended, resited or modernised. Investment in the information technology infrastructure has also continued, with the introduction of new systems in Treasury, together with cheque account processing, a new sales system, loan credit-scoring and improved accounting systems. This was accompanied by the upgrading of current account and mortgage service centres and the setting up of a money processing centre in Harlow.

Peter Birch CBE FCIB
Chief Executive

Since it was acquired by Abbey National in 1992, Scottish Mutual has tripled its premium income whilst costs remained flat



Above: Scottish Mutual Head Office, Glasgow

Below: Abbey National Shareholder Services, Sheffield

Abbey National Shareholder Services was the winner of the 1995 ProShare Award for services to private investors

The Board

The Lord Tugendhat

Chairman

Appointed to the Board as joint Deputy Chairman on 1 June 1991 and Chairman on 1 July of that year. He is also a non-executive director of Blue Circle Industries PLC, the BOC Group plc and of Eurotunnel plc.

Formerly a Member of Parliament, he was successively a Member (1977-1981) and a Vice President (1981-1985) of the Commission of the European Communities. He was previously Chairman of the Civil Aviation Authority, a Deputy Chairman of National Westminster Bank and until recently Chairman of the Royal Institute of International Affairs (Chatham House). Aged 59.

Mair Barnes

Appointed to the Board in 1992. She is Executive Chairman of Oceanhaven Limited, the parent company of Dollond & Aitchison and a non-executive director of Fosters Trading Company Limited. From 1987 until February 1994 she was Managing Director of Woolworths plc. Aged 51.

Peter Birch CBE FCIB *

Chief Executive

Joined Abbey National as Chief Executive in 1984. He is also a non-executive director of Argos plc and Dalgety PLC. Aged 58.

Allan Denholm CBE CA +

Appointed to the Board in 1992. He is Deputy Chairman of Scottish Mutual Assurance plc and since 1993, a director of Abbey National Life plc. He is also a director of William Grant and Sons Limited and former Chairman of East Kilbride Development Corporation. He is a past President of the Institute of Chartered Accountants of Scotland. Aged 59.

John Fry FCIS FCIB *

Deputy Chairman

After joining Abbey National in 1961, he has held a number of senior executive positions and is currently responsible for life and general insurance operations. He became a General Manager in 1979 and was appointed to the Board in 1984, becoming a Deputy Chairman on 1 January 1995. Aged 59.

Ian Harley FCA *

Finance Director

Appointed to the Board in 1993 as Finance Director. After joining Abbey National in 1977, he became Assistant General Manager in 1988 and has held a number of senior management positions in the Company, including Treasurer and Director, Retail Operations. Aged 45.

Sir Terry Heiser GCB +

Appointed to the Board in 1992. Currently a non-executive director of J Sainsbury plc and Wessex Water plc. He is also a director of the Personal Investment Authority. He was formerly with the Civil Service, holding various senior positions, including Permanent Secretary to the Department of Environment from 1985 to June 1992. Aged 63.

Gareth Jones FCA FCT *

Treasurer

Appointed to the Board in 1993. He joined Abbey National in 1989 as Assistant General Manager and Treasurer. He was reappointed Treasurer in September 1993 with responsibility for Abbey National Treasury Services plc after serving as Director, Retail Operations. Aged 47.

Robert Knighton *

Managing Director, Operations Division

Appointed to the Board in 1993. After joining Abbey National in 1969, he was appointed General Manager in 1988. His current responsibilities include information technology, lending and banking operations. Aged 49.

Martin Llowarch FCA +#

Deputy Chairman

A Board member since 1989, he became non-executive Deputy Chairman in 1994. He is Chairman of Transport Development Group plc and Firth Rixson plc and a non-executive director of Hickson International plc. His past appointments include director and Chief Executive of British Steel plc. Aged 60.

Peter Ogden

Appointed to the Board in September 1994. He is Chairman of Computacenter Limited, a director of MC & Cie Limited, which is an investment bank, and a non-executive director of Anglo & Overseas Trust PLC. He was previously a Managing Director of Morgan Stanley & Co. Aged 48.

The Lord Rockley +

Joined the Board in 1990. He is Chairman of the Kleinwort Benson Group plc, which incorporates a merchant bank used by Abbey National. He is also a non-executive director of Christie's International plc, The Foreign and Colonial Investment Trust PLC and Cobham plc. Aged 61.

Charles Toner *

Managing Director, Retail Division

Appointed to the Board in 1992. After joining Abbey National in 1964, he has held a number of executive positions, including appointment as a General Manager in 1986. Current responsibilities include marketing and distribution. Aged 54.

James Tuckey FRICS

Appointed to the Board in 1990. He is currently Chief Executive of MEPC plc. Aged 49.

Charles Villiers FCA *

Managing Director, Corporate Development

A Board Member since 1989. He was formerly the Chief Executive of NatWest Investment Bank Ltd, an executive director of National Westminster Bank plc and the Chairman of County NatWest Ltd. Aged 55.

Sara Morrison retired on 27 June 1995.

* Executive Director
+ Audit Committee Member
# Personnel and Remuneration Committee Member

If the dates of appointment to the Board are before 12 July 1989, then these dates refer to appointments to the Board of Abbey National Building Society, the predecessor of Abbey National plc. All those directors concerned were appointed to the Board of Abbey National plc on 28 February 1989.

The number of full Board meetings and Committee meetings attended by each Director during the financial period was as follows:

	Number of Meetings Attended
Board Meeting	
The Lord Tugendhat	12
Mair Barnes	12
Peter Birch	12
Allan Denholm	12
John Fry	11
Ian Harley	12
Sir Terry Heiser	12
Gareth Jones	12
Robert Knighton	11
Martin Llowarch	11
Peter Ogden	11
The Lord Rockley	9
Charles Toner	12
James Tuckey	10
Charles Villiers	11
Audit Committee	
Allan Denholm	4
Sir Terry Heiser	3
Martin Llowarch	3
The Lord Rockley	4
Personnel & Remuneration Committee	
Martin Llowarch	5
Mair Barnes	5
James Tuckey	5

In 1995 there were 12 full Board meetings, 4 Audit Committee meetings and 5 meetings of the Personnel and Remuneration Committee.

▲ *Left to Right*
Martin Llowarch
The Lord Tugendhat
John Fry
Peter Birch

◀ *Left to Right*
James Tuckey
Mair Barnes
Sir Terry Heiser
Peter Ogden
The Lord Rockley (seated)
Allan Denholm

Left to Right ▶
Charles Villiers
Charles Toner
Robert Knighton
Ian Harley
Gareth Jones

Corporate Governance

Corporate Governance is concerned with how companies are directed and controlled, and in particular with the role of the Board of Directors and the need to ensure a framework of effective accountability.

The Board comprises a part-time Chairman, seven executive directors and seven non-executive directors. The full Board met on twelve occasions during 1995, including a separate session specifically devoted to the long term strategic direction of the Group. The Board's focus is on strategy formulation, policy and control and a Framework of High Level Authorities is in place which maps out the structure of delegation below Board level as well as specifying those authorities which remain within the Board's preserve. As external events during the year illustrated, risk management in banking is critical and the Board developed further its policies covering the risks associated with liquidity, foreign exchange, interest rates and credit. A key role is played by the Assets and Liabilities Committee (ALCO), chaired by the Chief Executive, which monitors and controls the level of Group structural balance sheet risk, and by the Group Credit Committee, which reviews and oversees high level credit policies and exposures. The Board, at its regular monthly meetings, reviews the minutes of ALCO which incorporate extracts from the minutes of the Group Credit Committee. These financial risk arrangements were reviewed during 1995 by a firm of independent accountants and a number of changes to reporting lines were put in place. Ongoing consideration is being given to strengthening risk management still further within Abbey National. As Abbey National diversifies, a growing responsibility falls on the boards of directors of its subsidiary companies, particularly those in the Life Assurance, Treasury & Offshore, and Consumer Credit segments. Each of these boards (Scottish Mutual Assurance plc, Abbey National Life plc, Abbey National Treasury Services plc, and First National Finance Corporation plc) includes at least one independent non-executive director.

All directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby directors may, in the furtherance of their duties, take independent professional advice at the Company's expense.

Two standing board committees are maintained, the Audit Committee and the Personnel and Remuneration Committee. Both of these committees operate within written terms of reference with their minutes circulated for review and consideration by the full complement of directors, supplemented by oral reports from the committee chairmen. Membership of these committees comprises only non-executive directors.

The Audit Committee met four times in 1995. Its prime tasks are to review the scope of external and internal audit, to receive regular reports from Coopers & Lybrand and the Chief Internal Auditor, and to review the half year results and annual accounts before they are presented to the Board, focusing in particular on accounting policies and compliance, and areas of management judgement and estimates. This Committee more generally acts as a forum for discussion of internal control issues and in this capacity it reviewed the control framework and internal audit arrangements of First National Finance Corporation plc which was acquired during the year. The Audit Committee is chaired by Allan Denholm, a recent past President of the Institute of Chartered Accountants of Scotland.

The Personnel and Remuneration Committee is currently chaired by myself and met five times in 1995. It has two principal functions: to monitor the human resources policies of the Group to ensure they support the business objectives determined by the Board, and to consider the individual remuneration packages for executive directors. The subject of directors' remuneration has been very much in the news and following the publication in July of the Report of the Study

Group on Directors' Remuneration (the Greenbury Committee), the London Stock Exchange now requires Remuneration Committees to report to shareholders on how directors are remunerated. This report, together with details of individual directors' remuneration packages, is to be found on pages 27 to 33.

The Board does not operate a nominations committee, but appointments of non-executives are made on a formalised basis with the Chairman agreeing selection criteria with his fellow board members. Use is made of independent recruitment consultants, where appropriate. The final decision rests with the full Board, after a period of extensive consultation. Appointments are for an initial term of three years which is extendable upon mutual agreement.

The assets of the Company's pensions schemes are held separately from those of the Group and are under the control of a Board of Trustees. During the year Sara Morrison resigned as a trustee and the opportunity was taken to widen the representation by appointing a third employee trustee and a pensioner trustee. There are therefore now seven pension trustees including the Chairman, Lord Tugendhat and two other directors of the Company. Asset management is delegated to two independent fund companies and one property management company, and the Trustees receive independent professional advice on the performance of the external managers. The audit of the pension fund is separated from that of Abbey National, being undertaken by Deloitte & Touche. Separate legal advice to the Trustees is provided by an independent firm of solicitors.

The Cadbury Committee Code of Best Practice on the Financial Aspects of Corporate Governance requires directors to provide shareholders with a series of specific statements relating to particular aspects of governance. Statements relating to internal control, "going concern", directors' responsibilities, and compliance with the Code of Best Practice, will be found in the Directors' Report on pages 34 to 38.

Martin Llowarch
Deputy Chairman
23 February 1996

Directors' Remuneration

During the year a report has been published by the Study Group on Directors' Remuneration (the Greenbury Committee). Under the London Stock Exchange Listing Rules, Abbey National is now required to report to shareholders on a number of key considerations affecting the Board's policy on directors' remuneration as well as to provide additional information analysing each element in individual directors' remuneration packages.

Personnel and Remuneration Committee

The Board of Abbey National plc has long had a Remuneration Committee, now known as the Personnel and Remuneration Committee, with agreed terms of reference, to determine inter alia the Company's policy on executive directors' remuneration and to consider the remuneration of each executive director, including pension rights and any compensation payments. Membership of this Committee is indicated against individual directors' details on pages 22 and 23. The Company has complied throughout 1995 with the best practice provisions set out in the Greenbury Committee Code, as annexed to the London Stock Exchange Listing Rules as Section A. Notwithstanding that Lord Tugendhat is not charged by the Board with day-to-day executive responsibilities for running the business, it was considered appropriate that he should stand down from membership of the Committee, and therefore its current composition is restricted to independent non-executive directors, although the Committee consults, as appropriate, with both the Chairman and the Chief Executive.

I reported in detail last year on certain changes which had been made to the Company's remuneration package for executive directors during 1994 and the reasons for these changes. There have been no significant modifications since then, and the aim of the Board and the Personnel and Remuneration Committee continues to be to maintain a policy to attract, retain and motivate executive directors of appropriate calibre whilst ensuring basic salaries are around the median for our comparator group. This group includes banks, major building societies and insurance companies with which Abbey National competes, and other companies in a variety of fields with a market capitalisation broadly similar to our own. In developing this policy the Personnel and Remuneration Committee gives full consideration to the best practice provisions for remuneration policy and service contracts and compensation as set out in the Greenbury Committee's Code of Best Practice, as annexed to the London Stock Exchange Listing Rules as Section B. Details of each director's remuneration package together with details of interests in shares and share options are set out below. There are no elements of remuneration, other than basic salary, which are treated as being pensionable.

Executive directors seeking re-election at the 1996 Annual General Meeting will each have an unexpired contract term of one year. Non-executive directors do not have service contracts, save for the Chairman whose contract is renewable on an annual basis at the first Board Meeting in each year following the Annual General Meeting and provides for payment of fees for a period of twelve months.

All the executive directors have rolling one year service contracts. If an executive director is made redundant in the strict legal sense, he may claim a total payment (which would include payment in lieu of notice period) of up to a maximum of two years salary depending on length of service. Fifteen years of continuous service would be required to secure this maximum payment. This provision is included in the service contracts of all executive directors and is in line with Abbey National's well established practices on redundancy which equally apply to the service contracts of the 70 members of the Abbey National executive management group.

Directors' emoluments

The following table shows an analysis of directors' emoluments:

	Salary/ Fee	Performance related Annual Bonus	Taxable benefits	1995 Total	1994 Total	Pensions 1995	Pensions 1994
	£	£	£	£	£	£	£
The Lord Tugendhat (Chairman)	249,969	–	13,793	**263,762**	242,393	–	–
Non-Executive Directors							
M Barnes	20,583	–	695	**21,278**	20,000	–	–
P Davis (retired 28 April 1994)	–	–	–	–	10,000	–	–
J A Denholm	25,583	–	3,994	**29,577**	25,398	–	–
Sir Terence Heiser	20,583	–	86	**20,669**	20,062	–	–
M E Llowarch	32,625	–	1,186	**33,811**	27,321	–	–
S Morrison (retired 27 June 1995)	8,792	–	–	**8,792**	17,500	–	–
P J Ogden	17,792	–	–	**17,792**	4,644	–	–
The Lord Rockley	20,583	–	–	**20,583**	20,000	–	–
J L Tuckey	20,583	–	–	**20,583**	20,000	–	–
Executive Directors							
P G Birch (Chief Executive)	345,000	95,000	7,845	**447,845**	408,280	**71,415**	63,841
J M Fry	160,000	25,000	11,810	**196,810**	211,140	**33,120**	29,762
I Harley	195,000	50,000	10,649	**255,649**	227,009	**42,406**	35,910
D G Jones	190,000	40,000	12,285	**242,285**	278,174	**39,330**	34,684
R F Knighton	190,000	60,000	12,967	**262,967**	233,931	**49,210**	42,323
F D Patrick (resigned 31 May 1994)	–	–	–	–	56,664	–	5,292
C G Toner	190,000	60,000	10,584	**260,584**	210,638	**39,330**	34,684
C N Villiers	195,000	60,000	13,315	**268,315**	244,797	**67,665**	56,448
	1,882,093	390,000	99,209	**2,371,302**	2,277,951	**342,476**	302,944

Pending recommendations from the professional bodies, the figures shown for pensions are the contributions paid by the Company.

During the year an ex-gratia payment in the form of a gift of £38,500 was made to Sara Morrison, a former director who had been on the board of Abbey National plc and its building society predecessor for over 15 years.

The remuneration arrangements of the Chairman and non-executive directors are detailed below.

The Chairman's emoluments consist wholly of fees and benefits and expenses in respect of services. He is not entitled to participate in any bonus or profit sharing arrangements nor is he entitled to participate in the Executive Share Option scheme. However, he is entitled to participate in the Company's Sharesave scheme which is available to all eligible employees. The Chairman's appointment is non-pensionable and he makes his own private pension arrangements.

Fees are paid to non-executive directors, the basic fee for non-executive directors of £18,000 per annum is augmented by £3,000 for service on Board committees. Each of these fees was increased by £500 on 1 June 1995. Lord Rockley's fee is paid to Kleinwort Benson Group plc, of which he is Chairman.

The Company's Articles of Association currently set a limit of £500,000 per annum for directors' fees. This figure, which covers the Chairman's remuneration and payments to non-executive directors, was set in 1989 and, with the anticipated additional director appointments following the proposed transfer of the business of National and Provincial Building Society, the Board now feels that this ceiling needs to be augmented. A proposal to increase the limit to £750,000 will be put to shareholders at the Annual General Meeting and this is detailed in the accompanying Notice of Meeting.

The remuneration arrangements for executive directors are as follows:

a. Basic salary is considered in relation to similar sized jobs in comparable organisations. The comparators include UK banks, building societies, insurance companies and other UK companies with an equivalent market capitalisation to Abbey National.

b. The basic system of discretionary performance payments was revised during 1994, and now comprises a bonus scheme based on annual performance (which pays out for 1995 in March 1996) and a three year scheme. The maximum potential cash payment, to be shared among the executive directors and other members of the top management team for the annual scheme, is 30% of that group's basic salary. Such payments are not pensionable.

   The actual level of any payment under the annual bonus scheme is determined by the Board's view of the Group's performance set against the Chief Executive's objectives. Coopers & Lybrand, the Company's auditors have reported to the Personnel and Remuneration Committee on management's assessment of progress against these objectives during the year. The Board pays particular attention to certain quantifiable targets and then modifies that assessment in the light of its view of performance against qualitative objectives, such as customer service and product quality.

   The key financial targets for 1995 included achievement of a specified level of Group pre-tax profits, a specified cost:income ratio and a specified measure of shareholder value (known as the value based management profit after capital charge). Payments to individual directors reflect both corporate and individual performance.

c. As well as an annual bonus scheme there is also a three year discretionary performance scheme which was first established in 1994 and covered the three calendar years to 1996. This scheme may pay out in March 1997. The scheme continued to operate for 1995 and, on a rolling basis, may pay out in March 1998 in respect of the period 1995 to 1997. The maximum potential cash payment, to be shared among the executive directors and other members of the top management team, is 30% of that group's basic salary. Such payments are not pensionable.

   In determining whether or not to make a payment under the three year bonus scheme, and if so its size, the Board will be guided by a formula which compares total shareholder return over the relevant three year period against the FT-SE 100 and relevant quoted and unquoted comparator competitors.

   Each of the executive directors set out above continued, throughout the year, to be entitled to participate in the three year bonus scheme. No payments were made during the year, and entitlements, if any, will not be determined until March 1997 in respect of the 1994-1996 scheme and March 1998 in respect of the 1995-1997 scheme.

   During 1996 the Personnel and Remuneration Committee will be considering whether or not any such bonus entitlements should be settled in shares rather than cash.

d. In addition, the full complement of non-executive directors may in exceptional circumstances make a one-off ex-gratia payment to an individual executive director who has rendered a particular and outstanding contribution.

e. There is an Executive Share Option scheme and an Employee Sharesave scheme, both of which have been approved by the shareholders. Membership of these schemes is available to executive directors, and their interests are set out below. Grants of executive share options are made on the recommendation of the Personnel and Remuneration Committee and reflect both corporate and individual performance. Executive share options are granted on a phased basis rather than in one block. Annual awards are normally equivalent to a maximum sum of one times annual salary, subject always to the Inland Revenue requirements on the total limit that may be awarded under such schemes. Replacement options will only be granted after due consideration by the Personnel and Remuneration Committee and subsequent approval by the non-executive directors of the Board, such options will only be granted providing performance has shown sustained growth in the preceeding three years.

   Executive Options are granted at an exercise price based on the average of the market price as shown by the Daily Official List of the London Stock Exchange for the three business days immediately preceding the date of grant.

f. Taxable benefits include car plus related expenses, medical expenses and subsidised mortgage loans.

Directors' share interests

The beneficial interests of directors and their immediate families in the ordinary shares of 10 pence each in the Company are shown below:

Ordinary shares:

	No. of shares At 1.1.95	No. of shares At 31.12.95
M Barnes	1,000	1,000
P G Birch	118,849	313,458
J A Denholm	2,000	3,000
J M Fry	3,324	10,572
I Harley	5,253	20,501
Sir Terry Heiser	1,500	1,500
D G Jones	2,632	70,910
R F Knighton	1,100	14,300
M E Llowarch	1,750	1,750
P J Ogden	4,000	4,000
The Lord Rockley	5,000	5,000
C G Toner	1,832	20,143
J L Tuckey	12,000	12,000
The Lord Tugendhat	10,000	10,000
C N Villiers	19,409	26,657

Share Options:

	No of Options At 1.1.95	Granted	Exercised	At 31.12.95	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date	Notes
P G Birch	8456			8456	1.49		01/07/97	31/12/97	Sharesave
	1939			1939	2.32		01/10/98	31/03/99	Sharesave
	1882			1882	2.39		01/06/99	30/11/99	Sharesave
		2418		2418	4.28		01/10/00	31/03/01	Sharesave
	194300		194300		2.702	4.395	21/05/94	21/05/01	Executive
	14134			14134	2.99		05/05/95	05/05/02	Executive
	69478			69478	2.99		05/05/95	05/05/02	Executive[1]
	25215			25215	3.69		29/03/96	29/03/03	Executive
	8404			8404	3.69		29/03/96	29/03/03	Executive[2]
	60897			60897	4.68		11/04/97	10/04/04	Executive
		71500		71500	4.83		10/04/98	09/04/05	Executive
		97765		97765	5.37		29/08/98	28/08/02	Executive[5]
	384705	171683	194300	362088					
J M Fry	7248		7248		1.49	4.755	01/07/95	31/12/95	Sharesave
	1616			1616	2.32		01/10/96	31/03/97	Sharesave
	1569			1569	2.39		01/06/97	30/11/97	Sharesave
	84381		84381		2.702	5.215	21/05/94	21/05/01	Executive
	108561		100104		2.99	5.215	05/05/95	05/05/02	Executive[4]
	203375		191733	3185					
I Harley	7248		7248		1.49	4.755	01/07/95	31/12/95	Sharesave
	1616			1616	2.32		01/10/96	31/03/97	Sharesave
	1569			1569	2.39		01/06/97	30/11/97	Sharesave
		2418		2418	4.28		01/10/00	31/03/01	Sharesave
	41635		41635		2.702	5.215	21/05/94	21/05/01	Executive
	12092		12092		2.99	5.215	05/05/95	05/05/02	Executive
	17908		17908		2.99	5.215	05/05/95	05/05/02	Executive
	20476			20476	3.69		29/03/96	29/03/03	Executive
	6825			6825	3.69		29/03/96	29/03/03	Executive[2]
	23237			23237	4.68		11/04/97	10/04/04	Executive
	7745			7745	4.68		11/04/97	10/04/04	Executive[3]
		40500		40500	4.83		10/04/98	09/04/05	Executive
	140351	42918	78883	104386					
D G Jones	7248		7248		1.49	4.805	01/07/95	31/12/95	Sharesave
	1616			1616	2.32		01/10/96	31/03/97	Sharesave
	1569			1569	2.39		01/06/97	30/11/97	Sharesave
		2418		2418	4.28		01/10/00	31/03/01	Sharesave
	58290		58290		2.702	5.215	21/05/94	21/05/01	Executive
	11678		11678		2.99	5.215	05/05/95	05/05/02	Executive
	23322			23322	2.99		05/05/95	05/05/02	Executive[1]
	25575			25575	3.69		29/03/96	29/03/03	Executive
	8525			8525	3.69		29/03/96	29/03/03	Executive[2]
	24038			24038	4.68		11/04/97	10/04/04	Executive
	8012			8012	4.68		11/04/97	10/04/04	Executive[3]
		39500		39500	4.83		10/04/98	09/04/05	Executive
	169873	41918	77216	134575					
R F Knighton	8456			8456	1.49		01/07/97	31/12/97	Sharesave
	74019		74019		2.702	5.215	21/05/94	21/05/01	Executive
	7746		7746		2.99	5.215	05/05/95	05/05/02	Executive
	27254		27254		2.99	5.215	05/05/95	05/05/02	Executive
	22404			22404	3.69		29/03/96	29/03/03	Executive
	7468			7468	3.69		29/03/96	29/03/03	Executive[2]
	22435			22435	4.68		11/04/97	10/04/04	Executive
	7478			7478	4.68		11/04/97	10/04/04	Executive[3]
		39500		39500	4.83		10/04/98	09/04/05	Executive
	177260	39500	109019	107741					

Directors' Remuneration
(continued)

Share Options (continued)

	At 1.1.95	No of Options Granted	Exercised	At 31.12.95	Exercise price £	Market price at date of exercise £	Date from which exercisable	Expiry date	Notes
C G Toner	7248		7248		1.49	4.755	01/07/95	31/12/95	Sharesave
	1616			1616	2.32		01/10/96	31/03/97	Sharesave
	1569			1569	2.39		01/06/97	30/11/97	Sharesave
	74019		74019		2.702	5.215	21/05/94	21/05/01	Executive
	7746		7746		2.99	5.215	05/05/95	05/05/02	Executive
	27254		27254		2.99	5.215	05/05/95	05/05/02	Executive
	24449			24449	3.69		29/03/96	29/03/03	Executive
	8149			8149	3.69		29/03/96	29/03/03	Executive[2]
	24038			24038	4.68		11/04/97	10/04/04	Executive
	8012			8012	4.68		11/04/97	10/04/04	Executive[3]
		39500		39500	4.83		10/04/98	09/04/05	Executive
	184100	39500	116267	107333					
The Lord Tugendhat	7845			7845	2.39		01/06/97	30/11/97	Sharesave
	7845			7845					
C N Villiers	7248		7248		1.49	4.985	01/07/95	31/12/95	Sharesave
	1616			1616	2.32		01/10/96	31/03/97	Sharesave
	1569			1569	2.39		01/06/97	30/11/97	Sharesave
		2418		2418	4.28		01/10/00	31/03/01	Sharesave
	98445		98445		2.702	5.215	21/05/94	21/05/01	Executive
	12889		12889		2.99	5.215	05/05/95	05/05/02	Executive
	37111			37111	2.99		05/05/95	05/05/02	Executive[1]
	31145			31145	3.69		29/03/96	29/03/03	Executive
	10381			10381	3.69		29/03/96	29/03/03	Executive[2]
	9612			9612	4.68		11/04/97	10/04/04	Executive
	3204			3204	4.68		11/04/97	10/04/04	Executive[3]
		32086		32086	4.83		10/04/98	09/04/05	Executive
	213220	34504	118582	129142					

Notes

The options detailed above become exercisable if the average growth of earnings per ordinary share exceeds the average increase in the Retail Prices Index in any three years prior to exercise.

1. Parallel discounted options were granted over these shares exercisable at £2.54 from 5.5.97 to 5.5.02.

2. Parallel discounted options were granted over these shares exercisable at £3.14 from 29.3.98 to 29.3.03.

3. Parallel discounted options were granted over these shares exercisable at £3.98 from 11.4.99 to 10.4.04.

The option holder may exercise either option, thereby reducing both options, subject to the achievement of the performance criteria. Parallel discounted options become exercisable if the average growth of earnings per ordinary share exceeds the average increase in the Retail Prices Index by at least 10% in any five year period prior to the date of exercise.

4. The number of options granted to J M Fry at £2.99 in 1992 was reduced during 1995 from 108,561 to 100,104 to comply with Inland Revenue requirements.

5. Replacement Options.

The options refer to those granted under the Company's Executive and Sharesave schemes, as set out in note 38 to the accounts.

Options shown under the headings 'Granted' or 'Exercised' refer to options granted or exercised during the year.

Market price at the date of exercise is the Middle Market Quotation, as derived from the London Stock Exchange Daily Official List.

The market price of the shares at 31 December 1995 was 635.5p (430.5p) and the range during 1995 was 417.5p to 649.5p.

There have been no changes to the beneficial and other interests of the directors in the ordinary shares of the Company up to 23 January 1996 other than the automatic reinvestment on 2 January 1996 of dividends arising from the Abbey National Personal Equity Plan with regard to 81 shares acquired by PG Birch, and 17 shares acquired by CG Toner.

Martin Llowarch
Deputy Chairman and Chairman of the Personnel and Remuneration Committee.
23 February 1996

The directors have pleasure in presenting their report for Abbey National plc for the year ended 31 December 1995.

Principal activities

The principal activity of Abbey National plc and its subsidiaries continues to be the provision of an extensive range of personal financial services. The Business Review for the year, including a review of non-banking activities, together with prospects for 1996, is set out on pages 10 to 20 of this document. Note 23 to the accounts on page 61 provides a list of the principal subsidiaries and the nature of each one's business as well as details on overseas branches. Details of important events which have occurred since the end of the financial year are included in the Chairman's Statement.

Results and dividends

The profit on ordinary activities before tax for the year ended 31 December 1995 was £1,026 million (1994: £932 million).

An interim net ordinary dividend of 7.25 pence per share was paid on 16 October 1995 (1994: 5.70 pence per share).

The directors propose a final net ordinary dividend for the year of 14.50 pence per share (1994: 12.05 pence per share) to be paid on 7 May 1996.

The ordinary dividends for the year, both paid and proposed, absorb a total of £288 million leaving profits of £334 million to be retained.

Corporate governance

The Stock Exchange requires directors to report on compliance with the recommendations set out in the Code of Best Practice published in December 1992 by the Committee on the Financial Aspects of Corporate Governance ("the Code"). The directors have carefully considered these and confirm that Abbey National plc, in the light of the Company's particular circumstances, has met throughout the year and continues to meet the Code's recommendations.

As required by the Code, specific statements are provided below on the application of the concept of "going concern" in the accounts, and on internal control.

Going concern

The directors confirm that they are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal control

The Board of directors has overall responsibility for systems of internal financial control throughout the Abbey National Group, though in the context of the size and complexity of operations it has to be understood that such systems can provide only reasonable and not absolute assurance against material misstatement or loss.

The key elements of internal financial control are set out below, and these should be seen within the wider framework of high level controls described in the report on Corporate Governance on pages 25 and 26:-

- A planning framework which incorporates a Board approved rolling Three Year Plan, with detailed annual operating objectives and milestones to business unit levels.
- A comprehensive system of financial reporting to the Board, based on an annual budget with monthly reports against actual results, analysis of variances, scrutiny of key performance indicators, plus regular reforecasting.
- Well defined regulations governing appraisal and approval of capital expenditure. These include an annual budget, detailed project approval procedures, incorporating appropriate levels of authority, and a post acquisition review process.
- The Assets and Liabilities Committee (ALCO) receives regular reports which track the various components of market risk and also the generation and absorption of capital, and the level, composition and trends in liquidity, including projected demands on liquidity.
- The use of Control Manuals to document key controls against identified risks, supplemented by procedure manuals at the operating level. Procedures have also been developed whereby management submits Self Certification Statements confirming compliance with key controls, and these statements are reviewed by the Audit Committee.
- Monitoring of the effectiveness of internal control is undertaken by the Audit Committee, which receives regular reports from Internal Audit, and where relevant from external auditors, while the Board also receives regular and exception reports on high level prudential control issues, such as compliance with the Financial Services Act.

The Audit Committee has reviewed the effectiveness of the system of internal financial control which operated during the period covered by this Directors' Report and Accounts.

The external auditors, Coopers & Lybrand, have reviewed the statement on compliance with the Code in accordance with Auditing Practices Board guidance. They have confirmed that the directors' comments on going concern and internal financial control provide the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance) and are not inconsistent with the information of which they are aware based on their normal audit work. They have also reported to the Company that the statement appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the London Stock Exchange for their review.

The required procedures performed during this normal audit work do not encompass the specific steps that would be necessary to give an opinion on the directors' statement that the Company has adequate financial resources to continue in operational existence for the foreseeable future. In view of the significant additional work and cost that would be involved to enable such an opinion to be given and the limited assurance this would provide, the directors do not consider that such cost is justified. Accordingly, the auditors do not give an opinion on the ability of the Company to continue in operational existence. They are not required to carry out the additional work necessary to, and do not, express an opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures.

Employees

The Company has continued to integrate the principles of equality of opportunity into its human resource policies and during the year the representation of women and ethnic minorities in management positions has again increased, as has the representation of staff from ethnic minorities in geographical areas with a higher proportion of people from minority populations. Local initiatives, across the country, continue to give practical assistance to young people from minority groups. In addition Abbey National continues to support and contribute to the Equality Forum Opportunity 2000.

The take up of the flexible working policies, introduced in 1993 to help staff to accommodate career and family, continues to steadily increase with both men and (mainly) women trying new ways of working.

The Company continues to encourage applications from people with disabilities, and the Company's policy states that it will take all practical steps to assist the recruitment, retention and development of disabled persons. In 1995 the Company adopted the national "Positive about Disabled People" symbol in its corporate recruitment advertising. A group drawn from all parts of the business has been established to review the implications of the Disability Discrimination Act and to recommend further action to improve opportunities for the employment of disabled staff and widen access for disabled customers. Abbey National continues to support and contribute to the Employers' Forum on Disability.

The Company continues its commitment to an active programme of employee communications using a wide variety of media. The aim is to ensure that staff are fully informed of the performance of the Company.

A further invitation to eligible employees to participate in the Company's Sharesave scheme was made during the year and at the Annual General Meeting shareholders' approval is to be sought for the introduction of an Employee Share Option scheme, which it is intended will be available to all staff.

Share capital

The authorised and issued share capital of the Company are detailed in note 38 to the accounts on page 69.

During the year, 6,214,016 ordinary shares were issued on the exercise of options under the Sharesave scheme and 1,648,794 shares were issued under the terms of the Executive Share Option scheme. No shares were issued under the terms of the Share Participation scheme.

On 9 February 1995 the Company issued 488,894 ordinary shares in part consideration for the acquisition of the Pegasus Assurance Group Ltd.

On 23 October 1995 the Company issued 100,000,000 10 3/8% non-cumulative sterling preference shares and £200,000,000 of 10 1/16% exchangeable capital securities. The exchangeable capital securities are convertible, at the option of the Company, into sterling preference shares. On 13 February 1996 the Company issued 100,000,000 10 3/8% non-cumulative sterling preference shares.

Tangible fixed assets

The movements in tangible fixed assets are set out in note 25 to the accounts on page 63.

Market value of land and buildings

The directors believe, on the basis of a regular valuation review process, that the estimated market value of the Company's and its subsidiaries' land and buildings is below the net book value of £310 million as disclosed in note 25 to the accounts by approximately £28 million. The directors do not consider this to be a permanent diminution in value, and therefore no provision has been made.

Charitable donations and political contributions

The Company has continued to support a wide range of charitable projects, particularly through Abbey National Charitable Trust Limited ("the Trust").

The total value of support given to charities and the voluntary sector amounted to £1,186,000. This comprised mainly cash donations through the Trust, and other support given in kind, including the value of staff time and through involvement in youth training, employment and enterprise initiatives.

During the year, Abbey National plc donated £450,000 to the Trust's funds. The Trust also received income from its invested Permanent Endowment Funds. Total cash donations of £815,653 to 700 registered charities were made through the Trust and by other Abbey National group companies in 1995.

No contributions were made for political purposes.

Directors and directors' interests

Sara Morrison retired as a director on 27 June 1995.

All other directors listed on pages 22 and 23 have served on the Board for the whole of the period 1 January 1995 to 31 December 1995. Peter Birch, Allan Denholm, Ian Harley, Charles Toner and Charles Villiers will retire by rotation at the Annual General Meeting and, all being eligible, offer themselves for re-election. John Fry, Deputy Chairman, will retire following the Annual General Meeting.

Peter Birch, Ian Harley, Charles Toner and Charles Villiers have service contracts with the Company which are terminable upon twelve months notice by Abbey National. Allan Denholm, a non-executive director, does not have a service contract with the Company.

No director had a material interest in any contract of significance, other than a service contract, with the Company or any of its subsidiaries at any time during the year. Details of all the directors are included on pages 22 and 23 of this document.

Directors' interests in the shares of the Company and options to acquire shares are set out in the report on Directors' Remuneration on pages 27 to 33.

Directors' liability insurance

The Company maintains insurance cover for directors' and officers' liability, as permitted by Section 310(3) of the Companies Act 1985.

Close company provisions

The Company is not a close company as defined by the Income and Corporation Taxes Act 1988. There has been no change in this respect since 31 December 1995.

Substantial shareholdings

No disclosable interest in the issued ordinary share capital has been notified to the Company in accordance with Sections 198 to 208 of the Companies Act 1985.

Auditors

A resolution to re-appoint Coopers & Lybrand as auditors will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

Details of the business of the Annual General Meeting can be found in the accompanying booklet entitled "Notice of Annual General Meeting 1996".

Statement of directors' responsibilities

The directors of Abbey National plc are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year, and of the profit for the year. They are also responsible for ensuring that proper and adequate accounting records have been maintained and that reasonable procedures have been followed for safeguarding the assets of the Group and for preventing and detecting fraud and other irregularities.

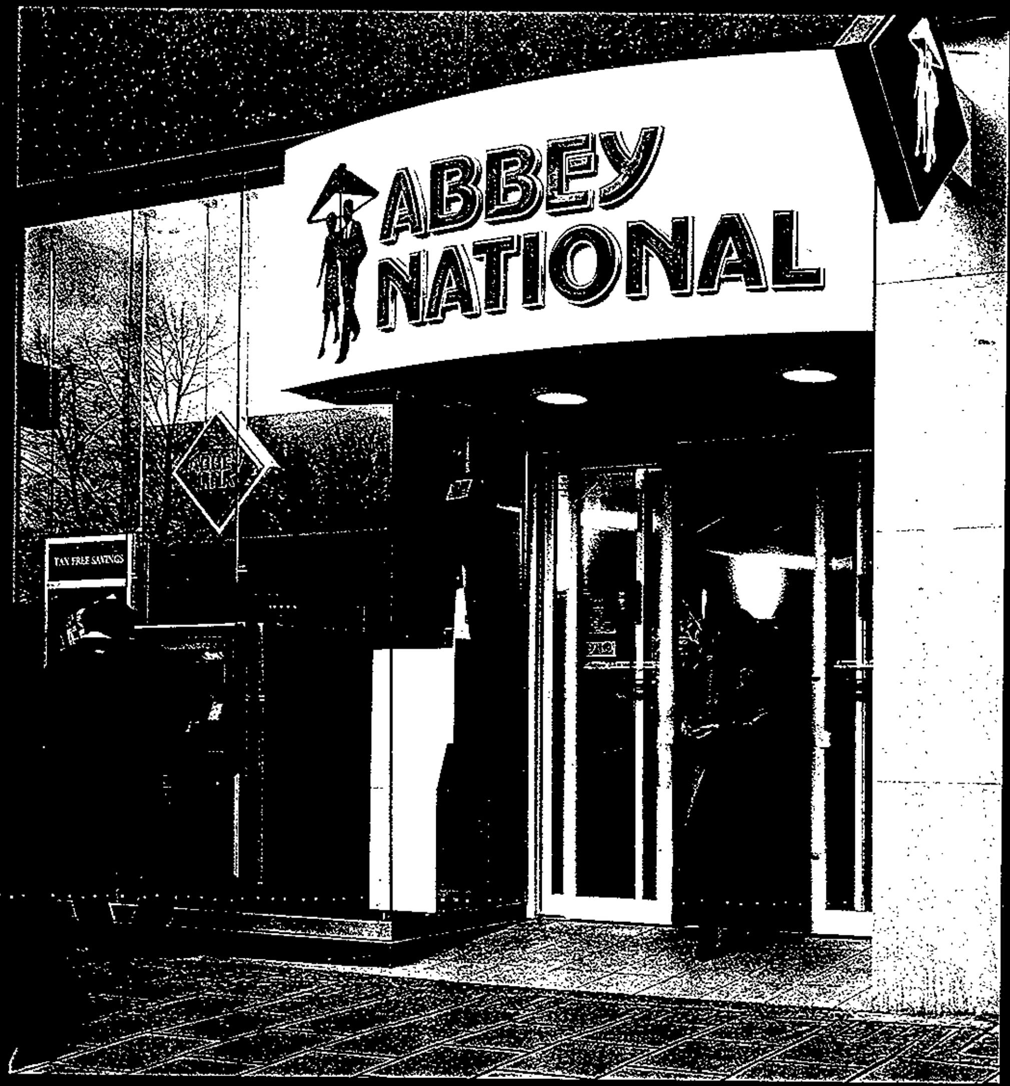
In respect of the accounts the directors are required to:

- ensure that appropriate accounting policies, which follow generally accepted accounting practice, have been applied consistently;
- ensure that reasonable and prudent judgements and estimates have been used in the preparation of the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business;
- state whether applicable accounting standards have been followed and to disclose and explain any material departures in the accounts.

By Order of the Board

Ian K. Treacy

IK Treacy
Company Secretary
23 February 1996



Abbey National Branch
Chiswick High Street, West London

Auditors' Report

To the Members of Abbey National plc

We have audited the accounts on pages 41 to 79.

Respective responsibilities of directors and auditors

As described on page 38, the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 December 1995 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand.

Coopers & Lybrand

Chartered Accountants and Registered Auditors

London

23 February 1996

Consolidated Profit and Loss Account

For the year ended 31 December 1995

Notes		1995 £m	1994 £m
	Interest receivable		
2	Interest receivable and similar income arising from debt securities	2,335	1,468
3	Other interest receivable and similar income	4,246	3,861
4	Interest payable	(4,997)	(3,935)
	Net interest income	1,584	1,394
5	Dividend income	2	42
	Fees and commissions receivable	281	201
	Fees and commissions payable	(36)	(32)
	Dealing profits	6	24
6	Other operating income	146	130
	Total operating income	1,983	1,759
7	Administrative expenses	(783)	(671)
25	Depreciation and amortisation	(87)	(84)
	Provisions		
10	Provisions for bad and doubtful debts	(72)	(74)
36	Provisions for contingent liabilities and commitments	(7)	-
19	Amounts written off fixed asset investments	(8)	2
	Profit on ordinary activities before tax	1,026	932
11	Tax on profit on ordinary activities	(344)	(322)
12	**Profit on ordinary activities after tax**	682	610
	Minority interests - equity	1	-
	Profit attributable to the shareholders of Abbey National plc	683	610
39	Transfer to non-distributable reserve	(59)	(65)
13	Dividends including amounts attributable to non-equity interests	(290)	(233)
	Profit retained for the financial year	334	312
	Profit on ordinary activities before tax includes:		
	for acquired operations	9	22
	for discontinued operations (with prior year comparative)	(8)	(9)
14	**Earnings per ordinary share**	51.7p	46.5p

The Group's results as reported are on an historical cost basis. Accordingly, no note of historical cost profits and losses has been presented.

Certain presentational changes have been made to the accounts in order to make them more informative, while maintaining consistency with the reporting format specified in Part VII of the Companies Act 1985 applicable to banks. Comparative amounts have been restated accordingly. The changes are described in notes 21, 30 and 34.

Consolidated Balance Sheet

At 31 December 1995

Notes		1995 £m	1995 £m	1994 £m	1994 £m
	Assets				
	Cash and balances at central banks		**145**		166
15	Treasury bills and other eligible bills		**246**		432
16	Loans and advances to banks		**3,579**		2,906
17	Loans and advances to customers		**51,090**		48,484
18	Net investment in finance leases		**2,844**		2,278
19	Debt securities		**35,243**		32,332
20	Equity shares and other variable yield securities		**54**		42
21	Long term assurance business		**425**		352
22	Interests in associated undertakings		**1**		-
25	Tangible fixed assets		**585**		534
26	Other assets		**1,649**		1,081
27	Prepayments and accrued income		**1,753**		1,620
21	Assets of long term assurance funds		**5,518**		4,230
	Total assets		**103,132**		94,457
	Liabilities				
28	Deposits by banks		**19,393**		17,826
29	Customer accounts		**40,962**		38,056
30	Debt securities in issue		**26,095**		23,852
	Dividend proposed		**191**		158
31	Other liabilities		**1,879**		2,019
33	Accruals and deferred income		**2,396**		2,623
34	Provisions for liabilities and charges		**630**		469
37	Subordinated liabilities including convertible debt		**2,127**		1,520
21	Liabilities of long term assurance funds		**5,518**		4,230
			99,191		90,753
	Minority interests - equity		**-**		-
38	Called up share capital – ordinary shares	**132**		131	
	– preference shares	**100**		-	
38	Share premium account	**856**		840	
39	Reserves	**163**		104	
39	Profit and loss account	**2,690**		2,629	
40	Shareholders' funds including non-equity interests		**3,941**		3,704
	Total liabilities		**103,132**		94,457
	Memorandum items				
	Contingent liabilities				
41	Guarantees and assets pledged as collateral security		**1,129**		836
42	Other contingent liabilities		**197**		59
			1,326		895
43	Commitments		**1,541**		1,546

Approved by the Board on 23 February 1996 and signed on its behalf by:

Lord Tugendhat
Chairman

Peter G Birch
Chief Executive

Ian Harley
Finance Director

Company Balance Sheet

At 31 December 1995

Notes		1995 £m	1995 £m	1994 £m	1994 £m
	Assets				
	Cash and balances at central banks		**144**		162
16	Loans and advances to banks		**522**		510
17	Loans and advances to customers		**46,758**		46,487
19	Debt securities		**2,815**		1,903
20	Equity shares and other variable yield securities		**18**		18
23	Shares in Group undertakings		**2,271**		1,722
22	Interests in associated undertakings		**20**		–
25	Tangible fixed assets		**542**		517
26	Other assets		**306**		205
27	Prepayments and accrued income		**246**		139
	Total assets		**53,642**		51,663
	Liabilities				
28	Deposits by banks		**6,284**		6,259
29	Customer accounts		**39,781**		38,803
30	Debt securities in issue		**36**		23
	Dividend proposed		**191**		158
31	Other liabilities		**690**		627
33	Accruals and deferred income		**818**		1,003
34	Provisions for liabilities and charges		**63**		65
37	Subordinated liabilities including convertible debt		**2,079**		1,362
			49,942		48,300
38	Called up share capital – ordinary shares	**132**		131	
	– preference shares	**100**		–	
38	Share premium account	**856**		840	
39	Profit and loss account	**2,612**		2,392	
40	Shareholders' funds including non-equity interests		**3,700**		3,363
	Total liabilities		**53,642**		51,663
	Memorandum items				
	Contingent liabilities				
41	Guarantees and assets pledged as collateral security		**52,841**		47,457
42	Other contingent liabilities		**57**		59
			52,898		47,516
43	Commitments		**124**		170

Approved by the Board on 23 February 1996 and signed on its behalf by:

Lord Tugendhat
Chairman

Peter G Birch
Chief Executive

Ian Harley
Finance Director

Statement of Total Recognised Gains and Losses

For the year ended 31 December 1995

	1995 £m	1994 £m
Profit attributable to the shareholders of Abbey National plc	**683**	610
Translation differences on foreign currency net investment	**15**	(7)
Total recognised gains relating to the year	**698**	603

Consolidated Cash Flow Statement

For the year ended 31 December 1995

Notes		1995 £m	1994 £m
46a	**Net cash inflow from operating activities**	**2,187**	6,343
	Returns on investments and servicing of finance		
	Dividends paid	**(256)**	(204)
	Net cash outflow from returns on investments and servicing of finance	**(256)**	(204)
	Taxation		
	UK corporation tax paid	**(195)**	(93)
	Overseas tax paid	**(10)**	(5)
	Total taxation paid	**(205)**	(98)
	Investing activities		
	Purchases of investment securities	**(37,459)**	(35,346)
	Sales of investment securities	**32,968**	26,548
	Redemptions and maturities of investment securities	**2,393**	2,301
	Purchases of tangible fixed assets	**(127)**	(114)
	Sales of tangible fixed assets	**13**	10
	Transfers to life assurance funds	**(10)**	-
46f	Purchases of subsidiary and associated undertakings	**(298)**	(52)
	Sale of subsidiary undertakings	**1**	-
	Net cash outflow from investing activities	**(2,519)**	(6,653)
	Net cash outflow before financing	**(793)**	(612)
	Financing		
	Issue of ordinary share capital	**14**	4
	Issue of preference share capital	**101**	-
	Issue of loan capital	**715**	676
	Repayments of loan capital	**(128)**	(17)
46d	**Net cash inflow from financing**	**702**	663
46c	**Increase (decrease) in cash and cash equivalents**	**(91)**	51

Accounting Policies

Basis of presentation
The consolidated accounts are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to banking companies and banking groups.

Accounting convention
The Group prepares its accounts under the historical cost convention, and in accordance with applicable UK accounting standards.

Basis of consolidation
The Group accounts comprise the accounts of the Company and its subsidiary undertakings made up to 31 December, with the exception of a number of leasing, investment, insurance and funding companies, which, because of commercial considerations, have various accounting reference dates. In addition, Whitefoord & Foden Ltd and Kontax Pensions Ltd, which were acquired before 31 December 1995, currently have accounting reference dates other than 31 December. The accounts of these subsidiaries have been consolidated on the basis of interim accounts for the period to 31 December 1995.

The assets and liabilities of the long term assurance funds are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest in them.

Interests in subsidiary and associated undertakings
The Company's interests in subsidiary undertakings and associated undertakings are stated at cost less any provisions for permanent diminution in value. The Group's interests in associated undertakings are stated at the Group's share of the book value of the net tangible assets of the associated undertakings.

Goodwill
Goodwill arising on consolidation as a result of the acquisition of subsidiaries and goodwill arising on the purchase of businesses is taken directly to reserves in the year in which they occur. On disposal of a business, the goodwill previously taken to reserves is charged to the profit and loss account balanced by an equal credit to reserves. Where the directors believe that the purchased goodwill in continuing businesses has suffered a permanent diminution in value, a similar charge to the profit and loss account and credit to reserves is made.

Deferred taxation
Deferred taxation is accounted for where it is probable that a liability or asset will arise. Provision is calculated at rates expected to be applicable when the liability or asset crystallises.

Depreciation
Tangible fixed assets are depreciated on a straight line basis over their estimated useful lives. The following annual rates are used:

Premises
Freehold buildings: 1%
Long and short leasehold premises: Over the remainder of the lease, with a maximum of 100 years.
Acquisition premiums are depreciated over the period to the next rent review.

Equipment
Office fixtures, equipment and furniture: 12.5%
Computer equipment: 25% for mainframes and 20% for peripherals
Motor vehicles: 25%

No depreciation is provided on freehold land.

Interest receivable
Interest is suspended where due but not received on loans and advances in arrears where recovery is doubtful. The amounts suspended, less recoveries of amounts suspended in previous years, are excluded from interest receivable on loans and advances.

Fees and commissions receivable
Fees and commissions receivable in respect of services provided are taken to the profit and loss account when the related services are performed. Where fees and commissions are receivable which are in the nature of interest, these are taken to the profit and loss account on a systematic basis over the expected period of the loan, and are included under the heading, Interest receivable. Fees which are receivable in order to cover a proportion of future losses, as explained in more detail under Deferred income, are taken to the profit and loss account as the relevant losses are identified and provided for, and are included under the heading, Other operating income.

Lending-related fees and commissions payable and discounts

Fees and discounts payable to customers in respect of loans are charged to the profit and loss account over the minimum period of time which the Group expects to benefit from the loans where those fees and discounts are in the nature of a reduction in interest income. The profit and loss account charge for such fees and discounts is included under the heading, Interest receivable.

Commissions payable to introducers in respect of obtaining certain lending business, where this is the primary form of distribution, are charged to the profit and loss account over the anticipated life of the loans. The profit and loss account charge for such commissions is included under the heading, Fees and commissions payable.

Deferred income

The Company has entered into insurance arrangements with its subsidiary, Carfax Insurance Ltd, to cover a proportion of future losses on certain UK residential secured loans with high loan to value ratios. In the Group accounts, income from customers in relation to such lending is deferred and is included in the balance sheet under the heading, Accruals and deferred income. The deferred income is released to the profit and loss account as relevant losses are identified and provided for.

Securities

Securities held for investment purposes are stated at cost, adjusted for any amortisation of premium or discount on an appropriate basis over their estimated lives. Provision is made for any permanent diminution in value.

Where securities are transferred from portfolios held for investment purposes to portfolios held for other purposes, the securities are transferred at market value. Gains and losses on these transfers are included in the profit and loss account. In accordance with industry practice, securities which are not held for the purpose of investment, certain money market deposits and the associated funding of these assets are stated at market value and profits and losses arising from this revaluation are taken to the profit and loss account. The net return on these assets appears in dealing profits in the profit and loss account. This net return comprises the revaluation profit and loss referred to above, plus profits and losses on disposal of these assets, plus interest receivable on these assets less interest payable on their associated funding. The cost of securities which are not held for the purpose of investment is not disclosed as it cannot be determined without unreasonable expense.

Interests in securities are recognised as assets or, in the case of short positions, liabilities, at the date at which the commitment to purchase or sell is considered to be binding.

Securities sold subject to agreements to repurchase are retained on the balance sheet where the risks and rewards of ownership of the securities remain with the Group. Similarly, securities purchased subject to a commitment to resell are treated as lending transactions where the Group does not acquire the risks and rewards of ownership. The difference between sale and repurchase prices for such transactions is charged or credited to the profit and loss account over the life of the relevant transactions.

Derivatives

Transactions are undertaken in derivative financial instruments ('derivatives'), which include interest rate swaps, cross currency swaps, futures, options, warrants and similar instruments, for trading and non-trading purposes. Derivatives classified as non-trading are held for the purpose of hedging exposures relating to the Group's assets, liabilities and positions which are held for the purpose of investment.

Gains and losses arising from the hedging of investment transactions are released to the profit and loss account over the life of the asset, liability or position against which the hedge is held. Gains and losses arising from the hedging of assets which are not held for the purpose of investment are taken directly to the profit and loss account. Where a transaction originally entered into as a hedge no longer represents a hedge, its value is restated and any change in value is taken to the profit and loss account.

Gains and losses on instruments purchased or sold for trading and market making purposes are taken directly to the profit and loss account. Any such transactions outstanding at the balance sheet date are stated at market value.

Development properties

Completed properties and work in progress are valued at the lower of cost and net realisable value. Cost comprises land purchase, building works thereon and interest.

Equipment leased to customers

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. The net investment in finance leases represents total minimum lease payments less gross earnings allocated to future periods. Income from finance leases is credited to the profit and loss account using the actuarial after tax method to give a constant periodic rate of return on the net cash investment.

Provisions for bad and doubtful debts

Specific provisions are made against loans and advances when, as a result of regular appraisals of the assets, it is considered that recovery is doubtful. A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified but which are known from experience to be present in any portfolio of loans and advances. The specific and general provisions are deducted from loans and advances. Provisions made during the year, less amounts released and recoveries of amounts written off in previous years, are charged to the profit and loss account.

Securitisations

Certain subsidiary undertakings have issued debt securities, or have entered into funding arrangements with lenders, in order to finance the purchase of certain portfolios of loan assets. These obligations are secured on the loan assets and other assets of the subsidiary undertakings. Where the Group has retained significant benefits and risks relating to the portfolios of loan assets, the loan assets and the related liabilities are presented separately within the relevant headings in the Group balance sheet.

Long term assurance business

The value of the long term assurance business represents the value of the shareholders' interest in the long term assurance funds, which consists of the present value of surplus expected to emerge in the future from business currently in force, together with the Group's interest in the surplus retained within the long term assurance funds.

In determining this value, assumptions relating to future mortality, persistency and levels of expenses are based on experience of the business concerned. Surplus expected to emerge in the future is discounted at a risk-adjusted discount rate after provision has been made for taxation. Changes in the value, which is determined on a post-tax basis, are included in the profit and loss account grossed up at the standard rate of corporation tax. The post-tax increase in the value is treated as non-distributable until it emerges as part of the surplus arising during the year.

The values of the assets and liabilities of the long term assurance funds are based on the amounts included in the accounts of the Life Assurance companies. These are determined in accordance with the terms of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, adjusted for the purposes of inclusion in the Group accounts in order to be consistent with the Group's accounting policies and presentation, where a separate asset is established to account for the value of long term assurance business. See note 21.

Foreign currency translation

Income and expenses arising in foreign currencies during the year are translated into sterling at the average rates of exchange ruling over the accounting period unless they are hedged in which case the relevant hedge rate is applied. Dividends are translated at the rate prevailing on the date the dividend is receivable. Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange current at the balance sheet date. Exchange differences arising on the translation of opening net assets of overseas Group undertakings and to related foreign currency borrowings are taken directly to reserves as are those differences resulting from the restatement of their profits and losses from average to year-end rates. Other translation differences are dealt with through the profit and loss account. In the Company accounts, exchange differences arising on the translation of foreign currency borrowings used to hedge investments in Group undertakings are taken directly to reserves and offset against the corresponding exchange differences arising on the translation of the investments.

Pensions

Where pensions are provided by means of a funded defined benefits scheme, annual contributions are based on actuarial advice. The expected cost of providing pensions is recognised on a systematic basis over the expected average remaining service lives of members of the scheme.

Cash equivalents

For the purposes of the consolidated cash flow statement, cash equivalents are short term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

Accounting for acquisitions

The requirements of Financial Reporting Standard (FRS) 6, 'Acquisitions and Mergers', and FRS7, 'Fair Values in Acquisition Accounting' have been implemented in respect of the acquisitions made in the years ended 31 December 1994 and 31 December 1995.

1. Segmental analysis

	UK Retail Banking £m	Consumer Credit £m	Life Assurance Operations £m	Treasury & Offshore £m	Continental Europe £m	Other Operations £m	Group Total £m
1995							
Net interest income	1,190	97	2	275	20	–	1,584
Other income and charges	258	1	107	2	2	29	399
Total operating income	1,448	98	109	277	22	29	1,983
Profit (loss) before taxation	687	49	105	217	(22)	(10)	1,026
Includes for acquired operations	–	13	(1)	–	–	(3)	9
Includes for discontinued operations	–	–	–	–	–	(8)	(8)
Total assets	51,583	1,803	6,001	41,780	1,489	476	103,132
Net assets	1,399	223	282	1,135	961	(59)	3,941
1994							
Net interest income	1,156	39	2	161	21	15	1,394
Other income and charges	188	5	92	59	2	19	365
Total operating income	1,344	44	94	220	23	34	1,759
Profit (loss) before taxation	650	31	94	190	(36)	3	932
Includes for acquired operations	22	–	–	–	–	–	22
Includes for operations discontinued in 1995	–	–	–	–	–	(9)	(9)
Total assets	49,363	442	4,630	37,030	1,361	1,631	94,457
Net assets	1,505	67	185	1,063	906	(22)	3,704

The segmental analysis has been changed in order to improve comparability of results across the Group's business segments by assuming a consistent allocation of Group capital across those segments.

The results now reflect the regulatory capital notionally absorbed by each business, based on the Group's Bank of England regulatory requirements. To achieve this a notional adjustment has been made to the profit before taxation of each business entity where relevant, by applying an average market-related interest rate to the difference between the capital held in the entity and the capital which would be required if the Group's Bank of England risk asset ratio was applied to that entity.

The method of analysis previously adopted was based on the actual levels of capital of the legal entities within the business segments, except that the earnings on the equity capital of both UK Retail Banking and Treasury Operations were shown in the UK Retail Banking segment. There is no change in the presentation of segmental total assets and net assets, and these amounts have not been restated.

In addition, the following changes in the classification of businesses within segments have been made:

a. A new segment, Consumer Credit, has been separately disclosed. This segment includes the personal unsecured lending operations previously included in UK Retail Banking, and includes the results of the consumer credit business of First National Finance Corporation plc from the date of its acquisition, amounting to £13m. This result includes £51m of net interest income and a charge of £13m in respect of fees payable to introducers (see note 26).

b. The operations in Jersey and Gibraltar which were previously included in Continental Europe & Offshore have been reclassified into Treasury Operations. The segments have been renamed Treasury & Offshore, and Continental Europe.

1. Segmental analysis (continued)

The comparative segmental results for the year ended 31 December 1994 have been restated as follows:

	1994 Previously reported basis £m	Reclassification £m	Notional recapitalisation £m	1994 Revised basis £m
Profit before taxation				
UK Retail Banking	741	(32)	(59)	650
Consumer Credit	–	32	(1)	31
Life Assurance Operations	94	–	–	94
Treasury & Offshore	128	3	59	190
Continental Europe	(33)	(3)	–	(36)
Other Operations	2	–	1	3
	932	–	–	932

No separate geographical analysis is presented because the only significant non-UK businesses are shown in the Continental Europe business segment.

2. Interest receivable and similar income arising from debt securities

	1995 £m	1994 £m
Income from listed and registered securities	**2,111**	1,262
Income from unlisted securities	**224**	206
	2,335	1,468

Preference dividends of £30m (1994: £6m) are included in income from unlisted securities.

3. Other interest receivable and similar income

	1995 £m	1994 £m
On secured advances	**3,832**	3,513
On unsecured advances	**169**	71
On finance leases	**180**	135
On other assets and investments	**65**	142
	4,246	3,861

Interest receivable on secured advances has been reduced by £98m (£22m) in respect of the charge for lending-related fees and discounts paid which are in the nature of a reduction in interest income. This amount comprises £74m (£10m) in respect of interest rate discounts and £24m (£12m) in respect of cashback incentives. See also note 27, Prepayments and accrued income. Interest due but not received on loans and advances in arrears has not been recognised in interest receivable where collectability is in doubt, but has been suspended. The movements on suspended interest are as follows:

	On advances secured on residential properties £m	On other secured advances £m	On unsecured advances £m	Total £m
Group				
At 1 January 1995	63	70	3	136
Exchange adjustments	3	7	–	10
Acquisitions of subsidiary undertakings	5	49	4	58
Amounts suspended in the period	47	18	1	66
Irrecoverable amounts written off	(57)	(28)	(2)	(87)
At 31 December 1995	61	116	6	183

3. Other interest receivable and similar income (continued)

	On advances secured on residential properties £m	On other secured advances £m	On unsecured advances £m	Total £m
Including for the Company:				
At 1 January 1995	41	4	3	48
At 31 December 1995	35	2	3	40

The value of loans and advances at 31 December 1995 on which interest is suspended is as follows:

	On advances secured on residential properties £m	On other secured advances £m	On unsecured advances £m	Total £m
Group				
Loans and advances to customers	724	479	82	1,285
Provisions on these amounts	(148)	(194)	(66)	(408)
Company				
Loans and advances to customers	462	6	34	502
Provisions on these amounts	(93)	(1)	(21)	(115)

4. Interest payable

	1995 £m	1994 £m
On retail customer accounts	**2,026**	1,841
On other deposits and loans	**2,971**	2,094
	4,997	3,935
Including:		
Amounts payable on subordinated liabilities	**133**	80
Finance charges in respect of leased assets	**1**	2

5. Dividend income

	1995 £m	1994 £m
Income from equity shares and other variable yield securities	**2**	42

6. Other operating income

	1995 £m	1994 £m
Income from long term assurance business (see note 21)	**98**	91
Profits less losses on disposal of investment securities	**7**	14
Other	**41**	25
	146	130

7. Administrative expenses

	1995 £m	1994 £m
Staff costs:		
Wages and salaries	**300**	274
Social security costs	**26**	24
Other pension costs	**31**	36
	357	334
Other administrative expenses	**426**	337
	783	671

Other administrative expenses include the following items:		
Hire of equipment	**6**	7
Rent and rates payable	**57**	57

The charges above exclude those incurred by Life Assurance Operations, which are charged to the income from long term assurance business.

7. Administrative expenses (continued)

Staff costs incurred by Life Assurance Operations are:

	1995 £m	1994 £m
Staff costs:		
Wages and salaries	**30**	24
Social security costs	**2**	2
Other pension costs	**3**	4
	35	30

The auditors' remuneration was £1.8m (£1.5m) for audit services and £1.8m (£2.4m) was payable to the Group auditors for other services. Included within the remuneration for audit services is the audit fee for the Company of £0.6m (£0.6m) and for companies within Life Assurance Operations of £0.2m (£0.2m).

8. Directors' emoluments and interests

The aggregate emoluments of directors were:

	1995 Total £	1994 Total £
Total emoluments excluding pension contributions	**2,371,302**	2,277,951
Pension contributions	**342,476**	302,944
Ex-gratia payments to former directors	**38,500**	82,500
	2,752,278	2,663,395

The Chairman's emoluments were £263,762 (£242,393). His appointment is non-pensionable and he makes his own private pension arrangements.

The highest paid director is the Chief Executive. His emoluments, excluding pension contributions were £447,845 (£408,280). The pension contribution paid by the Company for the benefit of the Chief Executive was £71,415 (£63,841).

Ex-gratia payments to former directors in 1995 comprised the gift of £38,500 to Sara Morrison, who had been on the Board of Abbey National plc and its building society predecessor for over 15 years.

The following table shows the number of directors, including the Chairman and the highest paid director, receiving emoluments before pension contributions within the undermentioned ranges.

£	1995	1994
0 - 5,000	**-**	1
15,001 - 20,000	**1**	4
20,001 - 25,000	**4**	1
25,001 - 30,000	**1**	2
30,001 - 35,000	**1**	-
45,001 - 50,000	**1**	-
55,001 - 60,000	**-**	1
90,001 - 95,000	**-**	1
195,001 - 200,000	**1**	-
210,001 - 215,000	**-**	2
225,001 - 230,000	**-**	1
230,001 - 235,000	**-**	1
240,001 - 245,000	**1**	2
255,001 - 260,000	**1**	-
260,001 - 265,000	**3**	-
265,001 - 270,000	**1**	-
275,001 - 280,000	**-**	1
405,001 - 410,000	**-**	1
445,001 - 450,000	**1**	-

Ex-gratia pensions paid to former directors of Abbey National plc in 1995, which have been provided for previously, amounted to £161,225 (£157,600). The Board has determined that it will no longer award any new such ex-gratia pensions and accordingly, no charge (nil) to the profit and loss account has been made in respect of them.

Further details of directors' emoluments and interests are included in the report on Directors' Remuneration on page 27. These details include an analysis of salary and other payments and benefits by director on page 28, an analysis of directors' share interests on page 30, and an analysis of directors' share options on pages 31 to 33.

8. Directors' emoluments and interests (continued)

Details of loans, quasi loans and credit transactions entered into or agreed by the Company or its banking subsidiaries with persons who are or were directors and connected persons and officers of the Company during the year were as follows:

	Number of persons	Aggregate amount outstanding £000
Directors		
Loans	9	724
Quasi loans	–	–
Credit transactions	–	–
Officers		
Loans	37	3,576
Quasi loans	–	–
Credit transactions	–	–

No director had a material interest in any contract of significance, other than a service contract, with the Company or any of its subsidiaries at any time during the year. The directors did not have any interests in shares or debentures of subsidiaries.

9. Employees

The average number of staff employed by the Group during the year was as follows:

	1995	1994
Full time		
Male	**5,046**	4,678
Female	**10,234**	9,948
	15,280	14,626
Part time		
Male	**69**	52
Female	**4,391**	4,102
	4,460	4,154

Included in the above for Life Assurance Operations are 1,346 (1,285) full time and 61 (50) part time staff.

10. Provisions for bad and doubtful debts

	On advances secured on residential properties £m	On other secured advances £m	On unsecured advances £m	Total £m
Group				
At 1 January 1995				
General	59	6	6	71
Specific	137	124	29	290
Exchange adjustments	4	12	–	16
Acquisition of subsidiary undertakings	25	88	49	162
Transfer from profit and loss account	38	5	29	72
Irrecoverable amounts written off	(72)	(32)	(24)	(128)
At 31 December 1995	191	203	89	483
Being for the Group:				
General	43	9	14	66
Specific	148	194	75	417
Including for the Company:				
At 1 January 1995				
General	56	1	6	63
Specific	98	5	26	129
At 31 December 1995				
General	36	1	8	45
Specific	93	1	30	124

11. Tax on profit on ordinary activities

	1995 £m	1994 £m
UK Corporation tax:		
Current at 33% (33%)	**286**	285
Prior years	**(110)**	(66)
Double tax relief	**(10)**	(5)
Deferred tax:		
Current year	**44**	34
Prior years	**117**	69
Tax on franked investment income	**6**	–
Overseas taxation	**11**	5
	344	322

There are unrelieved overseas losses carried forward for which no tax relief has been recognised because their utilisation is currently uncertain. The adjustments in respect of prior years arise mainly because certain subsidiary undertakings have accounting reference dates other than 31 December.

12. Profit on ordinary activities after tax

The profit after tax of the Company attributable to the shareholders is £510m (£484m). As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these accounts.

13. Dividends

	1995 Pence per share	1994 Pence per share	1995 £m	1994 £m
Ordinary shares				
Interim (paid)	**7.25**	5.70	**97**	75
Final (proposed)	**14.50**	12.05	**191**	158
	21.75	17.75	**288**	233
Preference shares (non-equity)			**2**	–
			290	233

Preference share dividends have been accrued at a coupon of 8.3% per annum net of the associated tax credit for the period since issue.

14. Earnings per ordinary share

Earnings per ordinary share have been calculated by dividing the profit attributable to the shareholders of Abbey National plc after preference dividends of £681m (£610m) by the average number of ordinary shares in issue of 1,317m (1,312m).

15. Treasury bills and other eligible bills

	Group 1995		Group 1994	
	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities				
Treasury bills and similar securities	**34**	**33**	6	6
Other securities				
Treasury bills and similar securities	**212**		397	
Other eligible bills	**–**		29	
	212		426	
Total	**246**		432	

The movement on treasury bills and similar securities held for investment purposes was as follows:

	Group £m
At 1 January 1995	6
Additions	30
Disposals	(2)
At 31 December 1995	34

16. Loans and advances to banks

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Items in the course of collection	**193**	178	**190**	176
Amounts due from subsidiaries	**–**	–	**328**	328
Other loans and advances	**3,386**	2,728	**4**	6
	3,579	2,906	**522**	510
Repayable:				
On demand	**435**	324	**332**	334
In not more than three months	**2,583**	2,288	**190**	176
In more than three months but not more than one year	**327**	119	**–**	–
In more than one year but not more than five years	**172**	–	**–**	–
In more than five years	**62**	175	**–**	–
	3,579	2,906	**522**	510

17. Loans and advances to customers

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Advances secured on residential properties	**48,746**	47,129	**45,476**	44,139
Other secured advances	**724**	381	**73**	80
Unsecured loans	**1,385**	477	**631**	416
Collateralised and guaranteed mortgage loans	**235**	497	**–**	–
Amounts due from subsidiaries	**–**	–	**578**	1,852
	51,090	48,484	**46,758**	46,487
Repayable:				
On demand or at short notice	**2,505**	3,236	**2,352**	4,552
In not more than three months	**439**	179	**259**	151
In more than three months but not more than one year	**839**	458	**533**	417
In more than one year but not more than five years	**3,277**	2,187	**2,265**	1,967
In more than five years	**44,513**	42,785	**41,518**	39,592
Less: provisions	**(483)**	(361)	**(169)**	(192)
	51,090	48,484	**46,758**	46,487

Included in Group loans and advances to customers are loans to associated undertakings of £12m (nil).

18. Net investment in finance leases

	Group 1995 £m	Group 1994 £m
Amounts receivable	**6,152**	5,318
Less: deferred income	**(3,308)**	(3,040)
	2,844	2,278
Repayable:		
In not more than three months	**27**	3
In more than three months but not more than one year	**55**	48
In more than one year but not not more than five years	**325**	535
In more than five years	**2,437**	1,692
	2,844	2,278
Cost of assets acquired for the purpose of letting under finance leases in the year	**675**	357
Gross rentals receivable	**408**	301
Commitments as lessor for the purchase of equipment for use in finance leases	**339**	208
Amounts outstanding subject to a sub-participation	**213**	200

19. Debt securities

	Group 1995		Group 1994		Company 1995		Company 1994	
	Book value £m	Market value £m	Book value £m	Market value £m	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities								
Issued by public bodies:								
Government securities	**7,793**	**8,118**	5,846	6,058	**1,787**	**1,847**	1,285	1,393
Other public sector securities	**3,884**	**3,953**	4,294	4,207	**35**	**35**	35	35
	11,677	**12,071**	10,140	10,265	**1,822**	**1,882**	1,320	1,428
Issued by other issuers:								
Bank and building society certificates of deposit	**154**	**154**	180	181	**–**	**–**	–	–
Other debt securities	**19,408**	**19,716**	19,206	19,104	**993**	**993**	292	292
	19,562	**19,870**	19,386	19,285	**993**	**993**	292	292
Sub-total	**31,239**	**31,941**	29,526	29,550	**2,815**	**2,875**	1,612	1,720
Other securities								
Issued by public bodies:								
Government securities	**812**		593		**–**		291	
Other public sector securities	**430**		467		**–**		–	
	1,242		1,060		**–**		291	
Issued by other issuers:								
Bank and building society certificates of deposit	**1,776**		1,740		**–**		–	
Other debt securities	**986**		6		**–**		–	
	2,762		1,746		**–**		–	
Sub-total	**4,004**		2,806		**–**		291	
Total	**35,243**		32,332		**2,815**		1,903	

The investment securities held by the Company include subordinated investments in subsidiaries of £482m (£282m) and are included within Other debt securities.

	Group 1995		Group 1994		Company 1995		Company 1994	
	Book value £m	Market value £m	Book value £m	Market value £m	Book value £m	Market value £m	Book value £m	Market value £m
Analysed by listing status:								
Investment securities								
Listed in the UK	**5,695**	**5,837**	8,623	8,737	**1,787**	**1,847**	1,285	1,393
Listed or registered elsewhere	**21,273**	**21,696**	18,045	17,995	**–**	**–**	–	–
Unlisted	**4,271**	**4,408**	2,858	2,818	**1,028**	**1,028**	327	327
	31,239	**31,941**	29,526	29,550	**2,815**	**2,875**	1,612	1,720
Other securities								
Listed in the UK	**16**		839		**–**		291	
Listed or registered elsewhere	**2,033**		726		**–**		–	
Unlisted	**1,955**		1,241		**–**		–	
	4,004		2,806		**–**		291	
Total	**35,243**		32,332		**2,815**		1,903	

19. Debt securities (continued)

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Book value				
Analysed by maturity:				
Due within one year	**3,976**	4,171	**482**	488
Due one year and over	**31,267**	28,161	**2,333**	1,415
	35,243	32,332	**2,815**	1,903

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

	Cost £m	Provisions £m	Net book value £m
Group			
At 1 January 1995	29,529	(3)	29,526
Exchange adjustments	499	–	499
Acquisitions	36,998	–	36,998
Disposals	(32,871)	–	(32,871)
Redemptions and maturities	(2,393)	–	(2,393)
Transfers to other securities	(363)	–	(363)
Transfer from profit and loss account	–	(8)	(8)
Amortisation of premiums	(149)	–	(149)
At 31 December 1995	31,250	(11)	31,239
Company			
At 1 January 1995	1,612	–	1,612
Acquisitions	2,530	–	2,530
Disposals	(1,301)	–	(1,301)
Amortisation of premiums	(26)	–	(26)
At 31 December 1995	2,815	–	2,815

The total net book value of debt securities held for investment purposes at 31 December 1995 includes unamortised premiums of £62m (£40m) for the Group, and £146m (£112m) for the Company.

The Group enters into sale and repurchase agreements. The total value of assets so transferred and which are included above is £1,173m (£111m) including, for the Company, nil (nil). Collateral associated with these transactions of £1,161m (£284m) for the Group and nil (nil) for the Company is included in Deposits by banks.

Market values are based on market prices of securities where available. Where market prices are not available, the directors' valuation has been used.

Included within investment securities are a number of securities held for hedging purposes. Some of these provide temporary hedging cover where permanent hedges are not immediately available.

There are hedges in place in respect of the majority of securities whereby the rise or fall in their market value will be offset by a substantially equivalent reduction or increase in the value of the hedges.

20. Equity shares and other variable yield securities

	Group 1995		Group 1994		Company 1995		Company 1994	
	Book value £m	Market value £m	Book value £m	Market value £m	Book value £m	Market value £m	Book value £m	Market value £m
Investment securities								
Listed in the UK	**25**	**40**	24	25	**17**	**31**	17	17
Listed elsewhere	**1**	**1**	–	–	**–**	**–**	–	–
Unlisted	**28**	**28**	18	17	**1**	**1**	1	1
	54	**69**	42	42	**18**	**32**	18	18

Included within unlisted securities of the Group are variable yield securities held by Abbey National Unit Trust Managers Ltd for purposes other than investment, having a book and market value of £3m (nil). All other equity shares and variable yield securities are held for investment purposes.

The movement on equity shares and other variable yield securities held for investment purposes was as follows:

	Group Cost & Book value £m	Company Cost & Book value £m
At 1 January 1995	**42**	**18**
Exchange adjustments	**–**	**–**
Acquisitions	**44**	**–**
Disposals	**(35)**	**–**
At 31 December 1995	**51**	**18**

21. Long term assurance business

The value of the long term assurance business is as follows:

	1995 £m	1994 £m
Value of shareholders' interest in the long term assurance funds	**425**	352

The value of the long term assurance business is calculated by discounting the proportion of surplus which is projected to accrue to shareholders in future years from business currently in force, and adding the shareholders' interest in the surplus retained within the long term assurance funds. The basis on which this value is determined is reviewed regularly in the light of the experience of the business and expectations regarding future economic conditions. The principal economic assumptions used have not changed from 1994 and were as follows:

	%
Risk adjusted discount rate (net of tax)	10.0
Return on equities (gross of tax)	9.0
Return on gilts (gross of tax)	7.5
Inflation	4.0

The assumed rates of return on investments above are applied to the value of investments adjusted by reference to the assumed long term rate of investment return.

In view of the different persistency and expense levels which have been experienced compared to those assumed it was decided to change the assumed levels in 1995. The effect of the change in assumptions was determined by calculating the value of the long term assurance business at the beginning of the year on both the old and new assumptions. This resulted in an increase in the value of long term assurance business of £6m before tax and £4m after tax, which has been included in income from long term assurance business for the year ended 31 December 1995.

Business in force is defined as all live policies where the first premium has been paid. Recurrent single premium policies are treated as single premium policies, with the exception of Department of Social Security rebate policies, which are treated as regular premium policies. Shareholders are entitled to 10% of the value of bonuses declared in any particular year derived from the Scottish Mutual with profits fund. The level of assumed future bonuses is calculated by projecting the portfolio of with profits business forward and applying reversionary and terminal bonus rates at such a level as to exhaust the level of projected surplus of assets over liabilities. For all other business the entire surplus is attributable to shareholders.

21. Long term assurance business (continued)

The income from life assurance business which is included as other operating income in the consolidated profit and loss account is calculated as follows:

	1995 £m	1994 £m
Value of shareholders' interest in the long term assurance funds at 31 December	**425**	352
Value of shareholders' interest in the long term assurance funds at 1 January	**352**	287
Increase in value of long term assurance business	**73**	65
Acquisition of, and transfer into, Pegasus Assurance Group Ltd	**(14)**	–
Net increase in value of long term assurance business	**59**	65
Surplus (deficit) transferred from (to) long term funds	**7**	(4)
Income after tax from long term assurance business	**66**	61
Income before tax from long term assurance business	**98**	91

The assets and liabilities of the long term assurance funds are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest in them. The amounts of these assets, which are valued at market value, and liabilities of the long term assurance funds included in the consolidated balance sheet are based on the balance sheets of the Life Assurance Operations prepared under the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. This represents a change in accounting presentation which introduces the balance sheet format summarised below, under which certain liabilities are now shown gross which were previously shown net within total assets. This change has had no effect on reported profit. Comparative amounts have been restated, the effect of the change being an increase in both the reported assets and liabilities of the long term assurance funds of £138m.

The assets and liabilities of the long term assurance funds are:

	1995 £m	1994 (restated) £m
Investments	**2,961**	2,438
Assets held to cover linked liabilities	**2,133**	1,508
Debtors and prepayments	**83**	108
Other assets	**341**	176
Assets of the long term assurance funds	**5,518**	4,230
Technical provisions	**2,733**	2,385
Technical provisions for linked liabilities	**2,102**	1,470
Fund for future appropriations	**577**	286
Other creditors	**106**	89
Liabilities of the long term assurance funds	**5,518**	4,230

22. Interests in associated undertakings

The movement in interests in associated undertakings was as follows:

	Group £m	Company £m
At 1 January 1995	–	–
Interests in the associated undertakings of subsidiary undertakings acquired	(5)	–
Additions	6	20
At 31 December 1995	1	20

Goodwill on the acquisition of the interest in Travellers Exchange Corporation plc of £14m has been taken to reserves.

On the historical cost basis, the Group's interest in associated undertakings would have been included as follows:

	1995 £m	1994 £m
Cost	**33**	–
Provisions	**(12)**	–
Net book value	**21**	–

The provisions relate to the associated undertakings of First National Finance Corporation plc.

The principal associated undertakings at 31 December 1995 are:

	Nature of business	Issued share capital	Group interest (%)	Group's share of results based on accounts for the year ended	Country of incorporation or registration
Travellers Exchange Corporation plc	Foreign currency services	166,588 £1 ordinary shares	33	31 December	England and Wales
		2,500,000 £1 preference shares	60		
Commercial Union Underwriting Ltd	Insurance underwriting services	100 £1 ordinary A shares	15	31 December	England and Wales
		20,000,000 £1 ordinary B shares	21		

The United Kingdom is the principal area of operation of all principal associated undertakings.

All associated undertakings are unlisted.

Abbey National plc has the right to increase its interests in Commercial Union Underwriting Ltd up to a maximum of 75% after the fifth anniversary of the commencement of the operation, and to 100% in certain circumstances.

23. Shares in Group undertakings

	Book value 1995 £m	Book value 1994 £m
Subsidiary undertakings		
Banks	**451**	451
Others	**1,820**	1,271
Total	**2,271**	1,722

The movement in shares in Group undertakings was as follows:

	£m
At 1 January 1995	**1,722**
Exchange adjustments	**76**
Additions	**412**
Disposals	**(52)**
Amounts written back	**113**
At 31 December 1995	**2,271**

On 3 February 1995, Abbey National plc acquired Pegasus Assurance Group Ltd, which is included in the consolidated accounts as an acquisition. The consideration for the purchase of the issued share capital was £8m, £6m being paid in cash and £2m in the form of ordinary shares in Abbey National plc. Subsequent to acquisition, Abbey National plc subscribed for £17m of share capital in Pegasus Assurance Group Ltd.

23. Shares in Group undertakings (continued)

Abbey National Independent Financial Advisers Ltd acquired Whitefoord & Foden Ltd on 17 March 1995 and Kontax Pensions Ltd on 2 October 1995. The amounts payable in consideration for the purchase of the issued share capital of the companies were £1m and £0.4m respectively. The amounts were paid in cash with the exception of £0.3m relating to Whitefoord & Foden Ltd, which is deferred.

On 3 August 1995, Abbey National plc acquired First National Finance Corporation plc (FNFC plc), which is included in the consolidated accounts as an acquisition. The consideration for the purchase of the issued share capital was £286m, £281m of which was paid in cash and £5m of which was paid in the form of loan notes, the fair value of which was not significantly different from the equivalent cash value at the date of acquisition. Subsequent to acquisition, Abbey National plc subscribed for £40m of share capital in FNFC plc, in order to meet regulatory requirements.

Further disclosures relating to these acquisitions are given in note 24.

On 3 November 1995 Abbey National Property Services Ltd disposed of the business of J Trevor & Webster, a commercial estate agency business, for £2m.

Abbey National plc disposed of all its shareholdings in Abbey National (Holdings) Ltd and Abbey National (Overseas) Ltd, of £46m, to Abbey National Treasury Services plc in January 1995. Following this disposal Abbey National (Overseas) Ltd was re-named Abbey National Treasury International Ltd.

Abbey National plc subscribed for the following amounts of share capital in the following subsidiary undertakings:

£5m in Midsummer Ltd, a general insurance selling operation, being 75% of the issued share capital, to establish initial capital for the business.

£17m in HMC Group PLC, in order to refinance its operations.

£4m in Abbey National SMA Holdings Ltd to establish initial capital for a new venture in a subsidiary of that company.

£7m in Abbey National Life plc. Abbey National plc then disposed of its shareholding in Abbey National Unit Trust Managers Ltd for £7m to Abbey National Life plc.

£21m in Abbey National Beta Investments Ltd issued in satisfaction of intercompany debt.

£5m in Abbey National Financial and Investment Services plc in preparation for the commencement of operations in 1996.

The investment in the share capital of Abbey National France SA has been written back by £113m to its historical cost, following a review which identified that a provision for permanent diminution in value was no longer necessary. This results from a refinancing of operations.

The principal subsidiaries of Abbey National plc at 31 December 1995 are listed below, all of which are directly held except for Abbey National Treasury International Ltd, Abbey National (Gibraltar) Ltd, Abbey National France SA, the Abbey National leasing companies, Abbey National Unit Trust Managers Ltd and Scottish Mutual Assurance plc which are held indirectly through subsidiary companies.

	Nature of business	Country of incorporation or registration
Abbey National Treasury Services plc	Treasury operations	England & Wales
Abbey National Homes Ltd	Housing development	England & Wales
Abbey National Investments Holdings Ltd	Investment	England & Wales
Abbey National leasing companies (24 companies)	Leasing	England & Wales
Abbey National Mortgage Finance plc	Personal finance	England & Wales
Abbey National Property Services Ltd	Estate agency	England & Wales
First National Finance Corporation plc	Personal finance and commercial lending	England & Wales
HMC Group PLC	Personal finance	England & Wales
Abbey National Independent Financial Advisers Ltd	Personal finance	England & Wales
Abbey National France SA	Personal finance	France
Abbey National (Gibraltar) Ltd	Personal finance	Gibraltar
Carfax Insurance Ltd	Insurance	Guernsey
Abbey National Treasury International Ltd	Personal finance and treasury operations	Jersey
Abbey National Life plc	Insurance	Scotland
Abbey National Unit Trust Managers Ltd	Unit Trust/PEP management	Scotland
Scottish Mutual Assurance plc	Insurance	Scotland
Abbey National Bank SAE	Personal finance	Spain
Abbey National North America Corporation	Funding	United States

23. Shares in Group undertakings (continued)

The Company holds directly or indirectly 100% of the issued ordinary share capital of its principal subsidiaries. All companies operate principally in their country of incorporation or registration. Abbey National Treasury Services plc also has branch offices in France and Jersey and Abbey National plc has a branch in Italy. All the above companies are included in the consolidated accounts.

24. Summary of the effect of acquisitions

The following table summarises the effect of all the acquisitions of subsidiary and associated undertakings in the year ended 31 December 1995:

	Book value before acquisition £m	Accounting policy adjustments £m	Revaluation adjustments £m	Total fair value adjustments £m	Fair value at acquisition £m
Loans and advances to customers	670	–	(11)	(11)	659
Loans and advances to customers subject to securitisations	585	–	–	–	585
Less: non-recourse finance	(585)	–	–	–	(585)
Other assets	183	1	5	6	189
Total assets	853	1	(6)	(5)	848
Deposits by banks	438	–	–	–	438
Debt securities in issue	227	–	–	–	227
Other liabilities	154	6	–	6	160
Total liabilities excluding shareholders' funds	819	6	–	6	825
Net assets acquired	34	(5)	(6)	(11)	23
Total fair value of the consideration and costs of acquisition					298
Total goodwill on acquisitions of subsidiary undertakings					275
Goodwill on acquisition of associated undertaking					14
Total goodwill taken to reserves					289

The profit after tax of Pegasus Assurance Group Ltd for the period 1 January 1995 to 4 February 1995 was nil and the loss after tax for the year ended 31 December 1994, £7m.

The loss after tax of First National Finance Corporation plc for the period 1 November 1994 to 3 August 1995 was £101m, and for the year ended 31 October 1994, £2m.

Following the acquisition of First National Finance Corporation plc, the conditions for linked presentation under FRS5, Reporting the Substance of Transactions, were no longer satisfied. The assets and liabilities are separately presented in the Group balance sheet as at 31 December 1995.

25. Tangible fixed assets

	Group			Company		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
Cost						
At 1 January 1995	319	614	933	315	581	896
Acquisition of subsidiary undertaking	12	15	27	–	–	–
Additions	36	91	127	31	78	109
Disposals	(5)	(20)	(25)	(2)	(12)	(14)
At 31 December 1995	362	700	1,062	344	647	991
Depreciation						
At 1 January 1995	45	354	399	43	336	379
Acquisition of subsidiary undertaking	1	6	7	–	–	–
Charge for the year	8	79	87	8	72	80
Disposals	(2)	(14)	(16)	(1)	(9)	(10)
At 31 December 1995	52	425	477	50	399	449
Net book value						
At 31 December 1995	310	275	585	294	248	542
At 31 December 1994	274	260	534	272	245	517

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
The net book value of premises comprises:				
Freeholds	**244**	209	**229**	209
Long leaseholds	**10**	11	**9**	9
Short leaseholds	**56**	54	**56**	54
Land and buildings occupied for own activities:				
Net book value at 31 December	**246**	237	**231**	235
The net book value of equipment includes:				
Assets held under finance leases	**3**	7	**3**	7
Depreciation charge for the year on these assets	**5**	12	**5**	12
Capital expenditure which has been contracted, but has not been provided in the accounts	**11**	15	**10**	15
Capital expenditure which has been authorised by the directors but has not yet been contracted	**29**	27	**29**	26

26. Other assets

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Development properties	**26**	3	**–**	–
Foreign exchange and interest rate contracts (see note 44)	**907**	620	**–**	–
Other	**716**	458	**306**	205
	1,649	1,081	**306**	205

Other assets of the Group include £60m (nil) in respect of unamortised commissions payable to introducers in respect of obtaining certain lending business where this is the primary form of distribution. Such commissions are charged to the profit and loss account over the expected life of the loans, the charge for the period being £13m (nil).

The figure for development properties includes completed properties of £21m (£2m) and work in progress of £5m (£1m).

The amounts in respect of foreign exchange and interest rate contracts relate to translation differences arising from instruments which are used to hedge currency assets and liabilities, and to the revaluation of certain interest rate contracts where appropriate.

27. Prepayments and accrued income

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Accrued interest due from subsidiaries	**–**	–	**3**	3
Other accrued interest	**1,695**	1,556	**219**	103
Prepayments and other accruals	**58**	64	**24**	33
	1,753	1,620	**246**	139

Other accrued interest in the Company and the Group includes £143m (£38m) in respect of unamortised lending-related fees and discounts paid which are in the nature of a reduction in interest income, and are therefore recognised over the minimum period of time the Group expects to benefit from the loan. This amount comprises £76m (£14m) in respect of interest rate discounts and £67m (£24m) in respect of cashback incentives.

28. Deposits by banks

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Items in the course of transmission	**268**	243	**268**	243
Amounts due to subsidiaries	**–**	–	**5,522**	5,773
Other deposits	**19,125**	17,583	**494**	243
	19,393	17,826	**6,284**	6,259
Repayable:				
On demand	**437**	29	**5,411**	5,410
In not more than three months	**14,742**	14,583	**326**	328
In more than three months but not more than one year	**3,842**	2,753	**231**	291
In more than one year but not more than five years	**119**	252	**73**	103
In more than five years	**253**	209	**243**	127
	19,393	17,826	**6,284**	6,259

29. Customer accounts

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Retail funds and deposits	**37,564**	35,927	**36,442**	34,931
Amounts due to subsidiaries	**–**	–	**2,740**	3,154
Other customer accounts	**3,398**	2,129	**599**	718
	40,962	38,056	**39,781**	38,803
Repayable:				
On demand	**33,856**	32,741	**36,387**	35,736
In not more than three months	**6,173**	1,716	**3,375**	32
In more than three months but not more than one year	**596**	3,480	**19**	3,035
In more than one year but not more than five years	**320**	119	**–**	–
In more than five years	**17**	–	**–**	–
	40,962	38,056	**39,781**	38,803

30. Debt securities in issue

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Bonds and medium term notes	**14,652**	14,807	**22**	22
Other debt securities in issue	**11,443**	9,045	**14**	1
	26,095	23,852	**36**	23
Bonds and medium term notes are repayable:				
In not more than three months	**1,083**	917	**–**	–
In more than three months but not more than one year	**3,184**	2,182	**–**	–
In more than one year but not more than two years	**2,974**	3,217	**–**	–
In more than two years but not more than five years	**3,691**	4,914	**22**	3
In more than five years	**3,720**	3,577	**–**	19
	14,652	14,807	**22**	22
Other debt securities in issue are repayable:				
In not more than three months	**8,433**	6,747	**6**	–
In more than three months but not more than one year	**2,631**	1,465	**–**	–
In more than one year but not more than two years	**318**	457	**–**	1
In more than two years but not more than five years	**33**	353	**2**	–
In more than five years	**28**	23	**6**	–
	11,443	9,045	**14**	1

Premiums, discounts and expenses relating to debt securities issued as part of the Group's funding programme are offset by swap fees. The unamortised premiums, discounts and expenses were previously included within Debt securities in issue. The presentation of these premiums, discounts and expenses has been changed in order to match the presentation of swap fees, resulting in an increase in Debt securities in issue and a reduction in Other liabilities of £389m (£439m).

31. Other liabilities

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Creditors and accrued expenses	**534**	792	**242**	207
Short positions in government debt securities				
Investment securities	**19**	232	**–**	–
Other securities	**330**	46	**–**	–
Income tax	**197**	159	**197**	158
Corporation tax	**299**	339	**247**	249
Foreign exchange and interest rate contracts (see note 44)	**496**	442	**–**	4
Obligations under finance leases (see note 32)	**4**	9	**4**	9
	1,879	2,019	**690**	627

The amounts in respect of foreign exchange and interest rate contracts relate to translation differences arising from instruments which are used to hedge currency assets and liabilities, and to the revaluation of certain interest rate contracts where appropriate.

32. Obligations under finance leases

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Amounts payable:				
In not more than one year	**3**	5	**3**	5
In more than one year but not more than five years	**1**	4	**1**	4
	4	9	**4**	9

33. Accruals and deferred income

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Accrued interest due to subsidiaries	**–**	–	**224**	176
Other accrued interest	**2,260**	2,540	**594**	827
Deferred income	**136**	83	**–**	–
	2,396	2,623	**818**	1,003

The Company has entered into insurance arrangements with its subsidiary, Carfax Insurance Ltd, to cover a proportion of future losses on certain UK residential secured loans with high loan to value ratios. In the Group accounts, income from customers in relation to such lending is deferred and is included in the balance sheet under the heading, Deferred income. The deferred income is released to the profit and loss account as losses are identified and provided for. The balance of such deferred income is £135m (£83m). The amount released during the year was £4m (£6m).

34. Provisions for liabilities and charges

	Group 1995	Group 1994	Company 1995	Company 1994
Deferred taxation (note 35)	**560**	399	**13**	–
Other provisions for liabilities and charges (note 36)	**70**	70	**50**	65
	630	469	**63**	65

In order to adopt a form of presentation which is more informative, the provisions for liabilities and charges of the Group and Company are summarised in the above table. Provisions for pension and other similar obligations, provisions for contingent liabilities and commitments, and certain other provisions, have been reclassified under this heading, having previously been included within Other liabilities. Comparatives have been restated accordingly, and the amounts so reclassified are shown in the balances as at 1 January 1995 in note 36. The profit and loss account charge for provisions for contingent liabilities and commitments is shown in a separate line in the profit and loss account. The charges for deferred taxation, pension and other similar obligations, and other provisions for liabilities and charges, are included in the appropriate headings in the profit and loss account.

35. Deferred taxation

	Group £m	Company £m
Deferred taxation at 1 January 1995	399	(36)
Transfer from profit and loss account	161	49
At 31 December 1995	560	13

The deferred taxation asset for the Company in 1994 was included in Other assets. The deferred taxation liability for the Company in 1995 is included in Provisions for liabilities and charges.

The amounts provided (recoverable) and total potential liability (asset) are:

	Amount provided (recoverable)		Total potential liability (asset)	
	Group £m	Company £m	Group £m	Company £m
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	19	16	19	16
Capital allowances on finance lease receivables	455	–	455	–
Other	86	(3)	86	(3)
	560	13	560	13

36. Other provisions for liabilities and charges

	Pension and other similar obligations £m	Provisions for contingent liabilities and commitments £m	Other provisions £m	Total £m
Group				
At 1 January 1995	58	–	12	70
Acquisition of subsidiary undertakings	2	6	–	8
Transfer from profit and loss account	31	7	–	38
Pension contributions/provisions utilised	(44)	(2)	–	(46)
At 31 December 1995	47	11	12	70
Company				
At 1 January 1995	57	–	8	65
Transfer from profit and loss account	28	2	(2)	28
Pension contributions/provisions utilised	(41)	(2)	–	(43)
At 31 December 1995	44	–	6	50

Other provisions include amounts in respect of the review of business involving the transfers from occupational to personal pension schemes and the opting-out of and the non-joining of occupational pension schemes. Estimated provisions of nil (£5m) for the Group excluding Life Assurance Operations and nil (£5m) for the Company have been charged to the profit and loss account for the year ended 31 December 1995, and the total of such provisions as at 31 December 1995 is £6m (£6m) for the Group excluding Life Assurance Operations and £5m (£5m) for the Company. Amounts provided in respect of Life Assurance Operations are charged to Income from long term assurance business, and amounted to £2m (nil) for the year ended 31 December 1995. The total amount of such provisions, including provisions in subsidiary undertakings acquired, as at 31 December 1995 was £3m (nil).

37. Subordinated liabilities including convertible debt

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Dated subordinated liabilities:				
Subordinated floating rate note 1995	–	120	–	–
Subordinated floating rate note 1997**	17	25	–	–
9.00% Subordinated guaranteed bond 2002 (LUX 1,000m)	22	20	–	–
Subordinated loan stock 2002*	–	–	17	17
Subordinated guaranteed note 2002 (US $75m)	48	48	–	–
Subordinated floating rate note 2002 (US $75m)*	–	–	48	48
8.00% Subordinated guaranteed bond 2002 (DFL 200m)	80	74	–	–
Subordinated loan 2002 (US $112m)*	–	–	72	72
10.375% Subordinated guaranteed bond 2002	101	101	–	–
10.512% Subordinated loan stock 2001*	–	–	100	100
Subordinated floating rate note 2003 (US $100m)	64	64	–	–
Subordinated floating rate note 2003 (US $100m)*	–	–	64	64
Subordinated floating rate note 2004 (US $137m)	88	88	–	–
Subordinated floating rate note 2004*	–	–	83	83
Subordinated floating rate note 2004 (CAN $100m)	47	45	–	–
Subordinated floating rate note 2004 (US $74m)*	–	–	48	47
8.75% Subordinated guaranteed bond 2004	151	151	–	–
Subordinated floating rate note 2004*	–	–	150	150
8.2% Subordinated bond 2004 (US $500m)	322	319	–	–
Subordinated floating rate note 2004 (US $500m)*	–	–	322	320
6.69% Subordinated bond 2005 (US $750m)	484	–	484	–
Subordinated guaranteed floating rate note 2009 (CHF 130m)	73	64	–	–
Subordinated floating rate note 2009 (US $102m)*	–	–	66	65
Subordinated floating rate note 2015 (YEN 15 billion)***	–	–	–	96
11.50% Subordinated guaranteed bond 2017	153	153	–	–
11.59% Subordinated loan stock 2017*	–	–	150	150
10.125% Subordinated guaranteed bond 2023	152	152	–	–
10.18% Subordinated loan stock 2023*	–	–	150	150
Undated subordinated liabilities:				
10.0625% Exchangeable subordinated capital securities	200	–	200	–
5.56% Subordinated guaranteed bond (YEN 15 billion)***	94	96	94	–
5.50% Subordinated guaranteed notes (YEN 5 billion)	31	–	31	–
	2,127	1,520	2,079	1,362

The subordinated floating rate notes pay a rate of interest related to the LIBOR of the currency of denomination.

*These represent the on-lending to the Company, on a subordinated basis, of issues by subsidiary companies.

**This subordinated floating rate note matures as follows: 1996 £8m, 1997 £9m. All other subordinated liabilities mature on the dates shown in the above table.

*** The YEN 15 billion subordinated floating rate note was cancelled in 1995, and the related 5.56% subordinated guaranteed bond (YEN 15 billion) was transferred from Abbey National First Capital BV to Abbey National plc.

The 10.0625% Exchangeable subordinated capital securities are exchangeable into fully paid 10.375% non-cumulative non-redeemable sterling preference shares of £1 each, at the option of Abbey National. Exchange may take place on any interest payment date providing that between 30 and 60 days notice has been given to the holders. The holders will receive one new sterling preference share for each £1 principal amount of capital securities held. The rights attaching to these preference shares would be the same as those detailed in note 38.

In common with other debt securities issued by Group companies, the capital securities are redeemable in whole at the option of Abbey National, on any interest payment date, in the event of certain tax changes affecting the treatment of payments of interest on the capital securities in the United Kingdom, at their principal amount together with any accrued interest.

38. Called up share capital and share premium account

	Ordinary shares of 10 pence each £m	Preference shares of £1 each £m	Preference shares of US$0.01 each £m	Total £m
Authorised share capital				
At 31 December 1994 and 1995	175	500	6	681
Issued and fully paid share capital				
At 1 January 1995	131	–	–	131
Issued under employee share option schemes	1	–	–	1
Issue of preference shares	–	100	–	100
At 31 December 1995	132	100	–	232
Share premium account				
At 1 January 1995	840	–	–	840
Shares issued	15	1	–	16
At 31 December 1995	855	1	–	856

The authorised share capital of Abbey National is £681m (£681m) which includes £175m (£175m) ordinary share capital (comprising 1,750 million ordinary shares of 10 pence each) and £506m (£506m) preference share capital (comprising 500 million shares of £1 each and 1 billion shares of US $0.01 each).

Under the Company's Executive and Sharesave schemes, employees hold options to subscribe for 24,075,185 (26,094,580) ordinary shares at prices ranging from 149.0 to 537.0 pence per share, exercisable up to 2005. During the year 7,862,810 shares were issued on the exercise of options for a consideration of £14,045,805.

Having established a profit related pay scheme, the Board elected not to make the Share Participation Scheme available in respect of 1994, and therefore no shares (493,213) were issued during 1995 under the Scheme.

During the period to 31 December 1995, 488,894 ordinary shares were issued for a consideration of £2,104,690 in respect of the acquisition of Pegasus Assurance Group Ltd.

The issue of the above shares resulted in the increase in the share premium account of £15m.

As of 31 December 1995 there were 2,360,267 shareholders. The following table shows an analysis of their holdings:

	Ordinary shares of 10 pence each		Preference shares of £1 each	
Size of shareholding	Shareholders	Shares	Shareholders	Shares
1-100	1,581,649	157,106,035	–	–
101 - 1,000	746,321	348,116,006	3	1,618
1,001+	32,096	815,284,284	198	99,998,382
	2,360,066	1,320,506,325	201	100,000,000

On 23 October 1995, 100 million non-cumulative non-redeemable 10.375% sterling preference shares of £1 each were issued for a consideration of approximately £102m, less issue costs of £1m, for the purpose of strengthening the Group's capital base.

Holders of the sterling preference shares are entitled to receive a bi-annual non-cumulative preferential dividend payable in sterling out of the distributable profits of the Company at a rate per annum which will ensure that the sum of the dividend payable on such date and the Associated Tax Credit (as defined in the terms of the sterling preference shares) represents an annual rate of 10.375% per annum of the nominal amount of such shares.

On a return of capital or on a distribution of assets on a winding up, the sterling preference shares shall rank pari passu with any other shares that are expressed to rank pari passu therewith as regards participation in assets, and otherwise in priority to any other share capital of the Company. On such a return of capital or winding up, each sterling preference share shall, out of the surplus assets of the Company available for distribution amongst the members after payment of the Company's liabilities, carry the right to receive an amount equal to the amount paid up or credited as paid together with any premium paid on issue and the full amount of any dividend otherwise due for payment.

Other than as set out above, no sterling preference share confers any right to participate on a return of capital or a distribution of assets of the Company.

38. Called up share capital and share premium account (continued)

Holders of the sterling preference shares are not entitled to receive notice of or attend, speak and vote at general meetings of the Company unless the business of the meeting includes the consideration of a resolution to wind up the Company or any resolution varying, altering or abrogating any of the rights, privileges, limitations or restrictions attached to the sterling preference shares or if the dividend on the sterling preference shares has not been paid in full for the three consecutive dividend periods immediately prior to the relevant general meeting.

In any such case, the sterling preference shareholders are entitled to receive notice of and attend the general meeting at which such resolution is proposed and will be entitled to speak and vote on such a resolution but not on any other resolution.

On 13 February 1996, Abbey National plc issued 100 million non-cumulative non-redeemable 10.375% Sterling preference shares of £1 each for a consideration of approximately £108m excluding issue costs. The terms of the preference shares are identical to the issue made in October 1995 described above, except that the first dividend will accrue from 13 February 1996.

39. Reserves and profit and loss account

	Profit and loss account		Non-distributable reserve	
	Group £m	Company £m	Group £m	Company £m
At 1 January 1995	2,629	2,392	104	–
Retained profit for the year	334	220	–	–
Goodwill recognised in the profit and loss account in the year	1	–	–	–
Goodwill taken to profit and loss account reserve during the year	(289)	–	–	–
Exchange adjustments	15	–	–	–
Transfer from profit and loss account	–	–	59	–
At 31 December 1995	2,690	2,612	163	–

The cumulative amount of goodwill taken directly to the profit and loss account reserve by the Group to 31 December 1995 and not yet recognised in the profit and loss account is £444m (£156m).

The non-distributable reserve represents the Group's shareholders' interest retained in the long term assurance funds of the Life Assurance Operations.

Exchange losses arising from foreign currency borrowings used to hedge investments in overseas Group undertakings of £76m (£14m) have been taken to the reserves of the Company and the Group. These exchange losses are matched by corresponding exchange gains on the investments in the accounts of the Company, and exchange gains on the net assets of overseas Group undertakings in the Group accounts.

40. Reconciliation of movements in shareholders' funds

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Profit attributable to the shareholders of Abbey National plc	**683**	610	**510**	484
Dividends	**(290)**	(233)	**(290)**	(233)
	393	377	**220**	251
Other recognised net gains and losses relating to the year	**15**	(7)	**–**	–
Ordinary share capital subscribed including share premium	**16**	4	**16**	4
Preference share capital subscribed including share premium	**101**	–	**101**	–
Goodwill recognised in the profit and loss account in the year	**1**	10	**–**	–
Goodwill taken to profit and loss account reserve during the year	**(289)**	(66)	**–**	–
Net addition to shareholders' funds	**237**	318	**337**	255
Shareholders' funds at 1 January	**3,704**	3,386	**3,363**	3,108
Shareholders' funds at 31 December	**3,941**	3,704	**3,700**	3,363
Equity shareholders' funds	**3,840**	3,704	**3,599**	3,363
Non-equity shareholders' funds	**101**	–	**101**	–
At 31 December	**3,941**	3,704	**3,700**	3,363

Equity shareholders' funds comprise called up ordinary share capital, ordinary share premium account, profit and loss account and reserves. Non-equity shareholders' funds comprise called up preference share capital and preference share premium account.

41. Memorandum items: Guarantees and assets pledged as collateral security

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Guarantees given by Abbey National plc of subsidiaries' liabilities	**–**	–	**52,835**	47,457
Guarantees given to third parties	**343**	76	**6**	–
Mortgaged assets granted to secure future obligations to third parties who have provided security to the leasing subsidiaries	**786**	760	**–**	–
	1,129	836	**52,841**	47,457
Credit risk weighted amounts	**318**	290	**6**	–

Under Section 22 of the Building Societies Act 1986, Abbey National Building Society, the Company's predecessor, was obliged to discharge the liabilities of its associated bodies (including subsidiaries) in so far as they were unable to discharge them out of their own assets. Under the Act, the obligations of the Society at Vesting Day on 12 July 1989 in respect of its associated bodies were transferred to the Company. In addition, the Company has unconditionally and irrevocably guaranteed all the obligations of Abbey National Treasury Services plc, Abbey National North America Corporation, Abbey National Bank SAE, Abbey National Treasury International Ltd, Abbey National (Gibraltar) Ltd, Abbey National France SA, Abbey National Funding (Jersey) Ltd and Abbey National Second Capital BV. The Company has guaranteed certain liabilities of Abbey National First Capital BV, Abbey National Sterling Capital plc, and Abbey National Life plc.

42. Memorandum items: Other contingent liabilities

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Other contingent liabilities	**197**	59	**57**	59

Priority liquidation distribution

The Building Societies Act 1986 requires that savers who were eligible to vote on the proposals by which Abbey National Building Society was converted into the Company and who continued to have savings in any share account with the Society up to Vesting Day must have a right to a priority liquidation distribution by the Company. This is a right, in the unlikely event of the Company being wound up, to a distribution of a proportion of its assets in priority to all other creditors (other than statutory preferential creditors) and shareholders of the Company.

The calculation of the right is based on the reserves of the Society as at 31 December 1988 after deducting the cash distribution and costs of conversion. Initially this amount was £1.3 billion. This has reduced as members continue to operate their accounts and the amount of the right has reduced to £48m (£59m) at 31 December 1995.

The priority liquidation right is secured by a floating charge over the undertaking and assets of the Company and by a guarantee by, and floating charge over the undertaking and assets of, Abbey National Treasury Services plc.

Repayment of certain tax credits

Abbey National plc expects a demand to be made against its subsidiary Abbey National Treasury Services plc by an overseas tax authority in an amount of approximately £140m relating to the repayment of certain tax credits received and related charges. The subsidiary has been advised that it has strong grounds to challenge the validity of the demand.

Pension transfers and opt-outs

The Securities and Investments Board (SIB) has issued detailed guidance for the review of business involving the transfers from occupational to personal pension schemes and the opting-out of and the non-joining of occupational pension schemes. The Group is in the process of carrying out a review of any potential exposures in respect of such business. In view of the uncertainty regarding this issue, estimated provisions in respect of possible compensation to customers have been made where considered appropriate and are included in note 36, Other provisions for liabilities and charges.

Deferred consideration

In connection with the acquisition of a one third share in Travellers Exchange Corporation plc (Travelex), the Group has entered into an arrangement whereby additional consideration may become payable to the vendors. The amount of future consideration payable is dependent on the future performance of both Travelex and the foreign exchange and travellers cheque business of Abbey National plc and is payable in cash. No provision has been made for any additional consideration as at 31 December 1995, as it cannot be accurately quantified. The maximum unprovided amount is £8.5m, falling due between years 1997 and 2001 as follows: within one year, nil; within two to five years, £6m; over five years, £2.5m.

National and Provincial Building Society (N&P)

On 10 July 1995, Abbey National and N&P announced that they had reached agreement in principle in relation to the transfer of the whole of N&P's business, assets and liabilities to Abbey National. It is expected that a definitive agreement relating to the transfer will be entered into between Abbey National and N&P shortly after the date of these accounts.

The transfer is subject to certain conditions, including approval by members of N&P and by the Building Societies Commission. The consideration payable, if the transfer is completed, is £1,350m, to be satisfied by a mixture of new ordinary shares and cash.

43. Memorandum items: Commitments

The table below shows the contract or principal amount of commitments other than those relating to derivative financial instruments (see note 44). In addition, credit risk weighted amounts are shown, calculated in accordance with the Bank of England's guidelines which are intended to represent a measure of the credit risk associated with such commitments.

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Forward asset purchases and forward deposits placed	**332**	517	**10**	40
Formal standby facilities, credit lines and other commitments to lend:				
One year and over	**1,073**	899	**-**	-
Less than one year	**136**	130	**114**	130
	1,541	1,546	**124**	170
Credit risk weighted amounts	**674**	469	**124**	170

44. Derivatives

Following the publication of the British Bankers' Association Statement of Recommended Practice (SORP) on Derivatives in February 1996 the Group has extended its derivatives disclosure significantly.

Derivative financial instruments ('derivatives') are contracts or agreements whose value is derived from one or more underlying indices inherent in the contract or agreement. The table below shows the nominal principal amounts, credit risk weighted amounts, and replacement costs of derivatives. Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date. The credit risk weighted amount, which is calculated according to rules specified by the Bank of England, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Exchange rate contracts:				
Nominal principal	**15,445**	11,681	**-**	2,174
Credit risk weighted amount	**351**	207	**-**	-
Replacement cost	**819**	460	**-**	-
Interest rate contracts:				
Nominal principal	**104,977**	77,129	**23,164**	19,126
Credit risk weighted amount	**594**	325	**27**	8
Replacement cost	**1,919**	933	**582**	212

Derivatives are used by the Group to manage balance sheet foreign exchange rate and interest rate risk, which is classified as non-trading activity. Derivatives are also used in the trading activity undertaken by Abbey National Financial Products ('ANFP').

44. Derivatives (continued)

Non-trading derivatives

The major instruments used in balance sheet risk management are interest rate and cross currency swaps, which are used to hedge Group balance sheet exposures, fixed rate mortgage lending and savings products in relevant operations throughout the Group and other exposures to fixed interest rates within Treasury & Offshore.

The following table describes certain activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which may be used in managing such risks. Such risks may also be managed using on balance sheet instruments as part of an integrated approach to risk management.

Activity	Risk	Type of Hedge
Management of the return on investment of shareholders' funds and net non-interest bearing liabilities.	Reduced profitability due to falls in interest rates.	Receive fixed interest rate swaps. Purchased interest rate floors.
Fixed-rate mortgage lending.	Sensitivity to increase in interest rates.	Pay fixed interest rate swaps. Purchased interest rate caps.
Management of other net interest income on retail activities.	Sensitivity of returns to changes in interest rates.	Interest rate swaps and caps/floors according to the type of risk identified.
Fixed-rate funding (e.g. medium-term note issuance).	Sensitivity to falls in interest rates.	Receive fixed interest rate swaps.
Fixed-rate asset investments.	Sensitivity to increase in interest rates.	Pay fixed interest rate swaps.
Investment in foreign currency assets.	Sensitivity to increase in foreign exchange rates.	Cross-currency swaps. Foreign currency funding.
Profits earned in foreign currencies.	Sensitivity to strengthening of sterling against other currencies.	Forward foreign exchange contracts. Purchased options.
Investment in assets with embedded options.	Sensitivity to changes in underlying rate and rate volatility.	Interest rate swaps and caps/floors. Matched swaps with embedded options.
Investment in/issuance of bonds with put/call features.	Sensitivity to changes in rates causing option exercise.	Swaptions.
Firm commitments (e.g. asset purchases, issues arranged).	Sensitivity to changes in rates between arranging a transaction and completion.	Hedges are arranged at the time of commitments if there is exposure to rate movements.

Derivative products which are combinations of more basic derivatives (such as swaps with embedded option features), or which have leverage features, may be used in circumstances where the underlying position being hedged contains the same risk features. In such cases the derivative used will be designed to match exactly the risks of the underlying asset or liability. Exposure to market risk on such contracts is therefore fully hedged.

44. Derivatives (continued)

Control of derivatives used for non-trading purposes
Abbey National has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Asset and Liability Committee ('ALCO'), which is charged with the responsibility for monitoring and controlling the level of structural balance sheet risk in the Group. The minutes of ALCO are available to the Board.

In order to manage the market risks arising within Abbey National plc and its subsidiaries, authorised personnel within each subsidiary are able to use specified derivative instruments within mandated limits. The Group Risk Department monitors and reviews the market risk positions arising within the Group and uses quantitative models to forecast potential balance sheet interest rate mismatches under a variety of scenarios. These forecasts are reviewed by ALCO. The Treasury Risk Committee monitors and reviews the market risks arising within Abbey National Treasury Services ('ANTS'), against the Treasurer's Mandate.

The Group Credit Committee regularly monitors and reviews credit exposures arising in subsidiary companies, and approves all Group credit policies. All credit risks arising on derivative transactions are monitored within ANTS by the ANTS Board Credit Committee.

Trading Derivatives
ANFP's objective is to gain margin value by marketing derivatives to end-users and hedging the resulting exposures efficiently. Products offered by ANFP include interest rate and cross-currency swaps, caps, floors and swaptions. ANFP has established clear guidelines for staff to ensure that end-users are aware of the potential risk of entering into complex derivative transactions. ANFP also uses these products, together with exchange-traded options and futures, for hedging purposes.

A comprehensive limit structure has been established for ANFP which includes exposures to interest rates, yield curve shape, volatility and spreads. In addition to the normal limits, additional limits covering sensitivity to large changes in the underlying variables have been imposed. Substantially no foreign exchange risk is currently run within ANFP, other than that accruing through profits earned in currencies other than sterling. Direct interest rate exposure is also maintained at low levels, but exact hedges are often not available in the market and this will give rise to a combination of yield curve, volatility and spread risk within the established limits. The overall management and control policy framework at ANFP is consistent with the Group of 30 recommendations regarding derivatives.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Other derivative contracts are not subject to these cash requirements. The accounting policies for derivatives are described in the accounting policies note on page 46.

The following tables analyse non-trading and trading derivatives by type of contract.

	Group 1995 Contract or underlying principal amount £m	Group 1995 Credit risk weighted amount £m	Group 1995 Net replacement cost £m	Group 1994 Contract or underlying principal amount £m	Group 1994 Credit risk weighted amount £m	Group 1994 Net replacement cost £m
Non-trading derivatives:						
Exchange rate contracts						
Cross currency swaps	**8,436**	**269**	**675**	8,472	188	447
Forward foreign exchange	**5,775**	**23**	**1**	2,703	11	–
Options (OTC)	**–**	**–**	**–**	20	–	–
	14,211	**292**	**676**	11,195	199	447
Interest rate contracts						
Interest rate swaps	**33,738**	**242**	**751**	32,398	191	582
Options	**5,399**	**55**	**–**	2,973	24	–
Futures (exchange traded)	**3,378**	**–**	**–**	8,420	–	15
Forward rate agreements	**1,655**	**1**	**1**	1,973	–	–
Caps and floors	**50**	**–**	**–**	–	–	–
	44,220	**298**	**752**	45,764	215	597

44. Derivatives (continued)

	Group 1995 Contract or underlying principal £m	Group 1995 Credit risk weighted amount £m	Group 1995 Positive fair values £m	Group 1995 Negative fair values £m	Group 1994 Contract or underlying principal £m	Group 1994 Credit risk weighted amount £m	Group 1994 Positive fair values £m	Group 1994 Negative fair values £m
Trading derivatives:								
Exchange rate contracts								
Cross currency swaps	**1,234**	**59**	**143**	**144**	486	8	13	–
	1,234	**59**	**143**	**144**	486	8	13	–
Interest rate contracts								
Interest rate swaps	**36,802**	**278**	**1,071**	**979**	23,515	100	326	295
Forward rate agreements	**10,277**	**7**	**29**	**27**	7,829	6	6	–
Futures (exchange traded)	**9,296**	**–**	**22**	**2**	–	–	–	–
Caps floors and swaptions	**4,382**	**11**	**45**	**–**	21	4	4	–
	60,757	**296**	**1,167**	**1,008**	31,365	110	336	295
Total			**1,310**	**1,152**			349	295
Translation differences on foreign exchange derivatives used for hedging purposes			**(403)**	**(656)**			271	147
Amount included in Other assets/Other liabilities			**907**	**496**			620	442

Positive fair values are gross positive fair values less any gross negative fair values where the Group has a legal right to offset. This equates to net replacement cost.

Substantially all of the Group's derivatives activity is contracted with financial institutions.

45. Assets and liabilities denominated in foreign currency

The aggregate amounts of assets and liabilities denominated in currencies other than sterling were as follows:

	Group 1995 £m	Group 1994 £m	Company 1995 £m	Company 1994 £m
Assets	**32,694**	26,371	**2,738**	3,490
Liabilities	**36,698**	29,383	**2,382**	3,116

The above assets and liabilities denominated in foreign currencies do not indicate the Group's exposure to foreign exchange risk. The Group's foreign currency positions are substantially hedged by off-balance sheet hedging instruments.

46. Consolidated cash flow statement

a) Reconciliation of profit before tax to net cash inflow from operating activities

	1995 £m	1994 £m
Profit on ordinary activities before tax	**1,026**	932
Increase in interest receivable and prepaid expenses	**(117)**	(577)
Increase (decrease) in interest payable and accrued expenses	**(125)**	930
Provisions for bad and doubtful debts	**72**	74
Provisions for contingent liabilities and commitments	**7**	-
Net advances written off	**(128)**	(166)
Increase in the value of long term assurance business	**(88)**	(98)
Depreciation	**87**	84
Profit on sale of tangible fixed assets and investments	**(10)**	(17)
Loss on disposal of subsidiary undertakings	**7**	-
Effect of other deferrals and accruals of cash flows from operating activities	**68**	22
Net cash inflow from trading activities	**799**	1,184
Net increase in loans and advances	**(2,931)**	(28)
Net increase in investment in finance leases	**(566)**	(25)
Net increase in bills and securities	**(320)**	(655)
Net increase in deposits and customer accounts	**4,028**	2,461
Net increase in debt securities in issue	**2,005**	2,765
Net increase (decrease) in other liabilities less assets	**(338)**	158
Exchange adjustments	**(490)**	483
Net cash inflow from operating activities	**2,187**	6,343

b) Analysis of cash and cash equivalents

Included in the balance sheet are the following amounts of cash and cash equivalents:

	1995 £m	1994 £m
Cash and balances with central banks	**145**	166
Treasury and other eligible bills	**120**	10
Loans and advances to banks	**1,472**	1,789
Debt securities	**1,136**	939
	2,873	2,904

The Group is required to maintain balances with the Bank of England which at 31 December 1995 amounted to £182m (£175m). These are shown in loans and advances to banks, and are not included in cash equivalents.

46. Consolidated cash flow statement (continued)

c) Analysis of changes in cash and cash equivalents during the year

	1995 £m	1994 £m
At 1 January	**2,904**	2,916
Net cash inflow (outflow) before adjustment for the effect of foreign exchange rate changes	**(91)**	51
Effect of foreign exchange rate changes	**60**	(63)
At 31 December	**2,873**	2,904

d) Analysis of changes in financing during the year

	Share capital inc. Share premium 1995 £m	Subordinated liabilities 1995 £m	Share capital inc. Share premium 1994 £m	Subordinated liabilities 1994 £m
At 1 January	**971**	**1,520**	967	868
Net cash inflow from financing	**115**	**587**	4	659
Shares issued for a non-cash consideration	**2**	**–**	–	–
Effect of foreign exchange adjustments	**–**	**20**	–	(6)
Amortisation of premium	**–**	**–**	–	(1)
At 31 December	**1,088**	**2,127**	971	1,520

e) Purchase of subsidiary and associated undertakings

	1995 £m	1994 £m
Net assets acquired:		
Loans and advances to customers	**659**	2,498
Loans and advances to banks	**14**	77
Other assets	**177**	51
Deposits by banks	**(438)**	(911)
Debt securities in issue	**(227)**	(1,616)
Other liabilities	**(160)**	(92)
Goodwill	**289**	66
	314	73
Satisfied by:		
Unsecured interest bearing loan notes	**11**	2
Cash	**301**	71
Shares allotted	**2**	–
	314	73

f) Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary and associated undertakings

	1995 £m	1994 £m
Cash consideration	**301**	71
Cash and cash equivalents acquired	**(3)**	(19)
Net outflow of cash and cash equivalents in respect of purchase of subsidiary and associated undertakings	**298**	52

46. Consolidated cash flow statement (continued)

g) Sale of subsidiary undertakings

	1995 £m	1994 £m
Net assets disposed of:		
Fixed assets	**2**	–
Debtors	**2**	–
Cash at bank and in hand	**1**	–
Creditors	**(1)**	–
	4	–
Provisions made for future liabilities retained	**4**	–
Goodwill recognised on disposal	**1**	–
Loss on disposal	**(7)**	–
Consideration received	**2**	–
Satisfied by:		
Cash	**2**	–

h) Analysis of the net inflow of cash and cash equivalents in respect of the sale of subsidiary undertakings:

	1995 £m	1994 £m
Cash received as consideration	**2**	–
Cash and cash equivalents disposed of	**(1)**	–
Net inflow of cash and cash equivalents in respect of sale of subsidiary undertakings	**1**	–

47. Retirement benefits

The Abbey National Amalgamated Pension Fund is the principal pension scheme within the Group, covering 73% of the Group's employees, and is a funded defined benefits scheme.

The latest formal actuarial valuation carried out by an independent professionally qualified actuary was made as at 31 March 1993, at which date the market value of the scheme assets was £460m.

The valuation was prepared by using the projected unit funding method and disclosed a funding level of 105% and a regular employers' contribution rate of 20.7% of pensionable salaries in respect of benefits accruing after the valuation date.

A review of the pension scheme valuation was carried out as at 31 March 1995 by the appointed actuary, at which date the market value of the scheme assets was £591m, and the funding level 109%. The review was carried out using the same actuarial method and main long term financial assumptions as in the formal valuation.

The main long term financial assumptions used in the valuation and review were:

	% Per annum
Investment return	9.5
Equity dividend growth	5.0
Pension increases	4.5
General salary increases	7.0
General price inflation	5.0

The pension cost of £28m (£34m) reflects the regular contribution rate less an amount in respect of the surplus being recognised over the expected remaining service lives of the members of the fund in accordance with SSAP 24 on accounting for pension costs. Contributions of £41m (£39m) were made to the fund in 1995 and a provision of £44m (£57m) has been included in the balance sheet (see note 36). Formal actuarial valuations of the assets and liabilities of the scheme to determine its financial position are carried out on a triennial basis and, in addition, there is an annual review by the appointed actuary. The results of these reviews are included in the accounts. The next formal valuation will be made not later than 31 March 1996.

The Associated Bodies Pension Fund, which covers 1% of the Group's UK employees, is similarly constituted. An actuarial review was conducted as at 31 March 1993 which revealed a modest excess of assets over liabilities.

The First National Finance Corporation Pension and Life Assurance Plan covers the employees of First National Finance Corporation plc amounting to 6% of the Group's employees and is also a funded defined benefits scheme. The latest actuarial valuation was made as at 1 May 1993 and disclosed a funding level of 111%.

The Scottish Mutual Assurance plc Staff Pension Scheme covers the employees of Scottish Mutual Assurance plc and Abbey National Life plc amounting to 8% of the Group's employees and is also a funded defined benefits scheme. The latest actuarial valuation was made as at 31 December 1994 and disclosed a funding level of 122%. It is estimated that the surplus will be removed by 30 June 2001.

Group Financial Summary - Profit and Loss Accounts

	New Format 1995 £m	1994 £m	1993 £m	1992 £m	1992 £m	1991 £m
Net interest income	**1,584**	1,394	1,338	1,265	1,246	1,143
Other income and charges	**399**	365	376	319	335	265
Operating expenses	**(870)**	(755)	(763)	(706)	(706)	(635)
Provisions for bad and doubtful debts	**(72)**	(74)	(218)	(274)	(274)	(155)
Provisions for contingent liabilities & commitments	**(7)**	–	–	–	–	–
Amounts written off fixed asset investments	**(8)**	2	1	(3)	–	–
Exceptional items:						
Loss on disposal/reorganisation of estate agency business	–	–	(30)	(138)	(138)	–
Sale of unclaimed shares	–	–	–	101	101	–
Profit on ordinary activities before tax	**1,026**	932	704	564	564	618
Tax on profit on ordinary activities	**(344)**	(322)	(314)	(247)	(247)	(204)
Profit on ordinary activities after tax	**682**	610	390	317	317	414
Minority interests - equity	**1**	–	–	–	–	–
Profit attributable to the shareholders of Abbey National plc	**683**	610	390	317	317	414
Transfer to non-distributable reserve	**(59)**	(65)	(32)	(7)	(7)	–
Dividends - ordinary and preference shares	**(290)**	(233)	(184)	(151)	(151)	(138)
Retained profit for the year	**334**	312	174	159	159	276
Profit on ordinary activities before tax and exceptional items includes for:						
operations acquired in the year	**9**	22	–	30	30	–
operations discontinued in 1995 (with prior year comparative)	**(8)**	(9)	–	–	–	–
operations discontinued in 1993 (with prior year comparative)	–	–	(2)	(20)	(20)	–
Earnings per ordinary share	**51.7p**	46.5p	29.7p	24.2p	24.2p	31.6p
Dividends per ordinary share (pence)						
Net	**21.75p**	17.75p	14.0p	11.5p	11.5p	10.5p
Gross equivalent	**27.19p**	22.19p	17.5p	14.7p	14.7p	14.0p
Dividend cover (times)	**2.4**	2.6	2.1	2.1	2.1	3.0

The Group financial summary is based on the audited consolidated financial statements of the Abbey National Group for the five years ended 31 December 1995, and has been derived from the consolidated financial statements for each of the relevant years after making certain reclassifications as described on page 81.

In addition, the Group financial summary reflects certain presentational changes which are described in notes 21, 30 and 34 to the accounts.

The calculation of the gross equivalent dividend per ordinary share applies a tax rate of 25% for grossing-up purposes for dividends up to and including the interim dividend for 1992. Thereafter the rate of 20% has been applied.

Group Financial Summary - Balance Sheets

	New Format 1995 £m	1994 £m	1993 £m	1992 £m	1992 £m	1991 £m
Assets						
Cash, treasury bills and other eligible bills	**391**	598	757	497	497	857
Loans and advances to banks	**3,579**	2,906	3,556	2,276	2,158	2,121
Loans and advances to customers	**51,090**	48,484	45,049	42,061	42,061	38,892
Net investment in finance leases	**2,844**	2,278	2,253	1,737	1,781	789
Securities and investments	**35,297**	32,374	25,312	19,998	19,887	13,338
Long term assurance business	**425**	352	287	215	215	-
Tangible fixed assets	**585**	534	509	518	518	489
Other assets	**3,403**	2,701	2,208	2,105	1,879	919
Assets of long term assurance funds	**5,518**	4,230	3,871	2,816	2,816	-
Total assets	**103,132**	94,457	83,802	72,223	71,812	57,405
Liabilities						
Deposits by banks	**19,393**	17,826	16,368	13,103	13,029	7,450
Customer accounts	**40,962**	38,056	36,143	34,348	34,348	33,052
Debt securities in issue	**26,095**	23,852	19,030	14,929	14,929	10,983
Other liabilities	**5,096**	5,269	4,136	3,195	2,858	2,561
Subordinated liabilities including convertible debt	**2,127**	1,520	868	648	648	388
Liabilities of long term assurance funds	**5,518**	4,230	3,871	2,816	2,816	-
	99,191	90,753	80,416	69,039	68,628	54,434
Non-equity shareholders' funds	**101**	-	-	-	-	-
Equity shareholders' funds	**3,840**	3,704	3,386	3,184	3,184	2,971
Total liabilities	**103,132**	94,457	83,802	72,223	71,812	57,405

The Group financial summary for the years 1992 to 1995 is shown in a format which fully reflects the changes resulting from the implementation of the Companies Act 1985 (Bank Accounts) Regulations 1991 ('the Regulations'), which reflect the requirements of the EC Bank Accounts Directive and which were first effective for the 1993 accounts. The Group financial summary contains a summarised presentation of the main statements, while the complete format required by the Regulations is provided in the accounts. The Group financial summary before 1992 has not been fully restated for the new format.

The implementation of the requirements of the Regulations resulted in comprehensive changes to the formats of the accounts and also resulted in the presentation of various assets and liabilities as gross amounts which were previously shown net. The directors have decided that the benefits which would be derived from making a full restatement of the accounts for 1991 would not justify the cost of such an exercise. In order to facilitate comparison over the five year period, however, the balance sheet as at 31 December 1991 has been presented in the new format, but it has not been adjusted for the presentation of certain other assets and liabilities as gross amounts, as required by the Regulations and the British Bankers' Association Statement of Recommended Practice (SORP) on Securities.

The balance sheet as at 31 December 1992 is shown both before and after the gross presentation of these assets and liabilities. The effect on the 1992 balance sheet of the changes required by the Regulations was to increase both assets and liabilities by £300m. The implementation of the SORP on Securities resulted in a further increase in both assets and liabilities of £111m in the 1992 balance sheet.

The assets and liabilities of the long term assurance funds as at 31 December 1994 have been restated for a change in accounting presentation under which certain liabilities are now shown gross which were previously shown net. The effect of the change was to increase both the reported assets and liabilities of the long term assurance funds at that date by £138m. The Group financial summary before 1994 has not been restated for this change.

The Annual Report on Form 20-F (Form 20-F), which includes information which is, in certain respects, more detailed than is contained in the Directors' Report and Accounts, is filed with the Securities and Exchange Commission in accordance with US legislation. The Form 20-F is available for public inspection, and a copy may be obtained from Abbey National plc, registered office: Abbey House, Baker Street, London NW1 6XL.

The Form 20-F contains certain additional information which is prepared in accordance with generally accepted accounting principles applicable in the United States (US GAAP) which differ in certain respects from those used in the UK (UK GAAP). Extracts from the Form 20-F are presented in the following pages, including an average balance sheet prepared under UK GAAP and a reconciliation of profit after tax and equity shareholders' funds between US and UK GAAP with a description of the relevant differences.

Throughout this section, references to UK and Non-UK refer to the location of the office where the transaction is recorded.

				Average Balance Sheet					
	1995 Average balance £m	1995 Interest £m	1995 Average rate %	1994 Average balance £m	1994 Interest £m	1994 Average rate %	1993 Average balance £m	1993 Interest £m	1993 Average rate %
Assets									
Treasury bills and other eligible bills									
UK	**246**	**5**	**1.96**	149	5	3.12	426	18	4.15
Non-UK	**7**	**-**	**4.97**	9	–	3.69	1	–	4.99
Loans and advances to banks									
UK	**4,277**	**278**	**6.51**	3,434	167	4.87	2,512	118	4.69
Non-UK	**324**	**24**	**7.25**	73	5	6.44	37	4	9.74
Loans and advances to customers									
UK	**48,658**	**3,888**	**7.99**	45,498	3,533	7.77	43,088	3,456	8.02
Non-UK	**1,344**	**110**	**8.17**	1,346	94	7.01	1,249	109	8.71
Lease receivables									
UK	**2,507**	**177**	**7.05**	2,278	133	5.85	2,047	141	6.90
Non-UK	**30**	**1**	**4.34**	29	2	6.56	29	1	4.12
Debt securities									
UK	**33,600**	**2,320**	**6.90**	27,728	1,590	5.73	21,371	1,312	6.14
Non-UK	**1,351**	**91**	**6.77**	114	4	3.06	1	–	4.90
Total average interest earning assets and interest income	**92,344**	**6,894**	**7.47**	80,658	5,533	6.86	70,761	5,159	7.29
Allowance for loan losses	**(555)**	**-**	**-**	(563)	-	-	(527)	-	-
Non-interest earning assets									
Long term assurance fund assets	**4,625**	**-**	**-**	3,811	-	-	3,247	-	-
Other	**4,796**	**-**	**-**	4,260	-	-	3,829	-	-
Total average assets and interest income	**101,210**	**-**	**-**	88,166	5,533	6.28	77,310	5,159	6.67
Percentage of total - Non-UK	**3.21%**	**-**	**-**	1.84%	–	–	1.70%	–	-
Net interest income	**-**	**1,579**	**-**	-	1,399	-	–	1,331	-
Net interest income allocated to dealing profits	**-**	**5**	**-**	-	(5)	-	–	7	-
Total average interest earning assets and net interest income	**92,344**	**1,584**	**1.71**	80,658	1,394	1.73	70,761	1,338	1.89

Supplementary Financial Information
(continued)

	Average Balance Sheet								
	1995 Average balance £m	1995 Interest £m	1995 Average rate %	1994 Average balance £m	1994 Interest £m	1994 Average rate %	1993 Average balance £m	1993 Interest £m	1993 Average rate %
Liabilities and shareholders' funds									
Deposits by banks									
UK	**19,496**	**1,303**	**6.69**	15,313	840	5.48	13,088	716	5.47
Non-UK	**720**	**46**	**6.40**	973	53	5.41	621	46	7.44
Customer accounts - demand deposits									
UK	**21,725**	**1,038**	**4.78**	21,511	941	4.38	19,960	914	4.58
Non-UK	**116**	**6**	**5.37**	103	5	5.20	–	–	–
Customer accounts - time deposits									
UK	**14,382**	**939**	**6.53**	13,340	844	6.33	13,367	878	6.57
Non-UK	**922**	**63**	**6.78**	721	49	6.74	507	33	6.43
Customer accounts - wholesale time deposits									
UK	**2,486**	**154**	**6.21**	1,830	107	5.83	1,342	91	6.81
Non-UK	**245**	**15**	**5.96**	5	–	5.56	–	–	–
Bond and medium term notes									
UK	**14,317**	**911**	**6.36**	13,315	836	6.28	9,192	659	7.17
Non-UK	**377**	**20**	**5.36**	406	30	7.39	402	42	10.49
Other debt securities in issue									
UK	**7,760**	**533**	**6.86**	4,779	261	5.46	4,743	298	6.28
Non-UK	**2,795**	**171**	**6.13**	2,028	91	4.48	2,398	85	3.53
Dated and undated loan capital and other subordinated liabilities									
UK	**951**	**65**	**6.82**	690	51	7.33	539	50	9.24
Non-UK	**796**	**51**	**6.38**	426	26	6.24	279	16	5.73
Total average interest bearing liabilities and interest expense	**87,088**	**5,315**	**6.10**	75,440	4,134	5.48	66,438	3,828	5.76
Non-interest bearing liabilities									
Long term assurance fund liabilities	**4,625**	–	–	3,811	–	–	3,247	–	–
Other	**5,588**	–	–	5,231	–	–	4,268	–	–
Shareholders' funds	**3,909**	–	–	3,684	–	–	3,357	–	–
Total average liabilities, shareholders' funds and interest expense	**101,210**	–	–	88,166	4,134	4.69	77,310	3,828	4.95
Percentage of total - Non-UK	**6.53%**	–	–	5.45%	–	–	5.44%	–	–
Interest income as a percentage of average interest earning assets			**7.47**			6.86			7.29
Interest expense as a percentage of average interest bearing liabilities			**6.10**			5.48			5.76
Interest spread			**1.37**			1.38			1.53
Net interest margin			**1.71**			1.73			1.89

For the purposes of the average balance sheet, interest income and interest expense have been stated after allocation of interest on instruments entered into for hedging purposes.

Differences between UK GAAP and US GAAP

The significant differences applicable to Abbey National's accounts are summarised below.

Pension costs

UK GAAP

Where pensions are provided by means of a funded defined benefits scheme, annual contributions are based on actuarial advice. The expected cost of providing pensions is recognised on a systematic basis over the expected average remaining service lives of members of the scheme. Variations from regular cost are expressed as a percentage of payroll and spread over the average remaining service lives of current employees.

US GAAP

Under Statement of Financial Accounting Standards (SFAS) No. 87, the same basic actuarial method is used as under UK GAAP, but certain assumptions differ, assets are assessed at fair value and liabilities are assessed at current settlement rates. Certain variations from regular cost are allocated in equal amounts over the average remaining services lives of current employees.

Goodwill

UK GAAP

Goodwill arising on consolidation as a result of the acquisition of subsidiaries and goodwill arising on the purchase of businesses are taken direct to reserves in the year in which they occur. On disposal of a business, the goodwill previously taken to reserves is recognised in the profit and loss account balanced by an equal credit to reserves. Where the directors believe that the purchased goodwill in continuing businesses has suffered a permanent diminution in value, a similar recognition in the profit and loss account and credit to reserves is made.

US GAAP

Goodwill is capitalised and amortised in the consolidated statement of income over the period in which the benefits are estimated to accrue. In Abbey National's case, a period of 20 years has been used. Goodwill is written off when judged to be irrecoverable.

Leasing

UK GAAP

Income from finance leases, including benefits from declining tax rates, is credited to the profit and loss account using the actuarial after tax method to give a constant periodic rate of return on the net cash investment.

US GAAP

Application of SFAS No. 13 gives rise to a level rate of return on the investment in the lease, but without taking into account tax payments and receipts. This results in income being recognised in different periods than under UK GAAP.

Investments in securities

UK GAAP

Securities held for investment purposes are stated at cost adjusted for any amortisation of premium or discount. All securities not held for investment purposes are stated at market value and profits and losses arising from this revaluation are taken to the profit and loss account.

US GAAP

Securities are classified as trading securities, available for sale securities, and held to maturity securities in accordance with SFAS No. 115. Held to maturity securities are accounted for in the same way as securities held for investment purposes under UK GAAP. Trading securities are accounted for in the same way as securities not held for investment purposes under UK GAAP. Available for sale securities are reported at market value, with unrealised gains and losses excluded from earnings, but reported in a separate component of shareholders' equity. Abbey National has complied with SFAS No. 115 as from 1 January 1994. The effect of implementing the standard was to increase the carrying value of securities classified as available for sale on 1 January 1994, as stated under US GAAP, by £783m, before taking into account the impact of certain hedges in place against the securities, and to increase shareholders' equity by the same amount.

Amortisation of losses in internal investment fund

UK GAAP

Where fixed interest investments have been held within an internal investment fund with a planned maturity, profits and losses arising on transactions within the fund have been spread evenly over the period to maturity of the fund.

US GAAP

The profits and losses arising on all securities transactions are dealt with in the profit and loss account in the period in which they arise.

Deferred tax

UK GAAP

Deferred taxation is accounted for only where it is probable that a liability or asset will arise. Provision is calculated at rates expected to be applicable when the liability or asset crystallises.

No deferred tax asset is created in respect of general allowances for lending losses which are not deductible in arriving at UK taxable profits.

US GAAP

Provision for deferred tax under the liability method is required in full for all timing differences, including general allowances for loan losses and tax loss carry forwards.

Deferred tax assets are recognised subject to any adjustment for valuation allowances.

Shareholders' interest in long term assurance policies

UK GAAP

The shareholders' interest in the in-force policies of the long term assurance fund is valued at the net present value of the profits inherent in such policies.

US GAAP

The net present value of inherent profits of long term assurance policies is not recognised by Abbey National in the results prepared under US GAAP.

Loan origination fees

UK GAAP

Loan origination fees are recognised in income in the period in which they are receivable.

US GAAP

Fee income from originating a loan is spread over the life of the loan in accordance with SFAS No. 91.

Dividend payable

UK GAAP

Dividends declared after the period end are recorded in the period to which they relate.

US GAAP

Dividends are recorded in the period in which they are declared.

Current Developments

Abbey National has reviewed SFAS No. 114, 'Accounting for Creditors for Impairment of a loan' and concludes that it has no material effect on the reconciliation of net income and shareholders' equity between UK and US GAAP.

Future Developments

SFAS No. 121, 'Accounting for the impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of', requires that certain long-lived assets and certain identifiable intangible assets be accounted for at fair value whenever events indicate these assets may be impaired, or at the lower of carrying amount or fair value less costs of sale if it is intended to dispose of these assets. Having reviewed SFAS No. 121, which is required to be adopted in 1996, Abbey National considers that it is unlikely to have a material effect on the reconciliation of net income and shareholders' equity between UK and US GAAP.

Abbey National has reviewed SFAS No. 122, 'Accounting for Mortgage Servicing Rights' and considers that it is unlikely to have a material effect on the reconciliation of net income and shareholders' equity between UK and US GAAP.

SFAS No. 123 'Accounting for Stock-Based Compensation', encourages companies to account for equity-based instruments issued under compensation plans at their fair value, measured at the date at which the instruments are granted. The compensation cost, being the difference between the fair value and any cost to the employee must be recognised in the profit and loss account over the vesting period. SFAS No. 123 is required to be adopted for transactions entered into after 15 December 1995. Abbey National is currently reviewing this statement to determine what effect it may have on the reconciliation of net income and shareholders' equity between UK and US GAAP.

Differences between UK and US accounting principles

The following table summarises the significant adjustments to consolidated net income or loss and shareholders' equity which would result from the application of US GAAP instead of UK GAAP.

	1995 £m	1994 £m	1993 £m
Consolidated Net Income of Abbey National plc (UK GAAP)	**682**	610	390
Goodwill	**(15)**	(6)	(4)
Pensions cost	**(13)**	(14)	(12)
Leasing	**(16)**	(7)	(12)
Loan origination fees	**2**	–	–
Shareholders' interest in long term assurance business	**(88)**	(98)	(47)
Amortisation of losses in internal investment fund	**–**	–	15
Deferred tax effect of the above US/UK GAAP adjustments	**38**	40	18
Deferred tax	**1**	–	(3)
Consolidated Net Income of Abbey National plc (US GAAP)	**591**	525	345
per 10 pence ordinary share	**44.9p**	40.0p	26.3p

	1995 £m	1994 £m	1993 £m
Shareholders' funds including non-equity interests (UK GAAP)	**3,941**	3,704	3,386
Goodwill	**403**	138	89
Pensions cost	**(32)**	(19)	(5)
Leasing	**(56)**	(40)	(33)
Loan origination fees	**–**	(2)	(2)
Shareholders' interest in long term assurance business	**(243)**	(155)	(57)
Dividend payable	**191**	158	129
Amortisation of losses in internal investment fund	**–**	–	1
Unrealised surplus on securities available for sale	**705**	24	–
Deferred tax effect of the above US/UK GAAP adjustments	**(125)**	70	30
Deferred tax	**22**	14	14
Shareholders' funds including non-equity interests (US GAAP)	**4,806**	3,892	3,552