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Abbey National plc

Directors' Report & Accounts

Year ended 31 December 1994

Group Highlights 1994

Pre-tax profit up 32%, from £704 million to £932 million

Cost: Income ratio reduced to 42.9% (1993: 44.5%)

Total assets up 13% to £94.3 billion, with a tier 1 capital ratio of 9.1% (1993: 9.4%)

Lower effective tax rate of 35% contributed to an increase in earnings per share of 57%

Proposed final net dividend of 12.05 pence, making the full year dividend 17.75 pence, an increase of 27%

ABBEY NATIONAL

Our corporate objectives

To strengthen Abbey National's market position in UK personal financial services

To win and hold competitive advantage through superior customer service

To continue to diversify profit streams away from our traditional mortgage and savings activities

To remain a low cost operator

To maintain strong management of risks

To promote brand strength

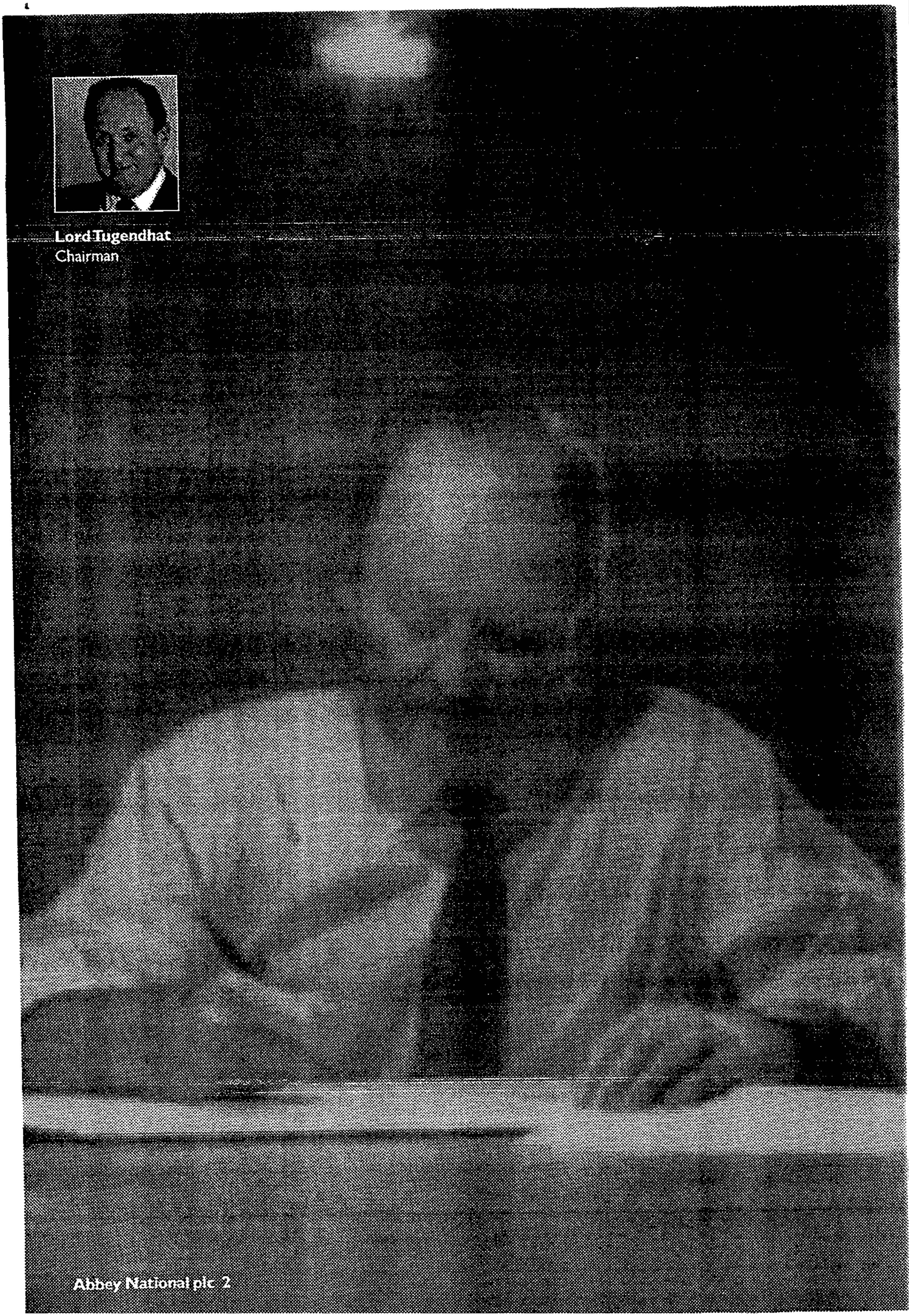
To develop synergies between the three main mutually supporting businesses

Our corporate purpose

is to achieve above average growth in shareholder value over the long term. This can only be achieved if we meet the needs of our customers, our staff and all of the other stakeholders in our business.

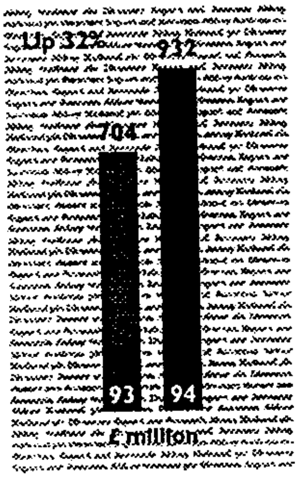
Our dividend policy

is to provide shareholders with year on year increases in dividends, with earnings covering dividends by between two and three times in each year.



Lord Tugendhat
Chairman

Chairman's Statement

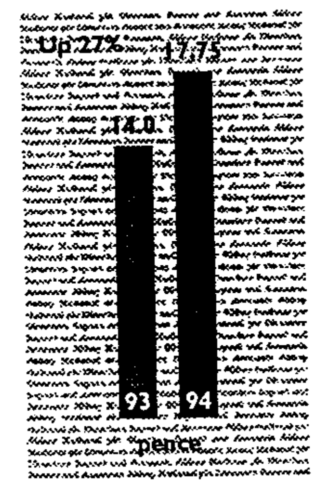


Profit before tax

For Abbey National, 1994 was a year in which good progress was made - both in terms of our financial results, and in terms of achieving strategic objectives. Our pre-tax profit rose by 32% from £704 million in 1993 to £932 million in 1994, and as a result the Board is proposing an increase in the full year net dividend of 27%, to 17.75p per share. This continues Abbey National's policy of providing good dividend growth, while retaining sufficient capital in the business to fund expansion, and to support our strong credit rating.

During the year a number of important strategic developments were announced, most notably:

- in February we acquired the UK residential mortgage operation of the Canadian Imperial Bank of Commerce (CIBC);
- we established a joint venture with Commercial Union plc in August, to provide our general insurance products;
- in October Abbey National plc was registered with the Securities and Exchange Commission in the United States, giving us wider access to the United States' capital markets at lower cost;
- in November we acquired HMC Group PLC (HMC), one of the UK's largest centralised mortgage lenders;
- also in November we acquired a minority shareholding in Irish Permanent plc - an organisation similar to our own, operating in an European economy of long term interest to us.



Dividend per share

By the end of 1994 our assets had reached £94.3 billion, an increase of 13%.

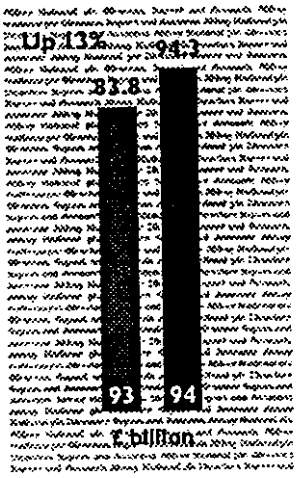
1994 was a year of change in the financial services sector. New requirements for product and commission disclosure on life assurance and pensions products came into force at the start of 1995. Both consumers and regulators are now demanding higher standards and clearer information from financial providers.

There have also been further moves towards rationalisation of the building society sector. News of Lloyds Bank's plan to acquire the Cheltenham and Gloucester Building Society was followed by the announcement that the Halifax Building Society intends to merge with the Leeds Permanent Building Society and then convert to a public limited company. Conversion to plc status was a step we took over five years ago, and one which we believe was right for Abbey National.

In the five years since conversion Abbey National has diversified and expanded its business - making good use of the benefits of plc status. We have added to our retail activities with the establishment of successful treasury and life assurance businesses which are now providing us with diversified sources of income. As capital markets expertise is increasingly necessary in the development of retail products, and as life assurance and pensions products become an important supplement to state support, we believe that Abbey National's unique mix of businesses means that we are well placed to prosper in the changing financial services industry.

Chairman's Statement

Continued



Total assets

Nonetheless, strengthening our position in our traditional markets continues to be a key strategic objective. Our aim is to win and hold competitive advantage by providing superior customer service. During 1994 market shares of both UK liquid savings and UK mortgages were increased - in the case of our savings business it was our strongest performance in this market for ten years. Our mortgage market share was helped by the acquisitions of HMC and of CIBC's UK residential mortgage operation. The acquisition of HMC will strengthen our position as one of the leading providers of mortgages in the UK, by giving us greater access to alternative distribution through introducers.

Within the retail businesses we have continued to develop our use of new distribution channels, in particular through the expansion of our telephone operations. Abbey National Direct has been marketing mortgages by telephone since 1989, and took more than one third of the market for mortgages supplied by telephone. Also in 1994 our sales of unsecured personal loans by telephone reached an all-time high. In November we announced plans to open a new Abbey National Direct office at our premises in St Vincent Street, Glasgow. This new centre will offer telephone customers a convenient way to arrange life assurance and will add to our capacity to sell unsecured personal loans over the telephone. 1994 also saw the Financial Planning Service fully implemented within the Abbey National branch network.

"By 1997 around 40% of profits should be generated from sources other than our traditional mortgage and savings activities"

At the time of conversion we set ourselves the target of developing to around 25% the proportion of our earnings stream which is generated from sources other than our traditional mortgage and savings activities. It is now our intention that by 1997 around 40% of our profits should be derived from these areas. Our treasury and life assurance businesses already contribute 24% of the Group's pre-tax profit. We are continuing to build on the success of our current account product - in 1994 we substantially reduced our interest rates for agreed overdrafts, and in the year ahead we will implement further improvements and also expand the range of services available to current account customers by telephone. In 1995 we will launch a range of PEP products, and our new joint venture with Commercial Union - on target to commence operations in mid 1995 - will enable us to offer an expanded range of general insurance products. In Europe the outlook is much improved with losses substantially reduced. We have refocused our Spanish business, and have opened eleven new branches in Madrid.

We are increasing the sales of Abbey National Life policies to our 10 million plus customers. In January 1995 the Scottish Mutual Assurance plc product range was expanded with the acquisition of Pegasus Assurance Group, adding healthcare and critical illness assurance lines. We have also extended Abbey National Independent Financial Advisers Ltd., our independent advice subsidiary, with three acquisitions - establishing it as one of the leading advisers in the employee benefits market.

There has been substantial tightening of the regulatory framework within which many of our businesses operate. We welcome this. We have set out to be a responsible adviser on personal financial matters - historically we have not been heavily involved in pensions transfers and opt-outs, and we believe our potential exposure with regard to any pensions mis-selling is not material.

Chairman's Statement

Continued

Our good reputation with customers reflects considerable investment in staff training. Our policy is to pay staff by salary rather than commission, and we believe that this gives customers confidence in Abbey National as a financial services provider. We have already implemented the Securities and Investments Board's new rules on product and commission disclosure for life assurance and pension products. It is our intention to be among the lowest cost providers of pension and life assurance products - indeed the disclosed costs of Abbey National Life products compare favourably with those of our competitors. In time, greater transparency will mean that our life assurance customers will be able to see that our low cost base is of direct benefit to them.

"We intend to maintain and improve our cost efficiency advantages"

We intend to maintain and improve our cost efficiency advantages. A target has been set to reduce the cost:income ratio from 44.5% in 1993 to 40% in 1997, and good progress towards meeting our target was made in 1994. In addition, strong management of risk underpins all of our activities - our comparatively high asset quality stood us in good stead during the recession of the early 1990's.

We will continue to develop further synergies between our three mutually reinforcing businesses - Treasury, Insurance and Retail Banking. Treasury's influence in the development of retail savings products has been demonstrated by the success in 1994 of our Triple Growth Bond - a fixed income savings product with automatic increases in income linked to base rate rises - and in our fixed rate mortgage products. Our retail business has also benefited from Treasury's refinancing of the HMC and CIBC acquisitions at low cost.

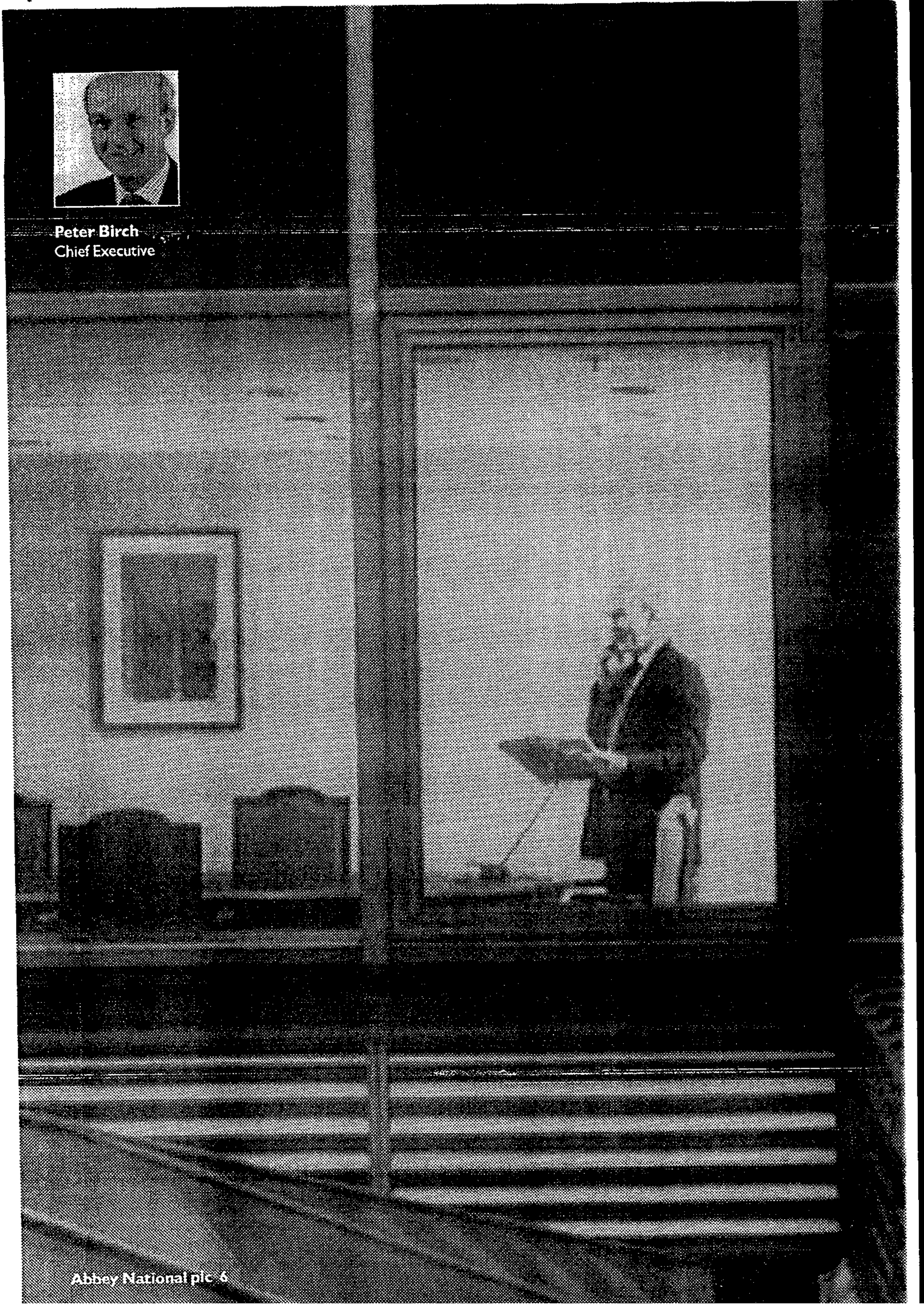
The achievements of 1994 would not have been possible without the commitment of our staff, and I am pleased that we have been able to recognise their hard work throughout the year with a profit share payment of 10%.

"The 27% dividend increase proposed for 1994, and our belief that we can sustain strong dividend growth in the future, indicates our continued confidence in Abbey National's growth prospects"

Other events during 1994 include the appointment of Dr Peter Ogden to the Board as a non-executive director. Dr Ogden brings with him valuable commercial and entrepreneurial skills combined with experience in the capital markets. Martin Llowarch became Deputy Chairman following Peter Davis' retirement and John Fry was also appointed a Deputy Chairman on 1 January 1995, while retaining his existing responsibilities for life and general insurance.

By the end of 1994 Abbey National's share price had increased by more than threefold since conversion, making it the fourth best performer in the FTSE 100 over the period. This shows Abbey National creating wealth for its 2.5 million shareholders - 2 million of whom are also customers. The 27% dividend increase that the Board has proposed for 1994, and our belief that we can sustain strong dividend growth in the future, indicate our continued confidence in Abbey National's growth prospects. We want to create an outstanding financial services company, and to measure all decisions against our stated purpose - which is to create above average growth in shareholder value.

Lord Tugendhat
Chairman



Peter Birch
Chief Executive

Chief Executive's Review

OVERVIEW AND FUTURE PROSPECTS

Abbey National achieved a substantial increase in profit in 1994, marking an end to the high provisions of the early 1990's and reflecting some of the benefits accruing from Abbey National's strategic development since its conversion to plc status. Profit before tax increased by 32%, from £704 million to £932 million, principally reflecting a strong performance by UK Retail Banking, continued growth in Life Assurance Operations and a sharp improvement in the result for Continental Europe and Offshore operations. If the reduction in provisions is excluded, profit before tax increased by 6%. With the effective tax rate reduced to 35%, profit after tax and earnings per share increased by 57%, to £610 million and 46.5 pence respectively.

Cost: income ratio

Increased pre-provisions profitability reflects both income growth and improved cost-efficiency, particularly in the UK Retail Banking business. The Group cost: income ratio was reduced from 44.5% to 42.9%, representing a big step towards attainment of the 40% target ratio by 1997.

The UK Retail Banking business achieved growth in both mortgage assets and retail liabilities well above industry levels: an estimated 10.7% share of the increase in UK liquid savings represents Abbey National's strongest performance in this market for ten years, while acquisitions contributed to an 18.0% market share of the increase in UK mortgages outstanding. We have also demonstrated our ability and desire to manage the balance between market shares and margins, by maintaining the UK retail net interest spread at a similar level to that in 1993.

Both of our life assurance companies (Scottish Mutual Assurance plc and Abbey National Life plc) increased new business levels, contrary to industry trends. They generated pre-tax profit of £94 million, and now contribute a significant proportion of the Group's earnings.

Treasury Operations made a reduced profit, but showed a small increase if the earnings from a number of highly profitable investments, which matured in 1993, are excluded. Treasury continues to provide a good return on equity, despite adverse market conditions in 1994. In addition, UK Retail Banking continues to benefit from the funding flexibility and risk management expertise provided by Treasury Operations.

"We are building new income streams, developing existing ones, and improving cost-efficiency. These factors provide Abbey National with a healthy outlook for 1995"

The Continental Europe and Offshore operations are developing closer links with Treasury Operations in recognition of the potential synergies available in the European capital markets. Lower loan provisions charges resulted in considerably reduced losses in the Continental European operations in 1994.

In a low inflation environment, we do not anticipate rapid growth in the lending markets in which we operate during 1995. However, the provision of financial services in the UK is undergoing considerable change and upheaval, particularly in those areas previously dominated by the mutual building societies and life assurance companies. We believe that the strategic development of Abbey National since conversion to plc status means that it will continue to be one of the beneficiaries of these changes. As the Chairman has outlined in his statement, we are building new income streams and developing existing

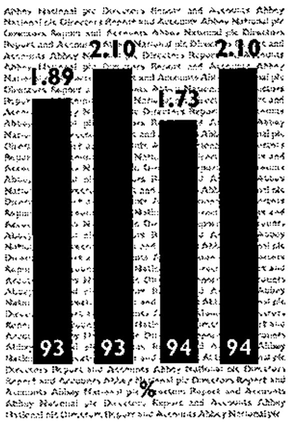
Chief Executive's Review
Continued

ones, while at the same time continuing to make progress towards our cost:income ratio target. These factors, together with an expected gradual improvement in housing market sentiment, provide Abbey National with a healthy outlook for 1995.

ANALYSIS OF PROFIT

Net interest income

1994	1993
£1,394m	£1,338m

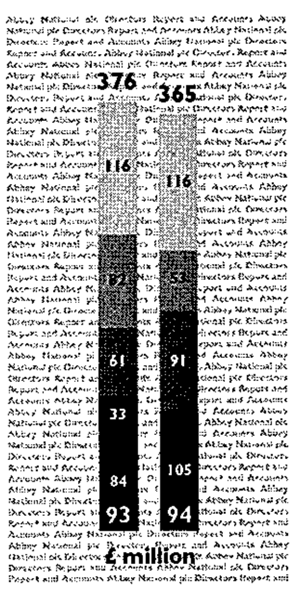


■ Group net interest margin
■ UK retail net interest spread

Net interest income increased by 4% in 1994, with 14% growth in average interest earning assets being partially offset by a lower Group net interest margin. The strong growth in assets reflects expansion of both the Treasury Operations investment portfolio and of mortgage assets in the UK Retail Banking business. The reduced Group margin resulted from a further increase in the proportion of treasury assets within the Group balance sheet, the spreads on which are generally narrower than on UK retail assets, and a tightening of the spread earned on treasury assets. The spread earned on UK retail assets remained unchanged from the average in 1993, although both this spread and the Group margin increased between the first half and the second half of 1994.

Commissions, fees and other income

1994	1993
£365m	£376m



■ Insurance commissions
■ Other net fees and commissions
■ Long term assurance income
■ Residential estate agency
■ Other income

In total, commissions, fees and other income decreased by 3%. If income from the residential estate agency business, sold in 1993, is excluded from the comparative figure, then commissions, fees and other income increased by 6%.

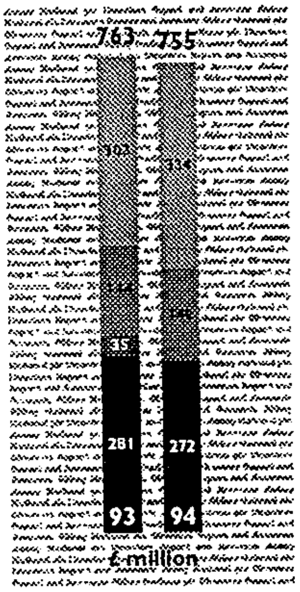
Insurance commissions were unchanged, with increased income from buildings and contents policies offset by reductions in other areas. Other net fees and commissions were £29 million lower in 1994, partly due to a reduction in fixed-rate mortgage administration fees, as customer preference switched away from fixed-rate to variable-rate mortgages during the year. The reduced income in this category also reflects increased commissions payable by Treasury Operations, a factor more than offset by increased income earned by Treasury through Abbey National Baring Derivatives (ANBD). This higher Treasury income is reflected in the £21 million increase in the other income category. Income from long term assurance business increased by almost 50%, with both Scottish Mutual Assurance and Abbey National Life contributing to the increase.

The Securities and Investments Board (SIB) has issued detailed guidance for the review of business involving transfers from occupational to personal pension schemes and opting-out of or not joining occupational pension schemes. The Group is in the process of carrying out a review of any potential exposures. In view of the uncertainty regarding this

Chief Executive's Review

Continued

carrying out a review of any potential exposures. In view of the uncertainty regarding this issue, estimated provisions in respect of possible compensation to customers have been made where considered appropriate. The charge for such provisions in 1994 was £5 million, adding to the £1 million provision made in 1993.



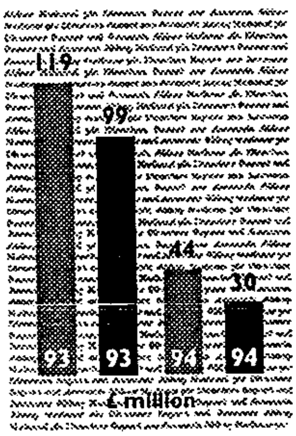
Staff costs
Premises and equipment
Residential estate agency
Other costs

Operating expenses

1994	1993
£755m	£763m

Total operating expenses were 1% lower than in 1993. With total income increasing by 3%, this resulted in the cost:income ratio falling to 42.9% from 44.5% in 1993.

If the costs of the residential estate agency business are excluded from the comparative figure, operating expenses increased by 4%. Staff costs increased by 10%, principally reflecting 3% growth in average salaries and a 4% increase in the average number of full-time equivalent employees (excluding Life Assurance Operations staff, whose salary costs are reflected in long term assurance income). Staff costs included a 10% profit share payment to employees (1993: 10%). The growth in average staff numbers reflects headcount increases during 1993, with staffing broadly unchanged in 1994 - if the additional employees acquired with HMC, CIBC's UK mortgage operation and GM Benefit Consulting Group Ltd are excluded. Premises and equipment costs rose by £5 million due to higher depreciation and associated costs arising from capital expenditure in 1993 and 1994 on information technology and branch network enhancements. Other costs were £9 million lower, principally due to reduced marketing expenditure.



UK provisions
Continental Europe & Offshore provisions

Provisions for bad and doubtful debts

1994	1993
£74m	£218m

Provisions for bad and doubtful debts fell substantially in 1994. In the UK, reduced mortgage arrears and repossessions, helped by lower average interest rates, have led to the provisions charge falling by almost two thirds to £44 million. This charge includes a reduction in general provisions of £18 million, reflecting reduced uncertainty over settlement of mortgage indemnity claims by insurance companies. This follows a similar general provision release in 1993, with specific provisions again being made where claims on certain cases were not met in full by the insurance companies. In the Continental Europe and Offshore operations, management actions to stabilise loan quality and an improved economic environment contributed to a £69 million reduction in provisions charges. This reduction has occurred principally in Abbey National France, where provisioning was highest in 1993. There has been no relaxation of provisioning policy in determining these lower provisions levels.

Chief Executive's Review

Continued

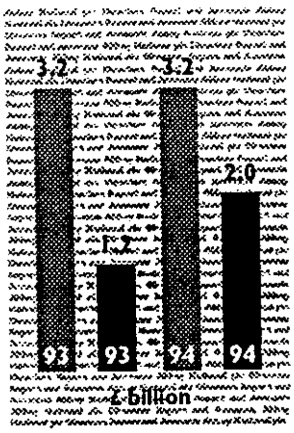
Taxation

	1994	1993
	£322m	£314m

The charge for taxation increased by only 3%, despite the 32% increase in pre-tax profit, reflecting a reduced effective tax rate. In 1993 the effective tax rate was high due to tax relief not then being available for the losses incurred in Continental Europe and to an exceptional cost relating to the disposal of the residential estate agency business, part of which was not allowable for tax offset. In 1994, losses in Continental Europe were substantially reduced and there was no exceptional cost.

REVIEW OF INDIVIDUAL OPERATIONS

UK Retail Banking



Increase in mortgage assets
Increase in retail liabilities

	1994	1993
	£m	£m
Net interest income	1,255	1,190
Commission, fees and other income	193	202
Operating expenses	(663)	(655)
Provisions for bad and doubtful debts	(44)	(119)
Profit before tax	741	618

UK Retail Banking increased its profit before tax by 20% to £741 million. Before provisions, operating profit increased by 7%.

Mortgage assets increased by £3.2 billion in 1994, representing an estimated 18.0% share of the increase in UK mortgages outstanding. Of this increase, £2.4 billion was attributable to the acquisitions of CIBC's UK mortgage operation and HMC, with net lending through Abbey National's distribution channels of £0.8 billion. This latter figure reflects a sharp pick-up in lending in the second half of the year due to the successful promotion of discounted variable rate mortgages, after the tactical decision in the early part of the year not to compete aggressively when margins on fixed rate products available in the market were too fine. As a result, underlying market share (ie excluding acquisitions) increased between the first half and second half of the year to 9.6%.

During 1994 Abbey National was also successful in the liquid saving market, attracting a £2.0 billion net inflow. This represented an estimated market share of 10.7%, outperforming Abbey National's long term average market share of 8.5% (as measured by its share of the liquid savings stock). The improved market share resulted largely from new product developments and a strong service focus in branches, rather than through aggressive price-setting.

Chief Executive's Review

Continued

"Despite the competitive nature of the mortgage market, the net interest spread between lending and funding rates was unchanged"

Net interest income increased by 5%, reflecting the growth in mortgage assets during the year. Despite the competitive nature of the mortgage market, Abbey National has been able to manage the spread between its average lending rates and average funding rates, the spread being unchanged in 1994 at 2.10%. A balance will continue to be sought between the spread earned and the attainment of market shares in both the mortgage and savings markets.

The accounting treatment of the discounted variable rate mortgages, offered for the first time in 1994, is to amortise the net interest cost of the discount over the contractual period during which the borrower must retain the mortgage or repay the discount (normally three years). Cashbacks offered to the borrower in conjunction with these mortgages, being subject to similar contractual obligations, are also amortised over the same period. The discounts and cashbacks have been amortised at the net interest line.

Commissions, fees and other income decreased by 4%. Reduced fixed rate mortgage administration fees were partly offset by increased income from buildings and contents policies and from personal banking products.

"Growth in operating expenses was limited to 1%, with a small underlying reduction in staff numbers"

Growth in operating expenses was limited to 1%, with this growth attributable to the operating costs of CIBC's mortgage operation after it was acquired in February 1994. Other than these particular costs, inflationary increases have been offset by reduced marketing expenditure, and a 1% reduction in headcount over the year.

The provisions charge of £44 million is almost one third of the 1993 charge, with £33 million (1993: £107 million) relating to residential mortgages. There was a 20% reduction since the end of 1993 in the number of mortgages six months or more in arrears, and a 38% reduction in the stock of repossessed properties (excluding arrears and repossessions on the mortgage loans acquired with CIBC's UK mortgage operation and HMC). The average provision for capital losses and interest arrears for a repossessed property under offer has fallen to £15,700 from £18,800 at December 1993. There was a £1 million recovery of provisions against commercial mortgages, while provisions charges against unsecured loans and overdrafts were slightly lower at £12 million (1993: £13 million). This was despite a 40% increase in unsecured loan assets and a trebling of authorised overdraft balances following promotion of these products in 1994.

Chief Executive's Review

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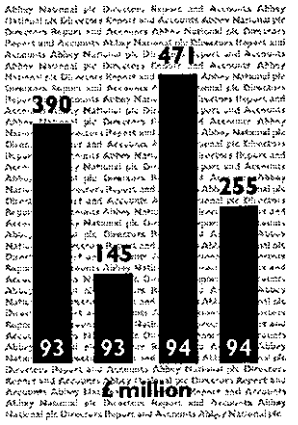

New business premiums
■ Scottish Mutual
■ Abbey National Life

"The growth in Abbey National Life's new business reflected the sale of non mortgage-related investment, pensions and protection products to UK Retail Banking customers"

Life Assurance Operations

	1994	1993
Profit before tax (£m)	94	61

Life Assurance Operations, which comprises both Scottish Mutual Assurance and Abbey National Life, increased profit before tax by 54% to £94 million. As reported at the interim stage, assumptions used in calculating the embedded value of life assurance and pension policies in force have been reviewed and amended to reflect a change in actuarial expectations for the long term economic environment. The amendments had the effect of adding £6 million to the embedded value of the life businesses at 1 January 1994, with a corresponding addition to pre-tax profit in 1994.

Scottish Mutual contributed pre-tax profit of £46 million (1993: £40 million). Its new business premium income increased by 21%, against an industry background of lower demand for life and pension products. The strong performance of Scottish Mutual reflects a combination of good product design and effective links with independent financial advisers. The industry trend towards customer preference for single, rather than annual, premium contracts continued in 1994 and this change in the mix of policies has had an adverse effect on earnings growth.

Abbey National Life made a pre-tax profit of £48 million (1993: £21 million), principally as a result of a 76% increase in new business premiums. The growth in new business reflected in particular the sale of non mortgage-related investment, pensions and protection products to UK Retail Banking customers, with 61% of policies sold falling into these categories. These policies represent the major component of the Abbey National Life product offering. Regular premium mortgage-related sales also increased during the year.

Both Scottish Mutual and Abbey National Life experienced an increase in their operating expenses in 1994. Scottish Mutual incurred additional expenditure in the transition to a single office site in Glasgow, while both companies incurred systems development costs relating to compliance with the new regulatory disclosure rules which came into force in January 1995. Comparison with life companies now complying with these rules indicates that the cost structure of Abbey National Life compares favourably with that of its peers.

The investment performance of the Abbey National Life funds remained strong in 1994. Abbey National Life's fund managers won the 1994 Micropal/Planned Savings award for the top performance over one year of a small unit-linked life fund management in the smaller group category, and were placed third in the equivalent pensions category. The investment performance of Scottish Mutual's funds was also stronger during 1994.

Chief Executive's Review
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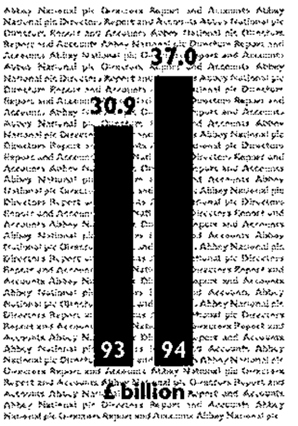
Treasury Operations

	1994	1993
Profit before tax (£m)	128	145



Treasury Operations' total assets.

Treasury Operations' pre-tax profit was 12% lower in 1994, at £128 million, but earnings represented a pre-tax return on equity of 19%. In 1993 a number of highly profitable investments matured - if the profit from these investments is excluded from the 1993 figure, 1994 profit showed a small increase on 1993.

Growth in assets of 20% was slower in 1994 than in previous years. This reflected both competition in the markets in which Treasury Operations invests and Abbey National's previously stated intention to limit the size of the Treasury investment book such that it does not utilise more than 35% of the Group's capital (December 1994: 30%). Increased competition has contributed to a tightening of net interest spreads on investments, but Treasury Operations continues to pursue its policy of investing only in high credit quality assets - the majority remaining AA rated or better. Registration with the SEC in October 1994 has widened the funding markets available to Treasury Operations and this is expected to benefit funding costs and hence the net interest spread in future.

ANBD made a positive contribution to Treasury Operations' profit in its first full year. ANBD is not involved in any way with the losses experienced by Barings plc in the Far East and is continuing to operate normally as a branch of Abbey National Treasury Services plc. An examination of Abbey National's financial relationships with Barings has confirmed that Abbey National's 1994 results are unaffected by Barings plc being placed in administration. The controls over, and risk assumed by, ANBD have always been closely monitored by Abbey National and tight risk control limits have been consistently applied. These tight limits are similar to those operated within Treasury Operations as a whole.

"Registration with the SEC has widened the funding markets available to Treasury Operations and is expected to benefit the net interest margin in future"

Operating expenses increased by £9 million, reflecting the development of new initiatives (such as SEC registration), expenditure on information technology and staff increases, particularly in back office functions. Although the full benefits of these expenditures have not yet flowed through, Treasury Operations' cost: income ratio remains low at 19% (1993: 12%).

Treasury Operations' expertise has been harnessed during the year to enhance the profitability of UK Retail Banking, most notably through its refinancing of HMC and the mortgage assets acquired from CIBC, and the hedging of the successful Triple Growth Bond savings product.

Chief Executive's Review

Continued

Continental Europe and Offshore

	1994	1993
Loss before tax (£m)	(33)	(105)

Continental Europe and Offshore pre-tax loss of £33 million was substantially lower than in 1993 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 £24 million from £92 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. Losses in this operation include the impact of launch costs associated with the opening of eleven new retail banking branches in the Madrid area where this business is now focused. The other operations in Italy, Gibraltar and Jersey, together made a small positive contribution to Group profit.

Other Operations

	1994	1993
Profit before tax (£m)	2	17

"Abbey National Independent Financial Advisers has been established as a leading adviser on employee benefit and pension schemes"

This segment includes Abbey National Independent Financial Advisers (ANIFA, previously named Abbey National Financial Services), Abbey National Homes, J Trevor & Webster (commercial estate agents) and a number of investment companies. The reduced pre-tax profit for this segment reflects two particular factors: firstly, lower earnings in respect of the investment companies in anticipation of counterparties exercising early redemption rights on certain investments; secondly, a write down of £10 million in the value of the goodwill relating to J Trevor & Webster, the commercial estate agency business, to reflect a permanent diminution in its value.

In 1994 and early 1995 ANIFA was extended through the acquisition of three companies, including GM Benefit Consulting Group Ltd. These acquisitions have established ANIFA as a leading adviser on employee benefit and pension schemes.

Chief Executive's Review

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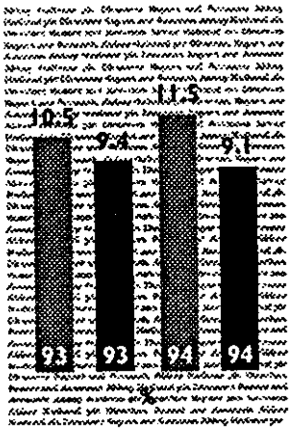


■ Risk asset ratio
■ Tier 1 capital ratio

BALANCE SHEET

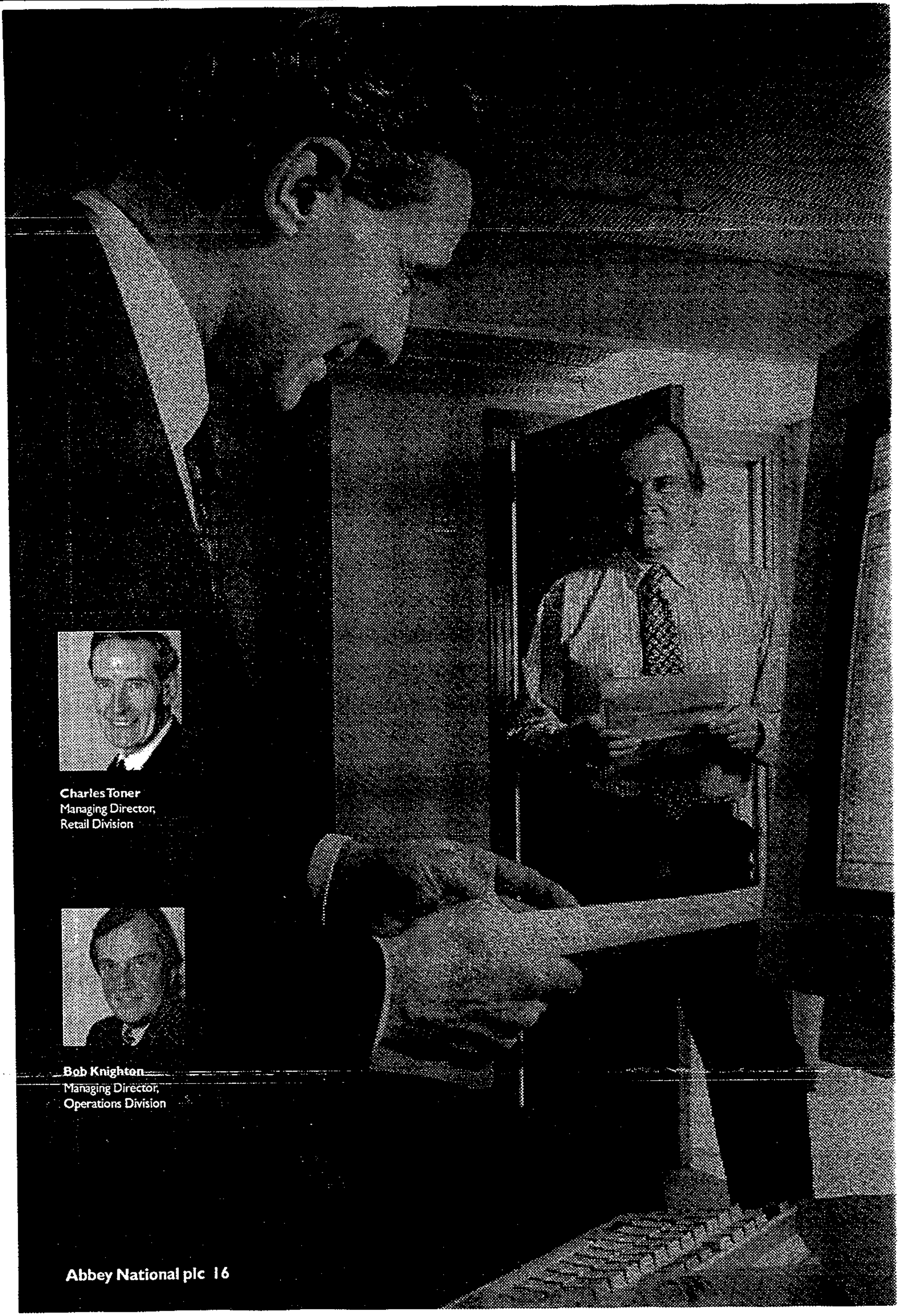
	1994	1993
Total assets (£bn)	94.3	83.8

Total assets increased by 13%, or £10.5 billion in 1994, principally representing growth in Treasury assets of £6.1 billion and in UK mortgage assets of £3.2 billion. Of this growth, £5.8 billion was funded through the wholesale debt markets and £2.0 billion from retail sources. At 31 December, wholesale liabilities represented 53% of total funding. The percentage of UK mortgage assets funded from retail savings fell slightly to 79% (1993: 81%) as a result of acquiring the wholesale funded mortgage operations of CIBC and HMC - if these acquisitions are excluded this percentage increased to 84%.

The Group's tier 1 ratio was reduced to 9.1%, reflecting the growth in assets during the year, the write-off of goodwill on acquisitions and the increased dividend payment proposed for 1994. The risk asset ratio increased to 11.5%, reflecting subordinated debt issues during the year totalling £676 million. These included a $500 million subordinated issue following SEC registration in October. Abbey National remains well-capitalised, 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.

Capital expenditure during the year amounted to £114 million (1993: £101 million). Again the largest element of this spend was on the enhancement of the UK retail branch network: 604 of the 675 branches have now been extended, resited or modernised, with this programme now nearing completion. Investment in the information technology infrastructure has also continued, with cheque account processing, loan credit-scoring and accounting systems among the beneficiaries in 1994.

Peter Birch CBE FCIB
Chief Executive



Charles Toner
Managing Director,
Retail Division

Bob Knighton
Managing Director,
Operations Division

Executive Directors' Review

Charles Toner Managing Director, Retail

The key to success in today's crowded marketplace is effective customer relationship management - in other words maximising the value of our existing relationships with our 10 million plus customers. We must provide the products our customers want, in the way that best suits the individual.

We are rapidly expanding the range of products available to our customers. With the Financial Planning Service now available throughout the Abbey National branch network, we can offer a range of life assurance, investment and pensions products manufactured by Abbey National Life. In 1995 we also plan to launch a range of Abbey National-branded general insurance products.

"Our objective is to balance our various distribution methods, while ensuring that regardless of how the customer approaches us, we offer the same Abbey National values of integrity, value for money and customer service"

We are also adding more distribution channels - our aim is to offer customers a variety of ways of doing business with us. We are expanding our use of the telephone for telemarketing and telebanking, and Abbey National Direct has extended its business to offer the full Abbey National Financial Planning Service.

Our Business Development Units provide a specialised service marketing Abbey National-branded mortgages through introducers, and products such as Sharesave schemes to employers.

Our objective is to balance our various distribution methods, while ensuring that regardless of how the customer approaches us, we offer the same Abbey National values of integrity, value for money and customer service.

Bob Knighton Managing Director, Operations

Excellent customer service is not possible without the backing of equally high levels of process efficiency. As information technology becomes the basis for every product and service we offer, the quality of products and services reflects the quality of the operational systems that lie behind them.

As a result, Operations Division has become increasingly focused on improving the alignment of technology to service. Our point-of-sale mortgage and unsecured loan application systems are a good example of this - by speeding up lending decisions and by improving the quality of our lending, these systems benefit customers and give us improved control over credit risk. Information technology also allows us to improve our cost efficiency: by automating processes, we can make them more reliable and less labour intensive. New best practice guidelines for mortgage centres have delivered further process improvements and also clarified the division of responsibility between branches and mortgage centres.

"Our point-of-sale mortgage and unsecured loan application systems speed up lending decisions and improve the quality of our lending"

In 1994, new technology in our banking centres has led to improvements in service quality. The centres are now networked using voice and computer telephone interfaces. During peak periods, calls are routed nationwide to the first available telephonist. Further developments in 1995 will mean that - with the exception of cash withdrawals - all the services currently available on an ATM will be available by telephone.

Executive Directors' Review

Continued

Ian Harley Finance Director

"The Finance function is more than simply a scorekeeper; it must use information collected to identify how the business can be changed to enhance shareholder value"

Every financial services company processes huge numbers of transactions. At peak times Abbey National's branch network averages 45 transactions per second and our ATM network 16 transactions per second - amounting to vast quantities of data. To manage the company effectively, this data must be turned into useful information from which sound business decisions can be made. The Finance function is more than simply a scorekeeper; it must use this information to identify how the business can be changed to enhance shareholder value. Traditional financial measures of company performance must be supplemented with measures of customer service, future investment, efficiency of delivery and risk.

Information technology has enabled us to make more effective use of the information that our business generates. Mortgage credit scoring and current account behavioural scoring systems use customer information to assess credit risk and improve the quality of our lending. Aided by analysis of costs and incomes by product, customer and distribution channel, information systems enable us to make better pricing decisions.

Analysis of operational data has also helped us to identify where efficiency can be improved, particularly in terms of process design. In 1994 a mortgage best practice project has improved efficiency in our administrative centres, a business process re-engineering exercise was initiated in our life assurance businesses, and a head office review is looking at management structures.

To succeed, the company must meet customers' needs as efficiently as possible, and we can only do this if we continually measure and tune the performance of our businesses.

Gareth Jones Treasurer

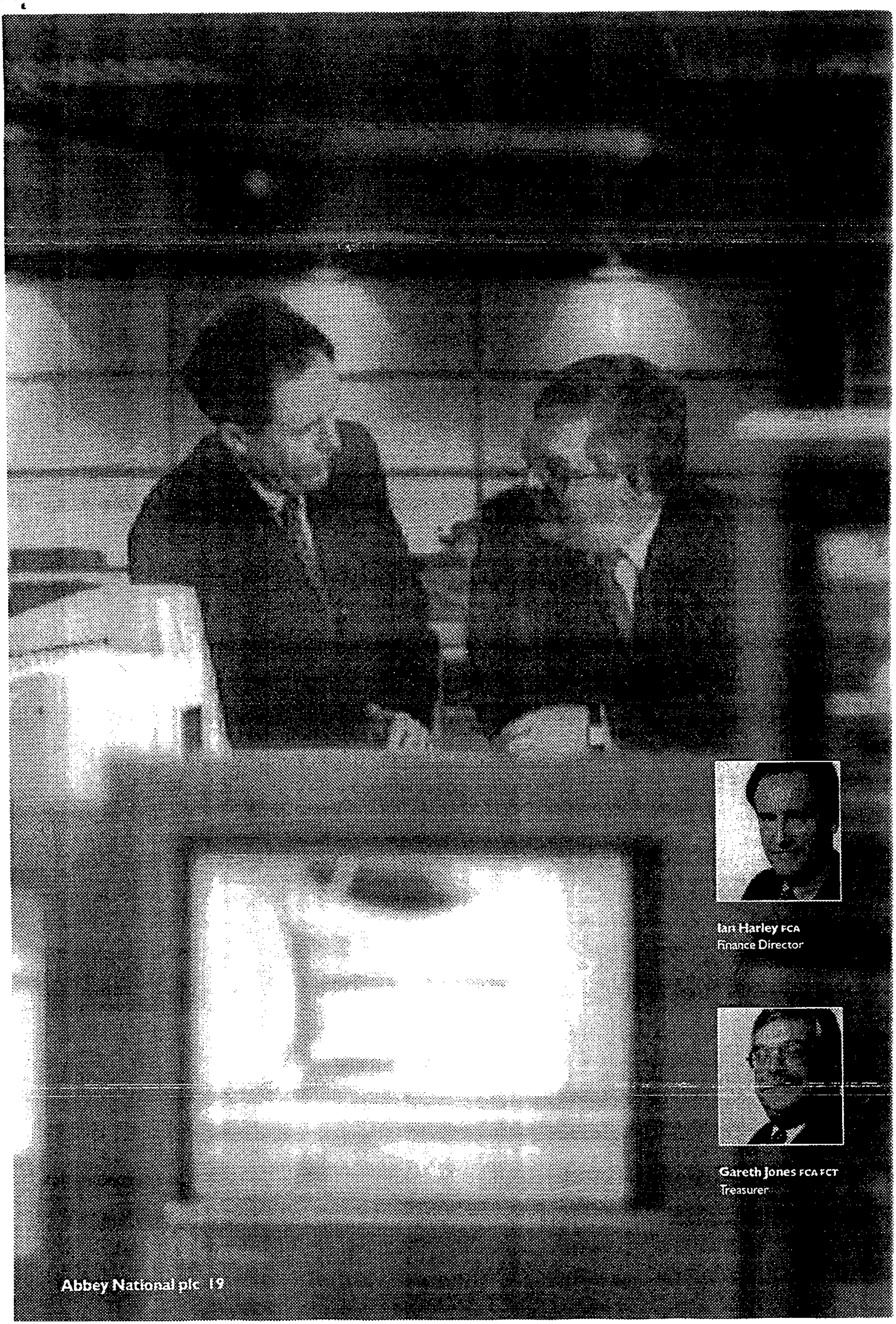
"Treasury has done much to broaden the sources of funding for Abbey National's business, by providing access to funds from outside the UK"

In the five years since conversion Abbey National has become increasingly international. Treasury has done much to broaden the sources of funding for Abbey National's business, by providing access to funds from outside the UK. An important example of this was registration in October with the Securities and Exchange Commission in the United States. SEC registration will reduce funding costs by giving the company access to the wider US markets.

Offshore funding is also provided by Abbey National Treasury International Ltd. in Jersey, through its wholesale and retail activities.

Our European subsidiaries are also beginning to make a positive contribution to Abbey National's international presence, by taking some of the things we do well in the UK to the international markets. We have refocused our European businesses with a relaunch of our retail banking operation in Spain, and a greater focus on liability products in all our overseas operations.

In 1994 we have also seen the benefits of synergies between our UK businesses: in particular, Treasury has used its specialist expertise in risk management to develop retail savings products. This was particularly demonstrated in the design and hedging principles behind our highly successful Triple Growth Bond.



Ian Harley FCA
Finance Director

Gareth Jones FCA FCT
Treasurer

Charles Villiers FCA
Managing Director
Corporate Development

John Fry FCIS FCIB
Deputy Chairman

Executive Directors' Review

Continued

John Fry Deputy Chairman

Abbey National began manufacturing its own life assurance products with the establishment of Abbey National Life in 1993. We wanted the flexibility to meet the needs of our customers with value for money, own-brand products. It is this same philosophy that lies behind the joint venture with Commercial Union which we announced in 1994.

The joint venture will enable us to react more effectively to meet the needs of our general insurance customers, by giving us greater control over the pricing and design of our products. It will also enable us to distribute a range of own-brand products, rather than acting as an intermediary for other companies.

"We believe that greater transparency will show our competitive costs of sale to good advantage"

1994 also brought with it the challenge of new product and commission disclosure requirements for life assurance and pension products. We welcome such disclosure, because we believe it is in everyone's best interests that customers understand the make-up of our products. We also believe that greater transparency will show our competitive costs of sale to good advantage. The re-engineering of our processes to comply with the new regulations has been a valuable exercise in itself. The changes we have made have enabled us to increase our cost efficiency and provide a quicker and better service.

Charles Villiers

Managing Director, Corporate Development

If in 1989 we had foreseen what we were to achieve in the five years ahead, we could reasonably have been satisfied. We have acquired Scottish Mutual and established two new businesses - Abbey National Treasury Services and Abbey National Life - while consistently adding shareholder value.

During 1994 our longer term strategies started coming to fruition, and we are seeing the mutually reinforcing benefits of our core businesses. Abbey National Life products are now available through our branch network, and we are increasingly using our treasury expertise to offer innovative and low risk retail products - such as the Triple Growth Bond, and now our Offshore Guaranteed Growth Bond. During the year, we have also made a number of successful acquisitions, including the purchase of HMC, of CIBC's UK residential mortgage book and of GM Benefit Consulting Group Ltd. The year also saw the launch of a ground-breaking joint venture with Commercial Union to develop general insurance products.

"We converted to plc status because we realised that the financial services market place was changing at an ever-increasing pace, and we have developed our business in order to remain ahead of the changes in our industry"

We converted to plc status because we realised that the financial services market place was changing at an ever-increasing pace, and we have developed our business in order to remain ahead of the changes in our industry. Nonetheless we have always been aware of how quickly shareholder value can be destroyed by ill-judged acquisitions. For this reason, although we have made some mistakes, we have been guided throughout this period by our corporate mission: initially by our 1986 mission statement - 'Excellence and Value in meeting personal financial needs' - and latterly by our vision of being 'the outstanding financial services company in the UK'.

Corporate Governance

Following on from the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance, popularly known as the 'Cadbury Committee', I set out below some of the key building blocks of Abbey National plc's system of internal governance as well as the background to some important changes made in 1994.

The Board comprises a part-time Chairman, seven executive directors and eight non-executive directors. The full Board met on twelve occasions during 1994, including a separate session specifically devoted to the long term strategic direction of the Group. The Board's focus is squarely 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. Risk management in banking is critical and the Board has developed a series of 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. As Abbey National diversifies, a growing responsibility falls on the boards of directors of its subsidiary companies, particularly those in the life assurance and treasury sectors. Each of these boards (Scottish Mutual Assurance plc, Abbey National Life plc, and Abbey National Treasury Services plc) includes at least one independent non-executive director.

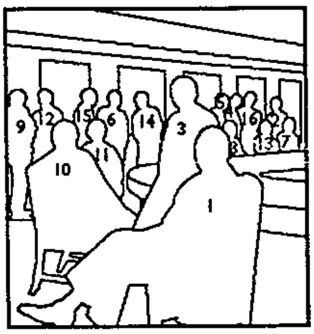
Two standing board committees are maintained both of which operate within written terms of reference with their minutes circulated for review and consideration by the full complement of directors, supplemented by oral reports from the committee chairmen.

The Audit Committee met five times in 1994. 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 yearly 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. The Committee more generally acts as a forum for discussion of internal control issues. It is currently chaired by Allan Denholm, a recent past President of the Institute of Chartered Accountants of Scotland.

The Chairmanship of the Personnel and Remuneration Committee (formerly known as the Personnel Policy Committee) has recently been taken by myself. Previously it was chaired by Lord Tugendhat, who remains a member along with three non-executive directors. The Committee formerly included two executive directors. The Committee's principal function is to monitor the human resources policies of the Group to ensure that they support the business objectives determined by the Board. It is also charged with recommending the remuneration packages for executive directors, though when they were members of the Committee the executive directors concerned were not, of course, present at any discussion relating to their own arrangements. While the Committee makes recommendations, decisions are taken by all the non-executive directors of the Board.

The Board

1 The Lord Tugendhat
2 Mair Barnes
3 Peter Birch
4 Allan Denholm
5 John Fry
6 Ian Harley
7 Sir Terry Heiser
8 Gareth Jones
9 Robert Knighton
10 Martin Llowarch
11 Sara Morrison
12 Peter Ogden
13 The Lord Rockley
14 Charles Toner
15 James Tuckey
16 Charles Villiers



Corporate Governance
Continued

During 1994 the Personnel and Remuneration Committee devoted several sessions to the question of executive remuneration. It had become increasingly apparent that the Group's practices in this area had not kept pace with the growth in size and complexity of Abbey National's business and with the parallel growth in profits and shareholder value. It was felt that senior executive salaries should now more accurately reflect the success that has been achieved since conversion in 1989. Moreover, the financial services field is one in which executives are liable to be tempted to take their talents elsewhere. The Committee therefore felt it right to guard against this danger and to ensure that the Group is in a position to attract individuals of the calibre required to take the business forward.

As a result of these extensive discussions a number of changes were made to the Company's remuneration package for executive directors. Basic salaries were repositioned in June 1994 to reflect the reality of the substantial responsibilities that executive directors shoulder, and the related bonus arrangements were revised with a greater emphasis given to longer term corporate performance. While anxious to ensure that executive directors should be properly rewarded, the Committee was not aiming for the top end of the range but rather to position basic salaries around the median of the comparator group. This includes banks, building societies and insurance companies with which Abbey National competes, and a small number of other companies in a variety of fields with a market capitalisation similar to its own. At the same time it was felt inappropriate for executive directors to remain in the Profit Share scheme which is open to all eligible members of staff. It was also felt inappropriate for Abbey National to continue to issue executive share options at a discount. In addition the opportunity has been taken to place all executive directors on contracts which require the Company to give them twelve months notice to sever their employment contract.

If an executive director is made "redundant" in the 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 his length of service. This arrangement is included in the service contract and is in line with Abbey National's well established practices which apply not just to executive directors but to all members of the executive management group. Abbey National has never provided its directors with "rolling three year" contracts, which are still common among a number of companies, and have come in for considerable criticism from shareholder groups.

More details about executive directors' remuneration will be found in note 8 on page 43 of the accounts.

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 colleagues. Use is made of independent recruitment consultants. 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 extendible upon mutual agreement.

The assets of the company's pensions schemes are held separately from those of the Group. There are six pension trustees including Lord Tugendhat and three other directors of the Company, as well as two employees. The composition of the Board of Trustees is currently being reviewed in the light of the new Pensions Bill going through Parliament. 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 Touche Ross and Co.

Corporate Governance

Continued

The Cadbury Committee Code of Best Practice requires directors to provide shareholders with a series of specific statements relating to particular corporate governance features. That relating to internal control is set out below, while statements pertaining to "going concern", directors' responsibilities, and compliance with the Code of Best Practice, will be found in the Directors' Report on page 26.

Internal control

The Board of directors has overall responsibility for the 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 above:-

• A planning framework which incorporates a Board approved rolling Three Year Plan, with cascading objectives to business unit level, and detailed annual operating objectives and milestones.

• 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 risk reports which track the generation and absorption of capital, 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. Most recently procedures have 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.

Martin Llowarch
Deputy Chairman
1 March 1995

Directors' Report

The directors have pleasure in presenting their report for Abbey National plc for the year ended 31 December 1994.

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 and prospects for 1995, including a review of the non-banking activities, are set out in the Chief Executive's Review on pages 7 to 15 of this document. Note 23 to the accounts on page 57 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 1994 was £932 million (1993: £704 million).

An interim net dividend of 5.70 pence per share was paid on 17 October 1994 (1993: 4.15 pence per share).

The directors propose a final net dividend for the year of 12.05 pence per share (1993: 9.85 pence per share) to be paid on 15 May 1995.

The dividends for the year, both paid and proposed, absorb a total of £233 million leaving profits of £312 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 issued by the Committee on the Financial Aspects of Corporate Governance ("the Code"). The directors have carefully considered these and confirm that Abbey National plc meets, in the light of the Company's particular circumstances, 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 on page 25.

In order to comply with the Code, 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.

The 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 are not inconsistent with the information of which they are aware based on their normal audit work, and provide the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance). 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 adequacy of the Company's financial resources. 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 this year has seen the consolidation of much of the project work started in 1992.

During the year the representation of women and ethnic minorities in management positions has again improved, as has the representation of staff from ethnic minorities in geographical areas with a higher proportion of people from minority populations. A number of local initiatives, across the country, have been established by working closely with local education and training and development agencies. These are giving practical assistance to young people from minority groups.

The take up of the flexible working policies, introduced last year to help staff to accommodate career and family, has been steady 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. A group drawn from all parts of the business has been established to facilitate improvements in the workplace and in Company procedures so that employment of staff with disabilities becomes possible in a far wider range of locations, at the same time as improving access for customers with disabilities. 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.

Abbey National continues to support and contribute to a number of equality forums including Opportunity 2000 and the Employers' Forum on Disability.

A further invitation to employees to participate in the Company's Sharesave scheme was made during the year and further shares were allocated under the Share Participation scheme.

Share capital

The authorised and issued share capital of the Company, including the increase in authorised share capital approved at the last Annual General Meeting, are detailed in note 36 to the accounts on page 64.

During the year, 420,206 ordinary shares were issued on the exercise of options under the Sharesave scheme, and 493,213 shares were issued under the terms of the Share Participation scheme, and 172,094 shares were issued under the terms of the Executive Share Option scheme.

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

Directors' Report
Continued

Tangible fixed assets
The movements in tangible fixed assets are set out in note 25 to the accounts on page 59.

Market value of land and buildings
The directors believe, on the basis of a regular valuation review, that the open market value of the Company's and its subsidiaries' land and buildings exceeds the net book value of £274m as disclosed in note 25 to the accounts by approximately £2m.

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 £1,060,000. This comprised cash donations by the Trust and other support given in kind, mainly the value of staff time 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 a donation of £750,000 from Abbey Housing Association Ltd which has increased the Trust's Endowment Fund to £5.75 million. The income from this fund is also available to the Trust and has made possible total cash donations in 1994 of £702,000 to 435 registered charities.

No contributions were made for political purposes.

Directors and directors' interests
Peter Davis resigned as Deputy Chairman and director on 28 April 1994. Douglas Patrick resigned as a director on 31 May 1994.

Peter Ogden was appointed as a non-executive director on 27 September 1994. Having been appointed since the last Annual General Meeting he will retire and, being eligible, offers himself for election at the Annual General Meeting.

All other directors listed on pages 30 and 31 have served on the Board for the whole of the period 1 January 1994 to 31 December 1994. Mair Barnes, John Fry, Sir Terry Heiser, Martin Llowarch and Lord Tugendhat will retire by rotation at the Annual General Meeting and, all being eligible, offer themselves for re-election.

The Lord Tugendhat has a service contract with the Company which is renewable on an annual basis at the first Board Meeting in each year following the Annual General Meeting. John Fry has a service contract with the Company which is terminable upon twelve months notice by Abbey National. None of the other directors seeking election or re-election has 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 30 and 31 of this document.

Directors' interests in the shares of the Company and options to acquire shares are set out in note 8 to the accounts on page 45.

Directors' Report
Continued

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 1994.

Substantial shareholdings

No interest in 3% or more of the issued share capital has been notified to the Company.

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 1995".

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
1 March 1995

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 Chairman of the Royal Institute of International Affairs (Chatham House) and a non-executive director of the BOC Group plc, and of Eurotunnel plc.

Formerly a Member of Parliament, he was a member of the European Commission (1977-1981) and thereafter a Vice-President of the Commission of the European Communities (1981-1985). He was previously Chairman of the Civil Aviation Authority and a Deputy Chairman of National Westminster Bank. Aged 58.

Mair Barnes ‡
Appointed to the Board in 1992. She is Executive Chairman of Oceanhaven Ltd, the parent company of Dollond & Aitchison and a non-executive director of Hedgecote Ltd which trades as Foster Menswear. From 1987 until February 1994 she was Managing Director of Woolworths plc. Aged 50.

Peter Birch CBE FCIB †
Chief Executive
He joined Abbey National as Chief Executive in 1984. He is a non-executive director of Argos plc and Dalgety PLC. Aged 57.

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 a past President of the Institute of Chartered Accountants of Scotland. Aged 58.

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 Deputy Chairman on 1 January 1995. Aged 58.

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 44.

Sir Terry Heiser GCB •
Appointed to the Board in 1992 and is currently a non-executive director of J Sainsbury plc, Wessex Water plc, and Smith New Court 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 62.

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. He is also responsible for European Operations. Aged 46.

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 48.

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 Johnson & Firth Brown plc and a non-executive director of Hickson International plc. His past appointments include director and Chief Executive of British Steel plc. Aged 59.

Sara Morrison
Formerly a non-executive director from 1979 to 1986, she rejoined the Board in 1987. She is a director of the General Electric Company plc and a non-executive director of Carlton Television Holdings Limited and Kleinwort Charter Investment Trust plc. Aged 60.

Peter Ogden
Appointed to the Board in September 1994. He is Chairman of Computacenter Limited, a director of MC & Cie Limited, an investment bank. He was previously a non-executive of Anglo & Overseas Trust PLC, and a Managing Director of Morgan Stanley & Co. Aged 47.

The Board

Continued

The Lord Rockley •

Joined the Board in 1990. He is Chairman of 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 60.

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 53.

James Tuckey FRICS ‡

Appointed to the Board in 1990. He is currently Chief Executive of MEPC plc. Aged 48.

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 54.

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

Board Meeting	Number of Meetings Attended
The Lord Tugendhat	12
Mair Barnes	11
Peter Birch	12
Allan Denholm	11
John Fry	12
Ian Harley	12
Sir Terry Heiser	12
Gareth Jones	12
Robert Knighton	12
Martin Llowarch	11
Sara Morrison	12
Peter Ogden	3*
The Lord Rockley	11
Charles Toner	12
James Tuckey	12
Charles Villiers	12

Audit Committee	Number of Meetings Attended
Allan Denholm	5
Sir Terry Heiser	5
Martin Llowarch	5
The Lord Rockley	4
Personnel & Remuneration Committee	
Martin Llowarch	4*
The Lord Tugendhat	5
Mair Barnes	4
James Tuckey	5

* This reflects attendance at all meetings held since appointment.

In 1994 there were 12 full Board meetings, 5 Audit Committee meetings and 5 meetings of the Personnel and Remuneration Committee (formerly known as the Personnel Policy Committee).

Peter Davies resigned on 28 April 1994.
Douglas Patrick resigned on 31 May 1994.

† 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.

Auditors' Report

to the Members of Abbey National plc

We have audited the accounts on pages 33 to 71.

Respective responsibilities of directors and auditors

As described on page 29 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 1994 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
1 March 1995

Consolidated Profit and Loss Account

For the year ended 31 December 1994

Notes		1994 £m	1993 £m
	Interest receivable		
2	Interest receivable and similar income arising from debt securities	1,468	1,196
3	Other interest receivable and similar income	3,861	3,778
4	Interest payable	(3,935)	(3,636)
	Net interest income	1,394	1,338
5	Dividend income	42	46
	Fees and commissions receivable	201	244
	Fees and commissions payable	(32)	(13)
	Dealing profits	24	8
6	Other operating income	130	91
	Total operating income	1,759	1,714
7	Administrative expenses	(671)	(679)
	Depreciation and amortisation	(84)	(84)
10	Provisions for bad and doubtful debts	(74)	(218)
	Amounts written off fixed asset investments	2	1
	Profit on ordinary activities before tax and exceptional items	932	734
	Exceptional items		
11	Loss on disposal of residential estate agency business	–	(30)
	Profit on ordinary activities before tax	932	704
12	Tax on profit on ordinary activities	(322)	(314)
13	**Profit on ordinary activities after tax**	610	390
37	Transfer to non-distributable reserve	(65)	(32)
14	Dividends	(233)	(184)
	Profit retained for the financial year	312	174
	Profit on ordinary activities before tax and exceptional items includes:		
	for acquired operations	22	–
	for discontinued operations	–	(2)
15	**Earnings per share**	46.5p	29.7p

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

Consolidated Balance Sheet

At 31 December 1994

Notes		1994 £m	1994 £m	1993 £m	1993 £m
	Assets				
	Cash and balances at central banks		166		168
16	Treasury bills and other eligible bills		432		589
17	Loans and advances to banks		2,906		3,556
18	Loans and advances to customers		48,484		45,049
19	Net investment in finance leases		2,278		2,253
20	Debt securities		32,332		24,789
21	Equity shares and other variable yield securities		42		523
22	Long term assurance business		352		287
25	Tangible fixed assets		534		509
26	Other assets		1,081		1,128
27	Prepayments and accrued income		1,620		1,080
22	Assets of long term assurance funds		4,092		3,871
	Total assets		94,319		83,802
	Liabilities				
28	Deposits by banks		17,826		16,368
29	Customer accounts		38,056		36,143
30	Debt securities in issue		23,413		19,030
	Dividend proposed		158		129
31	Other liabilities		2,528		1,732
33	Accruals and deferred income		2,623		1,979
34	Provisions for liabilities and charges		399		296
35	Subordinated liabilities		1,520		868
22	Liabilities of long term assurance funds		4,092		3,871
			90,615		80,416
36	Called up share capital	131		131	
36	Share premium account	840		836	
37	Reserves	104		39	
37	Profit and loss account	2,629		2,380	
	Equity shareholders' funds		3,704		3,386
	Total liabilities		94,319		83,802
	Memorandum items				
	Contingent liabilities				
39	Guarantees and assets pledged as collateral security		836		702
40	Other contingent liabilities		59		96
			895		798
41	Commitments		1,546		784

Approved by the Board on 1 March 1995 and signed on its behalf by:

Lord Tugendhat
Chairman

Peter G Birch
Chief Executive

Ian Harley
Finance Director

Company Balance Sheet

At 31 December 1994

Notes		1994 £m	1994 £m	1993 £m	1993 £m
	Assets				
	Cash and balances at central banks		162		167
17	Loans and advances to banks		510		324
18	Loans and advances to customers		46,487		45,064
20	Debt securities		1,903		1,501
21	Equity shares and other variable yield securities		18		1
23	Shares in Group undertakings		1,722		698
25	Tangible fixed assets		517		497
26	Other assets		205		191
27	Prepayments and accrued income		139		85
	Total assets		51,663		48,528
	Liabilities				
28	Deposits by banks		6,259		5,934
29	Customer accounts		38,803		37,184
30	Debt securities in issue		23		21
	Dividend proposed		158		129
31	Other liabilities		692		637
33	Accruals and deferred income		1,003		820
35	Subordinated liabilities		1,362		695
			48,300		45,420
36	Called up share capital	131		131	
36	Share premium account	840		836	
37	Profit and loss account	2,392		2,141	
	Equity shareholders' funds		3,363		3,108
	Total liabilities		51,663		48,528
	Memorandum items				
	Contingent liabilities				
39	Guarantees and assets pledged as collateral security		47,457		37,050
40	Other contingent liabilities		59		96
			47,516		37,146
41	**Commitments**		170		77

Approved by the Board on 1 March 1995 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 1994

	1994 £m	1993 £m
Profit on ordinary activities after tax	610	390
Translation differences on foreign currency net investment	(7)	(8)
Total recognised gains relating to the year	603	382

Consolidated Cash Flow Statement

For the year ended 31 December 1994

Notes		1994 £m	1993 £m
43a	**Net cash inflow from operating activities**	6,343	5,738
	Returns on investments and servicing of finance		
	Dividends paid	(204)	(156)
	Net cash outflow from returns on investments and servicing of finance	(204)	(156)
	Taxation		
	UK corporation tax paid	(93)	(46)
	Overseas tax paid	(5)	(16)
	Total taxation paid	(98)	(62)
	Investing activities		
	Purchases of investment securities	(35,346)	(22,087)
	Sales and maturities of investment securities	28,849	17,126
	Purchases of tangible fixed assets	(114)	(101)
	Sales of tangible fixed assets	10	19
	Transfers to life assurance funds	–	(40)
	Purchases of subsidiary undertakings	(52)	–
	Sale of subsidiary undertakings	–	1
	Net cash outflow from investing activities	(6,653)	(5,082)
	Net cash inflow/(outflow) before financing	(612)	438
	Financing		
	Issue of ordinary share capital	4	–
	Issue of loan capital	676	220
	Repayments of loan capital	(17)	–
	Net cash inflow from financing	663	220
43c	**Increase in cash and cash equivalents**	51	658

Cash and cash equivalents in this statement are calculated in accordance with the definitions set out in Financial Reporting Standard (FRS) 1.The Group's total liquidity includes not only these cash and cash equivalents but also certain other liquid assets which fall outside the FRS1 definition.

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 and investment subsidiaries and the companies within the HMC group, which, because of commercial considerations, have various accounting reference dates. In addition, WF Company Ltd, which was acquired on 21 December 1994, currently has an accounting reference date other than 31 December. The accounts of these subsidiaries have been consolidated on the basis of interim accounts for the year to 31 December 1994.

In order to reflect the different nature of the Group's and the policyholders' interests in the long term assurance business, the interest attributable to the Group and the assets and liabilities attributable to the policyholders have been classified under separate headings in the balance sheet.

Goodwill

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.

Deferred taxation

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.

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 mortgage accounts 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 commission 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.

Accounting Policies

Continued

Lending related fees 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.

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.

Other financial instruments

Transactions are undertaken in interest rate swaps, cross currency swaps, futures, options, warrants and similar instruments for the purposes of hedging, trading and market making.

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, 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.

Accounting Policies
Continued

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 mortgage assets. These obligations are secured on the mortgage assets and other assets of the subsidiary undertakings.

Where the Group has retained significant benefits and risks relating to the portfolios of mortgage assets, the mortgage 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 present value of profits 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. This is known as the embedded value. In determining the embedded value, assumptions relating to future mortality, persistency and levels of expenses are based on experience of the business concerned. Future profits are discounted at a risk-adjusted discount rate after provision has been made for taxation.

Changes in the embedded value, which are 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 embedded 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 determined by actuarial evaluations in accordance with the terms of the Insurance Companies Act 1982.

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. Differences arising on the translation of opening net assets of overseas subsidiaries are dealt with through 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.

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

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 year ended 31 December 1994. These have been implemented earlier than the date required in the standards. These standards are mandatory for acquisitions and mergers first accounted for in accounting periods commencing on or after 23 December 1994, but early adoption is encouraged.

Notes to the Accounts

1. Segmental analysis

The equity capital of UK Retail Banking and Treasury Operations is managed on a unified basis and earnings thereon are shown within the UK Retail Banking result. Earnings on equity capital in other segments are shown in the result of the relevant segment.

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

	UK Retail Banking £m	Life Assurance Operations £m	Treasury Operations £m	Continental Europe & Offshore £m	Other Operations £m	Estate Agency £m	Group Total £m
1994							
Profit before taxation	**741**	**94**	**128**	**(33)**	**2**	**-**	**932**
Includes for acquired operations	**22**	**-**	**-**	**-**	**-**	**-**	**22**
Total assets	**49,805**	**4,492**	**36,991**	**1,400**	**1,631**	**-**	**94,319**
Net assets	**1,572**	**185**	**986**	**983**	**(22)**	**-**	**3,704**
1993							
Profit before tax and exceptional items	618	61	145	(105)	17	(2)	734
Exceptional items	–	–	–	–	–	(30)	(30)
Profit before taxation	618	61	145	(105)	17	(32)	704
Includes for discontinued operations	–	–	–	–	–	(32)	(32)
Total assets	45,918	4,197	30,851	1,211	1,625	–	83,802
Net assets	2,364	115	878	53	(24)	–	3,386

2. Interest receivable and similar income arising from debt securities

	1994 £m	1993 £m
Income from listed and registered securities	**1,262**	942
Income from unlisted securities	**206**	254
	1,468	1,196

Preference dividends of £6m (1993: £31m) are included in income from unlisted securities after amortisation amounting to nil (£59m).

Notes to the Accounts

Continued

3. Other interest receivable and similar income

	1994 £m	1993 £m
On secured advances	**3,513**	3,424
On other lending	**71**	80
On finance leases	**135**	142
On other assets and investments	**142**	132
	3,861	3,778

Interest due but not received on loans and advances in arrears has not been recognised in interest receivable where collectability is in doubt. 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
Suspended interest				
At 1 January 1994	77	69	4	150
Exchange adjustments	1	2	–	3
Amounts suspended in the period	54	30	1	85
Irrecoverable amounts written off	(69)	(31)	(2)	(102)
At 31 December 1994	63	70	3	136
Including for the Company	41	4	3	48

The value of loans at 31 December 1994 on which interest is suspended is as follows:

Loans and advances to customers	684	254	29	967
Provisions on these loans	(137)	(124)	(26)	(287)

4. Interest payable

	1994 £m	1993 £m
On retail customer accounts	**1,841**	1,813
On other deposits and loans	**2,094**	1,823
	3,935	3,636
Including amounts payable on subordinated liabilities	**80**	66

5. Dividend income

	1994 £m	1993 £m
Income from equity shares and other variable yield securities	**42**	46

Notes to the Accounts

Continued

6. Other operating income

	1994 £m	1993 £m
Income from long term assurance business (see note 22)	91	61
Profits less losses on disposal of investment securities	14	(2)
Rents receivable	4	5
Other	21	27
	130	91

7. Administrative expenses

	1994 £m	1993 £m
Staff costs:		
Wages and salaries	274	268
Social security costs	24	25
Other pension costs	36	29
	334	322
Other administrative expenses	337	357
	671	679
Other administrative expenses include the following items:		
Hire of equipment	7	7
Finance charges in respect of leased assets	2	3
Rent and rates payable	57	57

The charges above exclude those incurred by Life Assurance Operations, which are charged to the revenue account of the long term assurance funds.

Staff costs incurred by Life Assurance Operations are:

	1994 £m	1993 £m
Staff costs:		
Wages and salaries	24	23
Social security costs	2	2
Other pension costs	4	3
	30	28

The auditors' remuneration was £1.5m (1993: £1.3m) for audit services and £2.4m (£1.6m) was payable to the Group auditors for other services. Included in this remuneration is the audit fee for the Company of £0.6m (£0.6m) and for companies within Life Assurance Operations of £0.2m (£0.2m).

Notes to the Accounts
Continued

8. Directors' emoluments and interests

The aggregate emoluments of directors were:

	Salary/fee £	Performance related bonus £	Taxable benefits £	Other £	1994 Total £	1993 Total £
Chairman	228,000	–	14,393	–	242,393	224,246
Chief Executive (and highest paid director)	308,411	92,500	7,369	–	408,280	329,179
Fees and benefits to non-executive directors excluding the Chairman	163,849	–	1,076	–	164,925	175,521
Other directors	1,040,050	353,000	69,303	–	1,462,353	1,220,580
Total emoluments excluding pension contributions	1,740,310	445,500	92,141	–	2,277,951	1,949,526
Pension contributions	–	–	–	302,944	302,944	57,948
Ex-gratia payments to former directors	–	–	–	82,500	82,500	–
Total emoluments	1,740,310	445,500	92,141	385,444	2,663,395	2,007,474
Compensation for loss of office	–	–	–	–	–	249,900
	1,740,310	445,500	92,141	385,444	2,663,395	2,257,374

Fees are paid to non-executive directors including the Chairman. The basic fee for non-executive directors of £17,500 is augmented by £2,500 for service on Board committees. The basic fee was last increased on 1 January 1991. Lord Rockley's fee is paid to Kleinwort Benson Group plc, of which he is Chairman.

Lord Tugendhat's emoluments are comprised 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.

The pension contribution by the Company for the benefit of the Chief Executive, Mr PG Birch, was £63,841.

As explained in the section on Corporate Governance, on page 23, salaries and performance bonuses are considered by the Personnel and Remuneration Committee. Recommendations are then made to the full complement of non-executive directors of the Board.

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 retailers 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 in March 1995 and a three year scheme which covers the period from 1994 to 1996 and may pay out in March 1997. The maximum potential payment, to be shared among the executive directors and other members of the top management team, for both the annual scheme and the three year 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. There would have been no payout under the 1994 scheme unless pre-tax profits had reached a minimum of £766 million (compared with pre-tax profits of £704 million in 1993). The Board pays particular attention to five quantifiable objectives and then modifies that assessment in the light of its view of performance against qualitative objectives, such as customer service and product quality.

8. Directors' emoluments and interests (continued)

The key five objectives are: achievement of a specified level of Group pre-tax profits; achievement of specified cost/income ratios; achievement of specified other income ratios; achievement of a specified risk asset ratio and a specified pre-tax return on equity ratio. Payments to individual directors reflect both corporate and individual performance.

In determining whether or not to make a payment in 1997 under the three year bonus scheme (1994 - 1996), and if so its size, the Board will be guided by a formula which will have two equally weighted components: (i) an assessment of total shareholder returns over the period 1994 to 1996 measured by two sets of indices, the FTSE 100 and some specific sectors of that index, and (ii) progress against the Company's Three Year Plan 1994 - 1996 including a comparison with the performance of competitors not covered by the FTSE.

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.

c. An Executive Share Option scheme and an employee Sharesave scheme both of which have been approved by the shareholders. These schemes include executive directors, and their interests are set out below. Grants of Executive Share Option are made on the recommendation of the Personnel and Remuneration Committee and reflect both corporate and individual performance.

d. Taxable benefits include car expenses, medical expenses plus subsidised mortgage loans.

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.

£	1994	1993
0 - 5,000	1	–
15,001 - 20,000	4	5
20,001 - 25,000	1	2
25,001 - 30,000	2	–
35,001 - 40,000	–	1
50,001 - 55,000	–	1
55,001 - 60,000	1	1
80,001 - 85,000	–	1
90,001 - 95,000	1	1
150,001 - 155,000	–	1
165,001 - 170,000	–	1
170,001 - 175,000	–	1
200,001 - 205,000	–	1
210,001 - 215,000	2	–
220,001 - 225,000	–	1
225,001 - 230,000	1	–
230,001 - 235,000	1	–
235,001 - 240,000	–	1
240,001 - 245,000	2	–
275,001 - 280,000	1	–
325,001 - 330,000	–	1
405,001 - 410,000	1	–

Non-executive directors of long service may receive an ex-gratia pension. No such ex-gratia pensions have been granted this year. Accordingly no charge (nil) to the profit and loss account has been made in respect of them. Pensions paid to former directors of Abbey National plc in 1994, which have been provided for previously, amounted to £157,600 (£155,415). The Board has determined that it will no longer award such pensions to non-executive directors who joined the Board after 31 December 1988.

Notes to the Accounts
Continued

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	11	1,205
Quasi loans	–	–
Credit transactions	–	–
Officers		
Loans	48	4,427
Quasi loans	–	–
Credit transactions	–	–

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

	Shares		Options						
	At 1 January 1994	At 31 December 1994	At 1 January 1994	Granted	At 31 December 1994	Exercise price	Date from which exercisable	Expiry date	Notes
M Barnes	1,000	**1,000**							
PG Birch	111,980	**118,849**							
			8,456		**8,456**	1.49	1.7.97	31.12.97	Sharesave
			1,939		**1,939**	2.32	1.10.98	31.3.99	Sharesave
			1,882		**1,882**	2.39	1.6.99	30.11.99	Sharesave
			194,300		**194,300**	2.702	21.5.94	21.5.01	Executive
			14,134		**14,134**	2.99	5.5.95	5.5.02	Executive
			69,478		**69,478**	2.54	5.5.97	5.5.02	Executive (1)
			25,215		**25,215**	3.69	29.3.96	29.3.03	Executive
			8,404		**8,404**	3.14	29.3.98	29.3.03	Executive (2)
			–	60,897	**60,897**	4.68	11.4.97	10.4.04	Executive
			323,808	60,897	**384,705**				
JA Denholm	1,500	**2,000**							
JM Fry	3,324	**3,324**							
			7,248		**7,248**	1.49	1.7.95	31.12.95	Sharesave
			1,616		**1,616**	2.32	1.10.96	31.3.97	Sharesave
			1,569		**1,569**	2.39	1.6.97	30.11.97	Sharesave
			84,381		**84,381**	2.702	21.5.94	21.5.01	Executive
			108,561		**108,561**	2.99	5.5.95	5.5.02	Executive
			203,375		**203,375**				
I Harley	3,621	**5,253**							
			7,248		**7,248**	1.49	1.7.95	31.12.95	Sharesave
			1,616		**1,616**	2.32	1.10.96	31.3.97	Sharesave
			1,569		**1,569**	2.39	1.6.97	30.11.97	Sharesave
			41,635		**41,635**	2.702	21.5.94	21.5.01	Executive
			12,092		**12,092**	2.99	5.5.95	5.5.02	Executive
			17,908		**17,908**	2.54	5.5.97	5.5.02	Executive (1)
			20,476		**20,476**	3.69	29.3.96	29.3.03	Executive
			6,825		**6,825**	3.14	29.3.98	29.3.03	Executive (2)
			–	23,237	**23,237**	4.68	11.4.97	10.4.04	Executive
			–	7,745	**7,745**	3.98	11.4.99	10.4.04	Executive (3)
			109,369	30,982	**140,351**				

Notes to the Accounts

Continued

8. Directors' emoluments and interests (continued)

	Shares		Options						
	At 1 January 1994	At 31 December 1994	At 1 January 1994	Granted	At 31 December 1994	Exercise price	Date from which exercisable	Expiry date	Notes
Sir Terry Heiser	1,500	**1,500**							
DG Jones	1,000	**2,632**							
			7,248		**7,248**	1.49	1.7.95	31.12.95	Sharesave
			1,616		**1,616**	2.32	1.10.96	31.3.97	Sharesave
			1,569		**1,569**	2.39	1.6.97	30.11.97	Sharesave
			58,290		**58,290**	2.702	21.5.94	21.5.01	Executive
			11,678		**11,678**	2.99	5.5.95	5.5.02	Executive
			23,322		**23,322**	2.54	5.5.97	5.5.02	Executive (1)
			25,575		**25,575**	3.69	29.3.96	29.3.03	Executive
			8,525		**8,525**	3.14	29.3.98	29.3.03	Executive (2)
				24,038	**24,038**	4.68	11.4.97	10.4.04	Executive
				8,012	**8,012**	3.98	11.4.99	10.4.04	Executive (3)
			137,823	32,050	**169,873**				
RF Knighton	1,100	**1,100**							
			8,456		**8,456**	1.49	1.7.97	31.12.97	Sharesave
			74,019		**74,019**	2.702	21.5.94	21.5.01	Executive
			7,746		**7,746**	2.99	5.5.95	5.5.02	Executive
			27,254		**27,254**	2.54	5.5.97	5.5.02	Executive (1)
			22,404		**22,404**	3.69	29.3.96	29.3.03	Executive
			7,468		**7,468**	3.14	29.3.98	29.3.03	Executive (2)
				22,435	**22,435**	4.68	11.4.97	10.4.04	Executive
				7,478	**7,478**	3.98	11.4.99	10.4.04	Executive (3)
			147,347	29,913	**177,260**				
ME Llowarch	1,750	**1,750**							
S Morrison	5,000	**5,000**							
PJ Ogden	–	**4,000**							
The Lord Rockley	5,000	**5,000**							
CG Toner	1,783	**1,832**							
			7,248		**7,248**	1.49	1.7.95	31.12.95	Sharesave
			1,616		**1,616**	2.32	1.10.96	31.3.97	Sharesave
			1,569		**1,569**	2.39	1.6.97	30.11.97	Sharesave
			74,019		**74,019**	2.702	21.5.94	21.5.01	Executive
			7,746		**7,746**	2.99	5.5.95	5.5.02	Executive
			27,254		**27,254**	2.54	5.5.97	5.5.02	Executive (1)
			24,449		**24,449**	3.69	29.3.96	29.3.03	Executive
			8,149		**8,149**	3.14	29.3.98	29.3.03	Executive (2)
				24,038	**24,038**	4.68	11.4.97	10.4.04	Executive
				8,012	**8,012**	3.98	11.4.99	10.4.04	Executive (3)
			152,050	32,050	**184,100**				
JL Tuckey	2,000	**12,000**							
The Lord Tugendhat	10,000	**10,000**							
			7,845		**7,845**	2.39	1.6.97	30.11.97	Sharesave
			7,845		**7,845**				

Notes to the Accounts
Continued

8. Directors' emoluments and interests (continued)

	Shares		Options						
	At 1 January 1994	At 31 December 1994	At 1 January 1994	Granted	At 31 December 1994	Exercise price	Date from which exercisable	Expiry date	Notes
CN Villiers	17,777	**19,409**							
			7,248		**7,248**	1.49	1.7.95	**31.12.95**	Sharesave
			1,616		**1,616**	2.32	1.10.96	**31.3.97**	Sharesave
			1,569		**1,569**	2.39	1.6.97	**30.11.97**	Sharesave
			98,445		**98,445**	2.702	21.5.94	**21.5.01**	Executive
			12,889		**12,889**	2.99	5.5.95	**5.5.02**	Executive
			37,111		**37,111**	2.54	5.5.97	**5.5.02**	Executive (1)
			31,145		**31,145**	3.69	29.3.96	**29.3.03**	Executive
			10,381		**10,381**	3.14	29.3.98	**29.3.03**	Executive (2)
				9,612	**9,612**	4.68	11.4.97	**10.4.04**	Executive
				3,204	**3,204**	3.98	11.4.99	**10.4.04**	Executive (3)
			200,404	12,816	**213,220**				

Notes

1. Parallel standard options were granted over these shares exercisable at £2.99 from 5.5.95 to 5.5.02.
2. Parallel standard options were granted over these shares exercisable at £3.69 from 29.3.96 to 29.3.03.
3. Parallel standard options were granted over these shares exercisable at £4.68 from 11.4.97 to 10.4.04.

The option holder may exercise either option, thereby reducing both options, subject to the achievement of the performance criteria.

The options refer to those granted under the Company's Executive and Sharesave schemes, as set out in note 36. Shares and options shown under the headings 'At 1 January 1994' refer to shares and options held at 1 January 1994, or at the date of appointment if later.
Options shown under the heading 'Granted' refer to options granted during the year or since appointment if later.

Options were granted during the year ended 31 December 1994 under the Executive Share Option scheme which was approved by shareholders in April 1991 (and amended in April 1992). Options were granted to directors over a total of 198,708 (139,694) ordinary shares. These included options over 164,257 shares granted at £4.68 and normally exercisable between 1997 and 2004. These options become exercisable if the average growth of earnings per share exceeds the average increase in the Retail Prices Index in any three years prior to exercise.

Options over 34,451 shares were granted at £3.98 and are normally exercisable between 1999 and 2004. These options become exercisable if the average growth of earnings per 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. In addition, parallel options were granted over the same shares exercisable at £4.68 on the same basis as detailed in the preceeding paragraph. The option holder may exercise either option, thereby reducing both options, subject to the achievement of the performance criteria.

No options were exercised or lapsed during the year.

The market price of the shares at 31 December 1994 was 430.5p (511.5p) and the range during 1994 was 380.5p to 521.5p.

No director had a material interest in any contract, 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.

There have been no changes to the beneficial and other interests of the directors in the ordinary shares of the Company up to 31 January 1995 other than the automatic reinvestment on 6 January 1995 of dividends arising from the Abbey National Personal Equity Plan as follows:

PG Birch - 101 shares
CG Toner - 20 shares

Notes to the Accounts
Continued

9. Employees

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

	1994	1993
Full time		
Chief administrative offices	6,245	5,908
Branch offices	7,096	7,676
Life Assurance Operations	1,285	1,200
	14,626	14,784
Male	4,678	4,657
Female	9,948	10,127
	14,626	14,784
Part time		
Chief administrative offices	946	878
Branch offices	3,158	3,368
Life Assurance Operations	50	16
	4,154	4,262
Male	52	46
Female	4,102	4,216
	4,154	4,262

Comparatives have been restated to reflect the reclassification of the staff employed in mortgage and banking centres from branch offices to chief administrative offices.

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 1994				
General	85	12	3	100
Specific	183	135	28	346
Exchange adjustments	1	6	–	7
Transfer from profit and loss account	39	20	15	74
Irrecoverable amounts written off	(112)	(43)	(11)	(166)
At 31 December 1994	196	130	35	361
Being for the Group:				
General	59	6	6	71
Specific	137	124	29	290
Including for the Company:				
General	56	1	6	63
Specific	98	5	26	129

Notes to the Accounts
Continued

11. Loss on disposal of residential estate agency business

	1994 £m	1993 £m
Loss on disposal of residential estate agency business	–	26
Goodwill recognised on disposal of business	–	4
	–	30

The Group sold its interests in the residential estate agency business on 31 August 1993. This business is shown as a discontinued operation in the profit and loss account for the year ended 31 December 1993.

12. Tax on profit on ordinary activities

	1994 £m	1993 £m
UK Corporation tax:		
Current at 33% (33%)	285	224
Deferred	34	75
Prior year under provision including deferred tax	3	14
Double tax relief	(5)	(16)
Overseas taxation	5	17
	322	314

No reduction in the tax charge for 1993 was made as a result of the exceptional item described in note 11.

There are unrelieved overseas losses carried forward for which no tax relief has been recognised because their utilisation is currently uncertain.

13. Profit on ordinary activities after tax

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

14. Dividends

Dividends include the interim dividend paid of 5.7 (4.15) pence per share and the final dividend now proposed of 12.05 (9.85) pence per share.

15. Earnings per share

Earnings per share have been calculated by dividing the consolidated profit after tax of £610m (£390m) by the average number of ordinary shares in issue of 1,312m (1,311m).

Notes to the Accounts
Continued

16. Treasury bills and other eligible bills

	Group 1994		Group 1993	
	Book Value £m	Market Value £m	Book Value £m	Market Value £m
Investment securities				
Treasury bills and similar securities	6	6	47	47
Other securities				
Treasury bills and similar securities	397		474	
Other eligible bills	29		68	
	426		542	
Total	432		589	

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

	Group 1994 £m
At 1 January 1994	47
Exchange adjustments	(3)
Additions	443
Disposals	(481)
Amortisation of discounts (premiums)	–
At 31 December 1994	6

Unamortised discounts (premiums) at 31 December 1994 amounted to nil (nil).

17. Loans and advances to banks

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Items in the course of collection	178	143	176	143
Amounts due from subsidiaries	–	–	328	176
Other loans and advances	2,728	3,413	6	5
	2,906	3,556	510	324
Repayable:				
On demand	324	1,154	334	181
In not more than three months	2,288	2,070	176	143
In more than three months but not more than one year	119	36	–	–
In more than one year but not more than five years	–	128	–	–
In more than five years	175	168	–	–
	2,906	3,556	510	324

Notes to the Accounts
Continued

18. Loans and advances to customers

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Advances secured on residential properties	47,129	43,653	44,139	43,070
Other secured advances	381	477	80	129
Unsecured loans	477	484	416	14
Collateralised and guaranteed mortgage loans	497	435	–	–
Amounts due from subsidiaries	–	–	1,852	1,851
	48,484	45,049	46,487	45,064
Repayable:				
On demand or at short notice	3,236	4,010	4,552	5,397
In not more than three months	179	199	151	93
In more than three months but not more than one year	458	384	417	258
In more than one year but not more than five years	2,187	1,952	1,967	1,598
In more than five years	42,785	38,950	39,592	37,982
Less: provisions	(361)	(446)	(192)	(264)
	48,484	45,049	46,487	45,064

19. Net investment in finance leases

	Group 1994 £m	Group 1993 £m
Amounts receivable	5,318	4,749
Less: deferred income	(3,040)	(2,496)
	2,278	2,253
Repayable:		
In not more than three months	3	1
In more than three months but not more than one year	48	14
In more than one year but not not more than five years	535	722
In more than five years	1,692	1,516
	2,278	2,253
Cost of assets acquired for the purpose of letting under finance leases in the year	357	729
Gross rentals receivable	301	348
Commitments as lessor for the purchase of equipment for use in finance leases	208	304
Amounts outstanding subject to a sub-participation	200	57

Notes to the Accounts

Continued

20. Debt securities

	Group 1994		Group 1993		Company 1994		Company 1993	
	Book Value £m	Market Value £m	Book Value £m	Market Value £m	Book Vaue £m	Market Value £m	Book Value £m	Market Value £m
Investment securities								
Issued by public bodies:								
Government securities	5,846	6,058	4,539	4,775	1,285	1,393	1,211	1,260
Other public sector securities	4,294	4,207	2,526	2,679	35	35	37	37
	10,140	10,265	7,065	7,454	1,320	1,428	1,248	1,297
Issued by other issuers:								
Bank and building society certificates of deposit	180	181	127	127	–	–	–	–
Other debt securities	19,206	19,104	15,634	16,024	292	292	31	31
	19,386	19,285	15,761	16,151	292	292	31	31
Sub-total	29,526	29,550	22,826	23,605	1,612	1,720	1,279	1,328
Other securities								
Issued by public bodies:								
Government securities	593		656		291		222	
Other public sector securities	467		–		–		–	
Issued by other issuers:								
Bank and building society certificates of deposit	1,740		1,307		–		–	
Other debt securities	6		–		–		–	
Sub-total	2,806		1,963		291		222	
Total	32,332		24,789		1,903		1,501	

The investment securities held by the Company include subordinated investments in subsidiaries of £282m (£21m) and are included within Other debt securities.

	Group 1994		Group 1993		Company 1994		Company 1993	
	Book Value £m	Market Value £m	Book Value £m	Market Value £m	Book Vaue £m	Market Value £m	Book Value £m	Market Value £m
Analysed by listing status:								
Investment securities								
Listed in the UK	8,623	8,737	6,810	6,992	1,285	1,393	1,211	1,260
Listed or registered elsewhere	18,045	17,995	12,718	13,281	–	–	–	–
Unlisted	2,858	2,818	3,298	3,332	327	327	68	68
	29,526	29,550	22,826	23,605	1,612	1,720	1,279	1,328
Other securities								
Listed in the UK	839		222		291		222	
Listed or registered elsewhere	726		434		–		–	
Unlisted	1,241		1,307		–		–	
	2,806		1,963		291		222	
Total	32,332		24,789		1,903		1,501	

Notes to the Accounts

Continued

20. Debt securities (continued)

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Book value				
Analysed by maturity:				
Due within one year	**4,171**	2,970	**488**	125
Due one year and over	**28,161**	21,819	**1,415**	1,376
	32,332	24,789	**1,903**	1,501

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

	Cost £m	Provisions £m	Net Book Value £m
Group			
At 1 January 1994	22,844	(18)	22,826
Exchange adjustments	(416)	1	(415)
Acquisitions	35,603	–	35,603
Disposals	(25,999)	–	(25,999)
Redemptions and maturities	(2,301)	–	(2,301)
Transfers to other securities	(158)	12	(146)
Provisions released	–	2	2
Amortisation of discounts(premiums)	(44)	–	(44)
At 31 December 1994	**29,529**	**(3)**	**29,526**
Unamortised discounts(premiums) at 31 December 1994			(40)
Company			
At 1 January 1994	1,279	–	1,279
Acquisitions	1,536	–	1,536
Disposals	(1,162)	–	(1,162)
Redemptions and maturities	(20)	–	(20)
Amortisation of discounts(premiums)	(21)	–	(21)
At 31 December 1994	**1,612**	**–**	**1,612**
Unamortised discounts(premiums) at 31 December 1994			(112)

The Group enters into sale and repurchase agreements. The total value of assets so transferred and which are included above is £111m (£1,010m) including, for the Company, nil (£830m). Collateral associated with these transactions of £284m (£324m) 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.

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

Notes to the Accounts
Continued

21. Equity shares and other variable yield securities

	Group 1994		Group 1993		Company 1994		Company 1993	
	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	24	25	1	2	17	17	–	–
Unlisted	18	17	522	525	1	1	1	1
	42	42	523	527	18	18	1	1

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

	Group Cost and Book Value £m	Company Cost and Book Value £m
At 1 January 1994	523	1
Exchange adjustments	(5)	–
Acquisitions	58	17
Disposals	(31)	–
Redemptions and maturities	(503)	–
At 31 December 1994	42	18

Redemptions and maturities include 100% of the preference shares of ACP Treasury Ltd, a company incorporated in Jersey, which were redeemed in return for debt securities held by that company and valued at market value for the purpose of the transaction.

22. Long term assurance business

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

	1994 £m	1993 £m
Embedded value of policies in force and surplus retained within the long term assurance funds	352	287

The value of the long term assurance business is calculated by discounting the profits which are 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, known as the embedded value, is determined is reviewed regularly and in the light of changed expectations regarding future economic conditions it was decided to adjust the basis in 1994. Key elements of both the new and old basis are:

	New %	Old %
Discount rate (net of tax)	10.0	12.5
Return on equities (gross of tax)	9.0	11.5
Return on gilts (gross of tax)	7.5	9.5
Inflation	4.0	5.0

The effect of the change in embedded value basis was determined by calculating the value of the long term assurance business at the beginning of the year on both the old and new basis. 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 1994.

Notes to the Accounts
Continued

22. 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:

	1994 £m	1993 £m
Value of shareholders' interest in the long term fund at 31 December	352	287
Value of shareholders' interest in the long term fund at 1 January	287	215
Increase in value	65	72
Initial transfer into Abbey National Life plc	–	(40)
Net increase in value of long term assurance business	65	32
Surplus (deficit) transferred from (to) long term funds	(4)	9
Income after tax from long term assurance business	61	41
Income before tax from long term assurance business	91	61

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

	1994 £m	1993 £m
Fixed assets	40	6
Investments	3,914	3,796
Current assets	244	282
Current liabilities	(106)	(213)
	4,092	3,871
Long term assurance funds including investment reserve	4,092	3,871

23. Shares in Group undertakings

	Book value 1994 £m	Book value 1993 £m
Subsidiary undertakings		
Banks	451	314
Others	1,271	384
Total	1,722	698

The movement in shares in Group undertakings was as follows:

	1994 £m
At 1 January 1994	698
Exchange adjustments	14
Additions	1,010
Disposals	–
Amounts written off	–
At 31 December 1994	1,722

Notes to the Accounts

Continued

23. Shares in Group undertakings (continued)

On 4 February 1994, Abbey National plc acquired the UK residential mortgage business of the Canadian Imperial Bank of Commerce. The business has been renamed Abbey National Mortgage Finance plc, and has been included in the consolidated accounts as an acquisition. The consideration for the purchase of the issued share capital was £4m payable in cash.

On 31 October 1994, Abbey National plc acquired HMC Group PLC, which is included in the consolidated accounts as an acquisition. The consideration for the purchase of the issued share capital was £60m payable in cash with the alternative of unsecured interest bearing loan notes. £58m was paid in cash and £2m was paid in the form of loan notes, the fair value of which was not significantly different to the equivalent cash value at the date of acquisition.

During the year to 31 December 1994 Abbey National Financial Services Ltd changed its name to Abbey National Independent Financial Advisers Ltd. This company made the following acquisitions: GM Benefit Consulting Group Ltd on 18 July 1994, WF Company Ltd on 21 December 1994, and Whiting Pension Services Ltd on 22 December 1994. The amounts payable in consideration for the purchase of the issued share capital of the companies were £6m, £1.5m and £0.1m respectively. All these amounts were paid in cash with the exception of £0.4m relating to GM Benefit Consulting Group Ltd, which is deferred. GM Benefit Consulting Group Ltd has been renamed Abbey National Benefit Consulting Group Ltd.

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

Abbey National plc subscribed for an additional FF637m (£76m) share capital directly in Abbey National France SA, and subscribed for £686m share capital in a newly formed subsidiary, Abbey National France (Holdings) Ltd, which in turn subscribed for FF5,790 (£685m) in Abbey National France SA. These capital injections were made in order to meet local regulatory requirements, and to enable Abbey National France SA to refinance its operations.

Abbey National plc subscribed for additional share capital of PTS27,000m (£132m) in Abbey National Bank SAE during 1994 in order to meet local regulatory requirements, and to provide capital to support expansion of the business.

Abbey National plc subscribed for additional share capital directly in Abbey National (Overseas) Ltd of £40m and in the holding company of that company, Abbey National (Holdings) Ltd, of £1m in order to provide additional regulatory capital to support the planned expansion of the business. Abbey National plc disposed of all its shareholdings in Abbey National (Overseas) Ltd and Abbey National (Holdings) Ltd to Abbey National Treasury Services plc or subsidiaries of that company in January 1995, following which Abbey National (Overseas) Ltd was re-named Abbey National Treasury International Ltd. Its activities now include treasury operations in addition to the provision of personal financial services.

Abbey National plc made a capital injection of £7m in a newly formed subsidiary, Abbey National Unit Trust Managers Ltd, in preparation for the launch of unit trust operations in 1995.

During 1994, the business of Abbey National Personal Finance Ltd was transferred to Abbey National plc.

Notes to the Accounts

Continued

23. Shares in Group undertakings (continued)

The principal subsidiaries of Abbey National plc at 31 December 1994 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 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
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
Scottish Mutual Assurance plc	Insurance	Scotland
Abbey National Bank SAE	Personal finance	Spain
Abbey National North America Corporation	Funding	United States

The Company holds directly or indirectly 100% of the issued ordinary share capital of its principal subsidiaries. All companies operate 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. Abbey National (Gibraltar) Ltd also operates in Portugal. All the above companies are included in the consolidated accounts.

Notes to the Accounts

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24. Summary of the effect of acquisitions

The following table summarises the effect of all the acquisitions of subsidiary undertakings in the year ended 31 December 1994.

	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 banks	77	–	–	–	77
Loans and advances to customers	2,507	3	(12)	(9)	2,498
Other assets	58	(11)	4	(7)	51
Total assets	2,642	(8)	(8)	(16)	2,626
Deposits by banks	911	–	–	–	911
Debt securities in issue	1,614	–	2	2	1,616
Other liabilities	95	–	(3)	(3)	92
Total liabilities excluding shareholders' funds	2,620	–	(1)	(1)	2,619
Net assets acquired	22	(8)	(7)	(15)	7
Total fair value of the consideration and costs of acquisition					73
Total goodwill					66

The profit after tax of the UK residential mortgage business of the Canadian Imperial Bank of Commerce for the period 1 November 1993 to 3 February 1994 was £4m, and for the year ended 31 October 1993, £27m. The profit after tax of HMC Group PLC for the period 1 April 1994 to 30 October 1994 was £5m, and the loss after tax for the year ended 31 March 1994 was £1m.

The profit after tax for GM Benefit Consulting Group Ltd for the period 1 January 1994 to 18 July 1994 was nil, and for the year ended 31 December 1993, £0.3m. The profit after tax for WF Company Ltd for the period 1 April 1994 to 21 December 1994 was £0.1m, and for the year ended 31 March 1994, £0.2m. The post-tax results of Whiting Pension Services Ltd for the equivalent pre-acquisition periods were very small.

Notes to the Accounts

Continued

25. Tangible fixed assets

	Group			Company		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
Cost						
At 1 January 1994	298	539	837	295	518	813
Acquisition of subsidiary undertaking	1	8	9	–	–	–
Additions	25	89	114	25	82	107
Disposals	(5)	(22)	(27)	(5)	(19)	(24)
At 31 December 1994	**319**	**614**	**933**	**315**	**581**	**896**
Depreciation						
At 1 January 1994	39	289	328	38	278	316
Acquisition of subsidiary undertaking	1	6	7	–	–	–
Charge for the year	7	77	84	7	72	79
Disposals	(2)	(18)	(20)	(2)	(14)	(16)
At 31 December 1994	**45**	**354**	**399**	**43**	**336**	**379**
Net book value						
At 31 December 1994	**274**	**260**	**534**	**272**	**245**	**517**
At 31 December 1993	259	250	509	257	240	497

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
The net book value of premises comprises:				
Freeholds	**209**	200	**209**	199
Long leaseholds	**11**	10	**9**	10
Short leaseholds	**54**	49	**54**	48
Land and buildings occupied for own activities:				
Net book value at 31 December	**237**	220	**235**	218
The net book value of equipment includes:				
Assets held under finance leases	**7**	19	**7**	19
Depreciation charge for the year on these assets	**12**	15	**12**	15
Capital expenditure which has been contracted, but has not been provided in the accounts	**15**	35	**15**	35
Capital expenditure which has been authorised by the directors but has not yet been contracted	**27**	15	**26**	15

Notes to the Accounts

Continued

26. Other assets

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Residential development properties	3	29	–	–
Foreign exchange and interest rate contracts	620	747	–	–
Other	458	352	205	191
	1,081	1,128	205	191

The figure for residential development properties includes completed properties of £2m (£12m) and work in progress of £1m (£17m).

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 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Accrued interest due from subsidiaries	–	–	3	4
Other accrued interest	1,556	1,067	103	74
Prepayments and other accruals	64	13	33	7
	1,620	1,080	139	85

28. Deposits by banks

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Items in the course of transmission	243	246	243	246
Amounts due to subsidiaries	–	–	5,773	4,607
Other deposits	17,583	16,122	243	1,081
	17,826	16,368	6,259	5,934
Repayable:				
On demand	29	1,316	5,410	4,607
In not more than three months	14,583	12,335	328	1,098
In more than three months but not more than one year	2,753	2,548	291	88
In more than one year but not more than five years	252	145	103	139
In more than five years	209	24	127	2
	17,826	16,368	6,259	5,934

Notes to the Accounts
Continued

29. Customer accounts

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Retail funds and deposits	**35,927**	34,210	**34,931**	33,600
Amounts due to subsidiaries	**–**	–	**3,154**	3,153
Other customer accounts	**2,129**	1,933	**718**	431
	38,056	36,143	**38,803**	37,184
Repayable:				
On demand	**32,741**	33,979	**35,736**	36,994
In not more than three months	**1,716**	1,888	**32**	145
In more than three months but not more than one year	**3,480**	276	**3,035**	45
In more than one year but not more than five years	**119**	–	**–**	–
	38,056	36,143	**38,803**	37,184

30. Debt securities in issue

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Bonds and medium term notes	**14,353**	11,648	**22**	21
Other debt securities in issue	**9,060**	7,382	**1**	–
	23,413	19,030	**23**	21
Bonds and medium term notes are repayable:				
In not more than three months	**917**	1,489	**–**	–
In more than three months but not more than one year	**2,182**	2,587	**–**	–
In more than one year but not more than two years	**3,223**	1,520	**–**	–
In more than two years but not more than five years	**4,706**	3,642	**3**	3
In more than five years	**3,325**	2,410	**19**	18
	14,353	11,648	**22**	21
Other debt securities in issue are repayable:				
In not more than three months	**6,825**	4,547	**–**	–
In more than three months but not more than one year	**1,443**	2,728	**–**	–
In more than one year but not more than two years	**418**	26	**1**	–
In more than two years but not more than five years	**351**	58	**–**	–
In more than five years	**23**	23	**–**	–
	9,060	7,382	**1**	–

Notes to the Accounts

Continued

31. Other liabilities

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Creditors and accrued expenses	1,301	721	272	235
Short positions in government debt securities	278	211	–	–
Income tax	159	171	158	170
Corporation tax	339	271	249	191
Foreign exchange and interest rate contracts	442	336	4	19
Obligations under finance leases (see note 32)	9	22	9	22
	2,528	1,732	692	637

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 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Amounts payable:				
In not more than one year	5	13	5	13
In more than one year but not more than five years	4	9	4	9
	9	22	9	22

33. Accruals and deferred income

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Accrued interest due to subsidiaries	–	–	176	79
Other accrued interest	2,540	1,930	827	741
Deferred income	83	49	–	–
	2,623	1,979	1,003	820

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 deferred income is £83m (£49m). The amount released during the year was £6m (nil).

34. Provisions for liabilities and charges

	Group £m	Company (included in Other assets) £m
Deferred taxation at 1 January 1994	296	(35)
Transfer from profit and loss account	103	(1)
At 31 December 1994	399	(36)

34. Provisions for liabilities and charges (continued)

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	18	18	18	18
Capital allowances on finance lease receivables	348	–	348	–
Other	33	(54)	33	(54)
	399	(36)	399	(36)

35. Subordinated liabilities

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Subordinated floating rate note 1995	120	120	–	–
Subordinated floating rate note 1997**	25	42	–	–
9.00% Subordinated guaranteed bond 2002 (LUX 1,000m)	20	19	–	–
Subordinated loan stock 2002*	–	–	17	17
Subordinated guaranteed note 2002 (US $75m)	48	51	–	–
Subordinated floating rate note 2002 (US $75m)*	–	–	48	51
8.00% Subordinated guaranteed bond 2002 (DFL 200m)	74	70	–	–
Subordinated loan 2002 (US $112m)*	–	–	72	76
10.375% Subordinated guaranteed bond 2002	101	101	–	–
10.512% Subordinated loan stock 2001*	–	–	100	100
Subordinated floating rate note 2003 (US $100m)	64	68	–	–
Subordinated floating rate note 2003 (US $100m)*	–	–	64	68
Subordinated floating rate note 2004 (US $137m)	88	92	–	–
Subordinated floating rate note 2004*	–	–	83	83
Subordinated floating rate note 2004 (CAN $100m)	45	–	–	–
Subordinated floating rate note 2004 (US $74m)*	–	–	47	–
8.75% Subordinated guaranteed bond 2004	151	–	–	–
Subordinated floating rate note 2004*	–	–	150	–
8.2% Subordinated bond 2004 (US $500m)	319	–	–	–
Subordinated floating rate note 2004 (US $500m)*	–	–	320	–
Subordinated guaranteed floating rate note 2009 (CHF 130m)	64	–	–	–
Subordinated floating rate note 2009 (US $102m)*	–	–	65	–
5.56% Subordinated guaranteed bond 2015 (YEN 15 billion)	96	–	–	–
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
	1,520	868	1,362	695

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: 1995 £8m, 1996 £8m, 1997 £9m. All other subordinated liabilities mature on the dates shown in the above table.

Notes to the Accounts
Continued

36. Called up share capital and share premium account

	1994 £m	1993 £m
Authorised share capital		
Ordinary share capital	**175**	175
Preference share capital	**506**	–
Issued and fully paid share capital		
Ordinary share capital	**131**	131
Preference share capital	**–**	–
Share premium account	**840**	836

The authorised share capital of Abbey National was increased at the Annual General Meeting on 28 April 1994, from £175 million (comprising 1,750 million ordinary shares of 10 pence each) to £675 million and US $10 million by the creation of 500 million preference shares of £1 each and 1 billion preference shares of US $0.01 each.

Under the Company's Executive and Sharesave schemes, employees hold options to subscribe for 26,094,580 (23,654,025) ordinary shares at prices ranging from 149.0 to 468.0 pence per share, exercisable up to 2004. During the year 592,300 shares were issued on the exercise of options for a consideration of £1,200,128.

In respect of 1993, under the terms of the Share Participation scheme, employees were able to elect to contribute, gross of tax, any performance related bonus to a trust fund. The trustees of the scheme used such funds to subscribe for ordinary shares in the Company on behalf of the employees. During 1994 493,213 shares were issued under the terms of the scheme for a consideration of £2,416,744.

The issue of the above shares resulted in the increase in the share premium account of £4m.

As of 13 January 1995 there were 2,511,417 shareholders. The following table shows an analysis of their holdings:

Size of shareholding	Shareholders	Shares
1 - 100	1,684,768	167,474,091
101 - 1,000	793,136	370,516,203
1,001+	33,513	774,164,327
	2,511,417	1,312,154,621

The directors have approved the establishment of a 'Level 1' American Depositary Receipt (ADR) facility for the ordinary shares of Abbey National plc. This allows the ordinary shares to be sold in the United States in the form of depositary receipts. Level 1 ADRs are not listed on any stock exchange in the United States. Under the facility, ordinary shares may be deposited with a custodian for the depositary and receipts evidencing the ownership of those shares issued to American investors. Dividends relating to the ordinary shares are converted to US dollars and distributed to the owners of the receipts by the depositary. Owners of receipts will be entitled to instruct the depositary as to the exercise of voting rights relating to the underlying shares.

37. Reserves and profit and loss account

	Profit and loss account		Non-distributable reserve	
	Group £m	Company £m	Group £m	Company £m
At 1 January 1994	2,380	2,141	39	–
Retained profit for the year	312	251	–	–
Goodwill recognised in the profit and loss account in the year	10	–	–	–
Goodwill taken to profit and loss account reserve during the year	(66)	–	–	–
Exchange adjustments	(7)	–	–	–
Transfer to non-distributable reserve	–	–	65	–
At 31 December 1994	**2,629**	**2,392**	**104**	**–**

Notes to the Accounts
Continued

37. Reserves and profit and loss account (continued)

The cumulative amount of goodwill taken to the profit and loss account reserve by the Group to 31 December 1994 and not yet recognised in the profit and loss account is £156m (£100m).

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

38. Reconciliation of movements in shareholders' funds

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Profit on ordinary activities after tax	**610**	390	**484**	230
Dividends	**(233)**	(184)	**(233)**	(184)
	377	206	**251**	46
Other recognised net gains and losses relating to the year	**(7)**	(8)	**–**	–
New share capital subscribed including share premium	**4**	–	**4**	–
Goodwill recognised in the profit and loss account in the year	**10**	4	**–**	–
Goodwill taken to profit and loss account reserve during the year	**(66)**	–	**–**	–
Net addition to shareholders' funds	**318**	202	**255**	46
Shareholders' funds at 1 January	**3,386**	3,184	**3,108**	3,062
Shareholders' funds at 31 December	**3,704**	3,386	**3,363**	3,108

Shareholders' funds comprise called up share capital, share premium account, profit and loss account and reserves.

39. Guarantees and assets pledged as collateral security

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Guarantees given by Abbey National plc in respect of subsidiaries' liabilities	**–**	–	**47,457**	37,050
Guarantees given to third parties	**76**	61	**–**	–
Mortgaged assets granted to secure future obligations to third parties who have provided security to the leasing subsidiaries	**760**	641	**–**	–
	836	702	**47,457**	37,050

Under Section 22 of the Building Societies Act 1986, Abbey National Building Society 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 and Abbey National Sterling Capital plc.

40. Other contingent liabilities

Priority liquidation distribution

The Building Societies Act 1986 requires that savers who were eligible to vote on the conversion proposals 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 £59m (£96m) at 31 December 1994.

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.

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. Estimated provisions of £5m (£1m) have been charged to the profit and loss account for the year ended 31 December 1994, and the total of such provisions as at 31 December 1994 is £6m (£1m).

41. Commitments

The tables below show the nominal principal amounts and, in the case of exchange rate and interest rate contracts, the credit risk weighted amounts and replacement costs of off-balance sheet transactions. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amounts have been calculated in accordance with the Bank of England's guidelines implementing the Basle agreement on capital adequacy. Replacement costs represent the costs of replacing contracts with positive values. In respect of those contracts used for hedging purposes, the rise or fall in market values will be offset by a substantially equivalent reduction or increase in the value of the asset or liability being hedged.

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Forward asset purchases and forward deposits placed	517	126	40	35
Formal standby facilities, credit lines and other commitments to lend:				
One year and over	899	616	–	–
Less than one year	130	42	130	42
	1,546	784	170	77

Notes to the Accounts
Continued

41. Commitments (continued)

Exchange rate and interest rate contracts outstanding at the balance sheet date were:

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Held for hedging purposes:				
Exchange rate contracts:				
Contract or underlying principal amount	**11,195**	15,512	**2,174**	2,641
Credit risk weighted amount	**199**	250	**–**	–
Replacement cost	**447**	660	**–**	–
Interest rate contracts:				
Contract or underlying principal amount	**45,764**	31,963	**19,126**	6,945
Credit risk weighted amount	**215**	253	**8**	21
Replacement cost	**597**	979	**212**	330
Held for trading and market-making purposes:				
Exchange rate contracts:				
Contract or underlying principal amount	**486**	25	**–**	–
Credit risk weighted amount	**8**	1	**–**	–
Replacement cost	**13**	4	**–**	–
Interest rate contracts:				
Contract or underlying principal amount	**31,365**	5,501	**–**	–
Credit risk weighted amount	**110**	17	**–**	–
Replacement cost	**336**	71	**–**	–

Following a review of the classification of off-balance sheet contracts, the Group comparatives have been restated to reflect the reclassification of certain contracts between the exchange rate and interest rate categories, and the disclosure of Group comparatives has been extended to include additional types of exchange rate contracts.

42. Assets and liabilities denominated in foreign currency

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

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Assets	**26,371**	18,228	**1,336**	641
Liabilities	**29,383**	22,892	**1,337**	2,992

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.

Notes to the Accounts

Continued

43. Consolidated cash flow statement

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

	1994 £m	1993 £m
Profit on ordinary activities before tax	932	704
Increase in interest receivable and prepaid expenses	(577)	(188)
Increase in interest payable and accrued expenses	930	174
Provisions for bad and doubtful debts	74	218
Net advances written off	(166)	(137)
Increase in the value of long term assurance business	(98)	(47)
Depreciation	84	84
Profit on sale of tangible fixed assets and investments	(17)	(8)
Loss on disposal of subsidiary undertakings	-	30
Effect of other deferrals and accruals of cash flows from operating activities	22	49
Net cash inflow from trading activities	1,184	879
Net increase in loans and advances	(28)	(4,219)
Net increase in investment in finance leases	(25)	(516)
Net decrease (increase) in bills and securities	(655)	8
Net increase in deposits and customer accounts	2,461	5,060
Net increase in debt securities in issue	2,765	4,101
Net increase in other liabilities less assets	158	607
Exchange adjustments	483	(182)
Net cash inflow from operating activities	6,343	5,738

b) Analysis of cash and cash equivalents

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

	1994 £m	1993 £m
Cash and balances with central banks	166	168
Treasury and other eligible bills	10	-
Loans and advances to banks	1,789	1,712
Debt securities	939	1,036
	2,904	2,916

The Group is required to maintain balances with the Bank of England which at 31 December 1994 amounted to £175m (£167m). These are shown in loans and advances to banks.

Notes to the Accounts
Continued

43. Consolidated cash flow statement (continued)

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

	1994 £m	1993 £m
At 1 January	**2,916**	2,242
Net cash inflow before adjustment for the effect of foreign exchange rate changes	**51**	658
Effect of foreign exchange rate changes	**(63)**	16
At 31 December	**2,904**	2,916

d) Analysis of changes in financing during the year

	Share capital inc. Share Premium 1994 £m	Subordinated Liabilities 1994 £m	Share capital inc. Share Premium 1993 £m	Subordinated Liabilities 1993 £m
At 1 January	**967**	**868**	967	648
Net cash inflow from financing	**4**	**659**	–	220
Effect of foreign exchange adjustments	**–**	**(6)**	–	–
Amortisation of premium	**–**	**(1)**	–	–
At 31 December	**971**	**1,520**	967	868

e) Purchase of subsidiary undertakings

	1994 £m	1993 £m
Net assets acquired:		
Loans and advances to customers	**2,498**	–
Loans and advances to banks	**77**	–
Other assets	**51**	–
Deposits by banks	**(911)**	–
Debt securities in issue	**(1,616)**	–
Other liabilities	**(92)**	–
Goodwill	**66**	–
	73	–
Satisfied by:		
Unsecured interest bearing loan notes	**2**	–
Cash	**71**	–
	73	–

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

	1994 £m	1993 £m
Cash consideration	**71**	–
Cash and cash equivalents acquired	**(19)**	–
Net outflow of cash and cash equivalents in respect of purchase of subsidiary undertakings	**52**	–

Notes to the Accounts
Continued

43. Consolidated cash flow statement (continued)

g) Sale of subsidiary undertakings

	1994 £m	1993 £m
Net assets disposed of:		
Fixed assets	–	15
Debtors	–	5
Cash at bank and in hand	–	7
Creditors	–	(3)
	–	24
Provisions made for future liabilities retained	–	10
Goodwill recognised on disposal	–	4
Loss on disposal	–	(30)
Consideration received	–	8
Satisfied by:		
Cash	–	8

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

	1994 £m	1993 £m
Cash received as consideration	–	8
Cash and cash equivalents disposed of	–	(7)
Net inflow of cash and cash equivalents in respect of sale of subsidiary undertakings	–	1

44. Retirement benefits

The Abbey National Amalgamated Pension Fund is the principal pension scheme within the Group, covering 84% of the Group's employees, and is a funded defined benefits scheme.

The latest 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. On the basis of actuarial advice the Company's regular contributions have been resumed.

The main long term financial assumptions used in the valuation 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

44. Retirement benefits (continued)

The pension cost of £34m (£28m) 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 £39m (£6m) were made to the fund in 1994 and a provision of £57m has been included in the balance sheet. Actuarial valuations of the assets and liabilities of the scheme are carried out at least once in every three years by external actuaries to determine the financial position of the fund. The next valuation will be made not later than 31 March 1996.

The Scottish Mutual Assurance pension fund covers the employees of Scottish Mutual Assurance plc amounting to 5% of the Group's employees and is also a funded defined benefits scheme. The latest actuarial valuation was made as at 31 December 1991 and disclosed a funding level of 124%. It is estimated that the surplus will be removed by 31 December 1998.

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.

45. Post balance sheet events

Abbey National Baring Derivatives (ANBD) is a branch of Abbey National Treasury Services plc and had an operating agreement with Baring Brothers and Co., Ltd, a subsidiary of Barings plc, under which certain services, staff and premises were provided to ANBD. An administrator was appointed to Barings plc on 26 February 1995. ANBD was not involved in any way with the events that resulted in the appointment of the administrator. The directors are satisfied that no adjustment is required to the Group accounts as a result of these events.

On 3 February 1995, Abbey National plc acquired Pegasus Assurance Group Ltd for a total consideration of £8m, of which £2m was in the form of ordinary shares in Abbey National plc, valued at the closing mid-market price on 3 February 1995, and the remainder in cash. The acquisition was made on 3 February 1995, and consequently is not included in the accounts at 31 December 1994.

Group Financial Summary

Profit and loss accounts

	New Format 1994 £m	1993 £m	1992 £m	1992 £m	1991 £m	1990 £m
Net interest income	**1,394**	1,338	1,265	1,246	1,143	956
Other income and charges	**365**	376	319	335	265	189
Operating expenses	**(755)**	(763)	(706)	(706)	(635)	(508)
Provisions for bad and doubtful debts	**(74)**	(218)	(274)	(274)	(155)	(55)
Amounts written off fixed asset investments	**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	**932**	704	564	564	618	582
Tax on profit on ordinary activities	**(322)**	(314)	(247)	(247)	(204)	(205)
Profit on ordinary activities after tax	**610**	390	317	317	414	377
Transfer to non-distributable reserve	**(65)**	(32)	(7)	(7)	–	–
Dividends	**(233)**	(184)	(151)	(151)	(138)	(125)
Retained profit for the year	**312**	174	159	159	276	252
Profit on ordinary activities before tax and exceptional items includes for:						
operations acquired in the year	**22**	–	30	30	–	4
operations discontinued in the year (with prior year comparative)	**–**	(2)	(20)	(20)	–	–
Earnings per share	**46.5p**	29.7p	24.2p	24.2p	31.6p	28.8p
Dividends per share (pence)						
Net	**17.75p**	14.0p	11.5p	11.5p	10.5p	9.5p
Gross equivalent	**22.19p**	17.5p	14.7p	14.7p	14.0p	12.7p
Dividend cover (times)	**2.6**	2.1	2.1	2.1	3.0	3.0

Balance sheets, together with an explanation of the old and new formats are provided on pages 73 and 74.
The calculation of the gross equivalent dividend per share assumes 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 assumed.

Group Financial Summary

Balance sheets (new format 1992-1994)

	1994 £m	1993 £m	1992 £m
Assets			
Cash, treasury bills and other eligible bills	**598**	757	497
Loans and advances to banks	**2,906**	3,556	2,276
Loans and advances to customers	**48,484**	45,049	42,061
Net investment in finance leases	**2,278**	2,253	1,737
Securities and investments	**32,374**	25,312	19,998
Long term assurance business	**352**	287	215
Tangible fixed assets	**534**	509	518
Other assets	**2,701**	2,208	2,105
Assets of long term assurance funds	**4,092**	3,871	2,816
Total assets	**94,319**	83,802	72,223
Liabilities			
Deposits by banks	**17,826**	16,368	13,103
Customer accounts	**38,056**	36,143	34,348
Debt securities in issue	**23,413**	19,030	14,929
Other liabilities	**5,708**	4,136	3,195
Subordinated liabilities	**1,520**	868	648
Liabilities of long term assurance funds	**4,092**	3,871	2,816
	90,615	80,416	69,039
Total shareholders' funds	**3,704**	3,386	3,184
Total liabilities	**94,319**	83,802	72,223

The Group financial summary for the years 1992, 1993 and 1994 is shown in a format which reflects the changes resulting from the implementation of the Companies Act 1985 (Bank Accounts) Regulations 1991, 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 Bank Accounts Directive format is provided in the accounts.

The Group financial summary before 1992 has not been restated for the new format. The new format is fundamentally different to the old format, and the directors have decided that the benefits which would be derived from restating the accounts for the years prior to 1992 would not justify the cost of such an exercise. The old and new format profit and loss accounts have been presented in the same table, however the balance sheet formats are significantly different, and are presented separately.

Group Financial Summary

Balance sheets (old format 1990-1992)

	1992 £m	1991 £m	1990 £m
Assets			
Cash and short term funds	3,819	5,193	4,035
Securities and investments	17,186	9,995	6,113
Advances secured on residential property	40,399	37,867	34,044
Other advances secured on land	636	639	678
Net investment in finance leases	1,781	729	104
Other commercial assets	1,076	451	292
Long term assurance business	215	–	–
Long term investments	1,567	1,249	385
Tangible fixed assets	518	489	354
Other assets	1,799	793	491
Assets of long term assurance funds	2,816	–	–
Total assets	71,812	57,405	46,496
Liabilities and shareholders' funds			
Retail funds and deposits	33,616	32,711	29,735
Non-retail funds and deposits	29,330	19,642	12,440
Other liabilities	2,218	1,693	1,389
Subordinated liabilities	648	388	233
Liabilities of long term assurance funds	2,816	–	–
Total liabilities	68,628	54,434	43,797
Total shareholders' funds	3,184	2,971	2,699
Total liabilities and shareholders' funds	71,812	57,405	46,496

The principal reclassifications required by the Bank Accounts Directive affect the balance sheet, and were reflected in the new format 1992 balance sheet as follows:

The heading Cash and short-term funds was replaced by the more restrictive heading Cash, treasury bills and other eligible bills. Certificates of deposit previously included within Cash and short-term funds are now shown within Securities and investments. Short term loans to banks previously included within Cash and short-term funds are now shown within Loans and advances to banks. Loans and advances are now analysed by bank and non-bank counterparties. Securities and investments now include debt securities and equity shares and other variable yield securities of all maturities. Retail and non-retail funds and deposits are now analysed into deposits by bank and non-bank counterparties, and debt securities. Accrued interest is shown separately in the accounts, and is included within Other liabilities in the Group Financial Summary.

In addition to the format reclassification, the Bank Accounts Directive require certain other assets and liabilities, which were previously shown net, to be shown gross. The effect on the 1992 balance sheet 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.

Supplementary Financial Information

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, has been 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

	1994 Average balance £m	1994 Interest £m	1994 Average rate %	1993 Average balance £m	1993 Interest £m	1993 Average rate %	1992 Average balance £m	1992 Interest £m	1992 Average rate %
Assets									
Treasury bills and other eligible bills									
UK	149	5	3.12	426	18	4.15	624	43	6.93
Non-UK	9	–	3.69	1	–	4.99	3	–	5.73
Loans and advances to banks									
UK	3,434	167	4.87	2,512	118	4.69	2,076	154	7.40
Non-UK	73	5	6.44	37	4	9.74	55	6	10.69
Loans and advances to customers									
UK	45,498	3,533	7.77	43,088	3,456	8.02	39,925	4,120	10.32
Non-UK	1,346	94	7.01	1,249	109	8.71	1,100	120	10.86
Lease receivables									
UK	2,278	133	5.85	2,047	141	6.90	1,141	115	10.04
Non-UK	29	2	6.56	29	1	4.12	30	3	11.66
Debt securities									
UK	27,728	1,590	5.73	21,371	1,312	6.14	15,156	1,361	8.98
Non-UK	114	4	3.06	1	–	4.90	34	2	6.28
Total average interest earning assets and interest income	80,658	5,533	6.86	70,761	5,159	7.29	60,144	5,924	9.85
Allowance for loan losses	(563)	–	–	(527)	–	–	(347)	–	–
Non-interest earning assets									
Long term insurance fund assets	3,811	–	–	3,247	–	–	2,181	–	–
Other	4,260	–	–	3,829	–	–	2,437	–	–
Total average assets and interest income	88,166	5,533	6.28	77,310	5,159	6.67	64,415	5,924	9.20
Percentage of total - Non-UK	1.84%	–	–	1.70%	–	–	1.90%	–	–
Net interest income	–	1,399	–	–	1,331	–	–	1,253	–
Net interest income allocated to dealing profits	–	(5)	–	–	7	–	–	12	–
Total average interest earning assets and net interest income	80,658	1,394	1.73	70,761	1,338	1.89	60,144	1,265	2.10

Supplementary Financial Information
Continued

	Average Balance Sheet								
	1994 Average balance £m	1994 Interest £m	1994 Average rate %	1993 Average balance £m	1993 Interest £m	1993 Average rate %	1992 Average balance £m	1992 Interest £m	1992 Average rate %
Liabilities and shareholders' equity									
Deposits by banks									
UK	**15,313**	**840**	**5.48**	13,088	716	5.47	9,525	793	8.33
Non-UK	**973**	**53**	**5.41**	621	46	7.44	168	18	10.46
Customer accounts - demand deposits									
UK	**21,511**	**941**	**4.38**	19,960	914	4.58	21,086	1,564	7.42
Non-UK	**103**	**5**	**5.20**	–	–	–	–	–	–
Customer accounts - time deposits									
UK	**13,340**	**844**	**6.33**	13,367	878	6.57	11,172	986	8.82
Non-UK	**721**	**49**	**6.74**	507	33	6.43	423	50	11.81
Customer accounts - wholesale time deposits									
UK	**1,830**	**107**	**5.83**	1,342	91	6.81	1,210	116	9.57
Non-UK	**5**	**–**	**5.56**	–	–	–	–	–	–
Bond and medium term notes									
UK	**13,315**	**836**	**6.28**	9,192	659	7.17	5,415	560	10.34
Non-UK	**406**	**30**	**7.39**	402	42	10.49	428	49	11.46
Other debt securities in issue									
UK	**4,779**	**261**	**5.46**	4,743	298	6.28	3,724	383	10.30
Non-UK	**2,028**	**91**	**4.48**	2,398	85	3.53	2,295	101	4.41
Dated and undated loan capital and other subordinated liabilities									
UK	**690**	**51**	**7.33**	539	50	9.24	342	44	12.75
Non-UK	**426**	**26**	**6.24**	279	16	5.73	100	7	6.70
Total average interest bearing liabilities and interest expense	**75,440**	**4,134**	**5.48**	66,438	3,828	5.76	55,888	4,671	8.36
Non-interest bearing liabilities									
Long term insurance fund liabilities	**3,811**	**–**	**–**	3,247	–	–	2,181	–	–
Other	**5,231**	**–**	**–**	4,268	–	–	3,342	–	–
Shareholders' equity	**3,684**	**–**	**–**	3,357	–	–	3,004	–	–
Total average liabilities, shareholders' equity and interest expense	**88,166**	**4,134**	**4.69**	77,310	3,828	4.95	64,415	4,671	7.25
Percentage of total - Non-UK	**5.45%**	**–**	**–**	5.44%	–	–	5.30%	–	–
Interest income as a percentage of average interest earning assets			**6.86**			7.29			9.85
Interest expense as a percentage of average interest bearing liabilities			**5.48**			5.76			8.36
Interest spread			**1.38**			1.53			1.49
Net interest margin			**1.73**			1.89			2.10

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.

Supplementary Financial Information
Continued

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 £783million, before taking into account the impact of certain hedges in place against the securities, and to increase shareholders' equity by the same amount.

Supplementary Financial Information
Continued

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.

Future Developments

SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", requires that impaired loans be carried at the present value of expected future cash flows, discounted at the loan's effective interest rate or, as practical expedient, at the loan's observable market value, or the fair value of the collateral if the loan is collateral dependent. SFAS No. 114 is required to be adopted in 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.

Supplementary Financial Information

Continued

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.

	1994 £m	1993 £m	1992 £m
Consolidated Net Income of Abbey National plc (UK GAAP)	610	390	317
Goodwill	(6)	(4)	20
Pensions cost	(14)	(12)	(6)
Leasing	(7)	(12)	(15)
Loan origination fees	–	–	(1)
Shareholders' interest in long term assurance policies	(98)	(47)	(10)
Amortisation of losses in internal investment fund	–	15	8
Deferred tax effect of the above US/UK GAAP adjustments	40	18	7
Deferred tax	–	(3)	4
Consolidated Net Income of Abbey National plc (US GAAP)	525	345	324
per 10 pence ordinary share	40.0p	26.3p	24.7p

	1994 £m	1993 £m	1992 £m
Shareholders' equity (UK GAAP)	3,704	3,386	3,184
Goodwill	138	89	97
Pensions cost	(19)	(5)	7
Leasing	(40)	(33)	(21)
Loan origination fees	(2)	(2)	(2)
Shareholders' interest in long term assurance policies	(155)	(57)	(10)
Dividend payable	158	129	101
Amortisation of losses in internal investment fund	–	1	(14)
Unrealised surplus on securities available for sale	24	–	–
Deferred tax effect of the above US/UK GAAP adjustments	70	30	12
Deferred tax	14	14	17
Shareholders' equity (US GAAP)	3,892	3,552	3,371