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Directors' Report and Accounts 1993

ABBEY NATIONAL

ABBEY NATIONAL plc DIRECTORS' REPORT AND ACCOUNTS 1993

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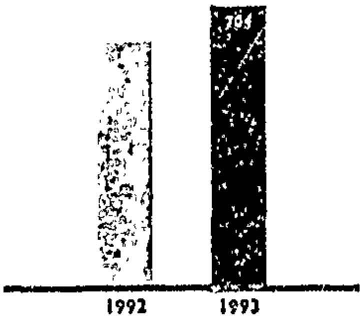
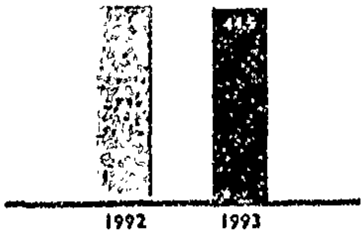
Abbey National plc

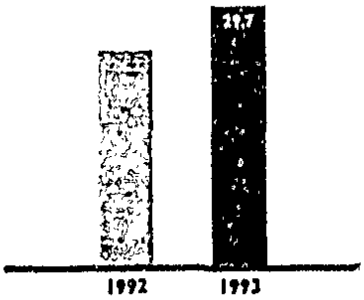
Financial Review



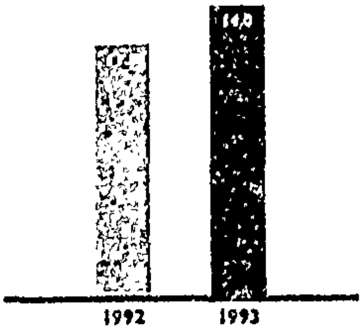
Profit before tax (£m)



Cost: income ratio (%)



Earnings per share (pence)



Full year dividend per share (pence)

PROFIT BEFORE TAX

25% up

COST: INCOME RATIO

44.5% held

EARNINGS PER SHARE

23% up

FULL YEAR DIVIDEND PER SHARE

22% up

Pre-tax profit in 1993 increased by 25% to a record £704 million. A reduction in the charge for provisions, from £274 million to £218 million, and a lower charge for exceptional items of £30 million (1992: £37 million), contributed to this performance. Before these charges, pre-tax profit was up by 9%. The effective corporation tax rate was higher in 1993 at 45% (1992: 44%), principally as a result of losses incurred by the Group's operations in Continental Europe for which no tax relief is currently available. As a result, both post-tax earnings and earnings per share increased by 23%.

The Board is recommending a final dividend of 9.85 pence per share, making the full year dividend 14.0 pence per share. This is 22% up on 1992 and is covered by earnings 2.1 times.

Analysis of profit

Net interest income

1992 (£m)	1993 (£m)
1,265	1,338

An 18% increase in average interest earning assets, to £73.6 billion, more than offset a reduction in the Group net interest margin, with the result that net interest income increased by 6%. The fall in the Group margin reflects principally an increase in the proportion of the balance sheet represented by Treasury assets, on which narrower spreads are earned. Despite market interest rates being substantially lower on average in 1993, Abbey National's policy of managing actively the yield on its free reserves has limited the reduction in this yield, and hence limited the negative impact on the Group margin. A narrowing of the UK retail spread from the relatively high level achieved in 1992 has also contributed to the reduction in the overall margin.

Interest suspended on loans in arrears increased from £106 million in 1992 to £109 million in 1993. Suspended interest on UK loans was £16 million lower, reflecting fewer arrears cases and lower interest rates, but this was offset by increased interest arrears in the French loan book.

Other income and charges

1992 (£m)	1993 (£m)
319	376

In total, other income and charges increased by 18% to £376 million. Insurance commission earnings increased by 6%, due principally to higher income from buildings and contents policy sales. Strong performances by Abbey National Life in its first year and by Scottish Mutual raised long-term assurance earnings by £30 million. Other financial income and charges were higher by 18%, largely accounted for by increased fee income associated with higher lending volumes and by increased dividend income earned by Treasury Operations. Estate agency fees were lower in 1993 following the sale of the Cornerstone network in August.

Operating expenses

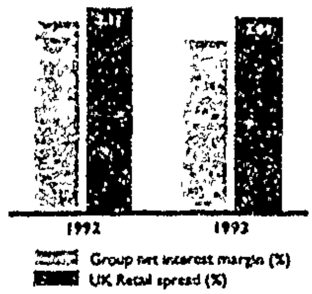
1992 (£m)	1993 (£m)
706	763

Operating expenses increased by 8% which, with total income also growing by 8%, resulted in the cost income ratio remaining broadly unchanged at 44.5% (1992: 44.6%).

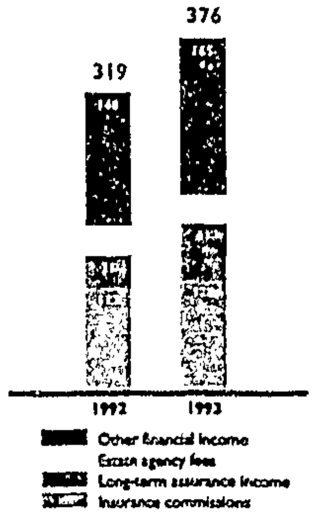
Staff costs increased by £39 million, or 14%, reflecting 4% growth in average salaries and the payment of a 10% profit share bonus to staff after a nil payment in 1992. This was partly offset by a 2% reduction in the average number of full-time equivalent staff. An increase in pension costs, following the triennial pension fund valuation, has added a further £10 million to operating expenses in 1993.

Premises and equipment costs rose by £5 million. Depreciation increased by £7 million, principally as a result of capital expenditure on the enhancement of the branch network, but this was in part offset by lower equipment hire costs.

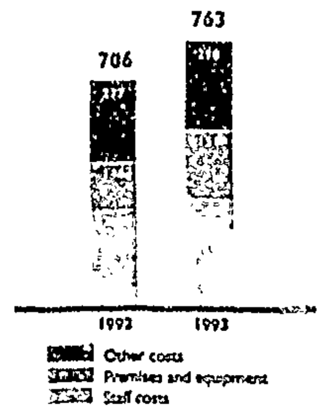
A £20 million increase in promotional expenditure was the other major contributor to higher costs. This increase particularly reflects the active promotion of mortgage products during the year and, together with fixed-rate mortgage fees charged to customers, has formed an integral part of the mortgage pricing which has contributed to Abbey National's strong performance in its traditional mortgage market.



Net interest income margins



Other income and charges (£m)

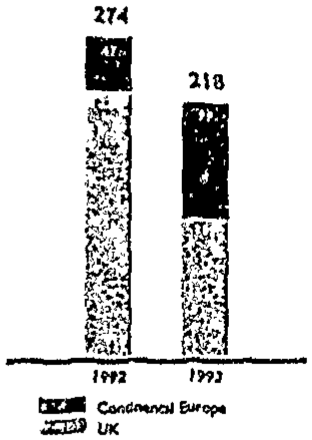


Operating expenses (£m)

Provisions for bad and doubtful debts

1992 (£m)	1993 (£m)
274	218

The charge for provisions was £56 million lower than in 1992, at £218 million. In the UK, the provision charge was down by £108 million, of which £92 million was accounted for by lower residential lending provisions following substantial reductions in the level of arrears and repossessions. These reductions are considered more fully later in this review. In Continental Europe, after announcing a provisions charge of £81 million at the half-year stage, a reduced charge of £18 million was made in the second half of the year. This lower charge, which is consistent with stated expectations in the interim announcement, reflects the adequacy of provisions made at the half-year and some stabilisation of the French property market.



Provisions (£m)

Exceptional Items

In August, Abbey National announced the sale of its Cornerstone residential estate agency chain. A loss on disposal of the business of £30 million has been recognised in the profit and loss account as an exceptional item.

Pension transfers and opt-outs

The Securities and Investments Board is currently undertaking an industry-wide review into the mis-selling of pension transfers and opt-outs. Abbey National's exposure to compensation claims is believed to be small. Provisions against potential claims have been made in the relevant businesses where appropriate, but these are not material.

Review of Individual Operations

UK Retail Banking

Profit before tax (£m) 1992	1993
540	618

UK Retail Banking, which includes the earnings on the Group's free capital, remains the major contributor to the Group's total earnings, increasing profit before tax by 14% to £618 million.

Although the UK mortgage market has been slow to recover, Abbey National increased its net lending from £2.5 billion in 1992 to £3.2 billion in 1993, resulting in an increased market share estimated at 18.5%. This strong performance was underpinned by active promotion of mortgage products, particularly fixed-rate loans which accounted for 64% of gross lending, a similar proportion to the market's experience as a whole. The Company also had a successful year attracting retail savings, particularly in the second half. Share of the liquid saving market increased from 5.1% to an estimated 7.8%, albeit of a smaller market, with total retail liabilities increasing by £1.2 billion (1992: £1.2 billion). In addition, the expertise of Treasury Operations has been harnessed to raise competitively-priced wholesale funding to finance mortgage lending. Around 61% of net mortgage lending during the year was wholesale funded, reducing the proportion of the total mortgage book funded by retail liabilities from 83% to 79%. Treasury's expertise has

Market shares (%)

also been used in implementing strategies for hedging interest rate exposures associated with fixed-rate lending.

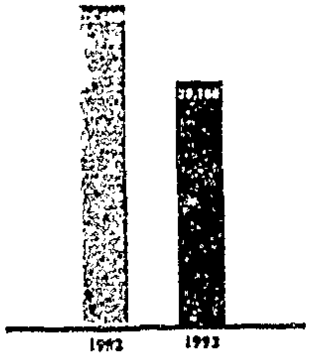
On 4 February 1994, Abbey National announced that it had acquired the UK residential mortgage operation of Canadian Imperial Bank of Commerce. This acquisition adds £0.9 billion to Abbey National's mortgage assets, and 0.2% to its share of the UK mortgage stock, which at the end of December 1993 was 12.2%. It also provides the systems capability to securitise future mortgage loans.

Net interest income rose by 2%, the effect of an 8% increase in mortgage assets being partially offset by a narrowing of the retail spread (being the difference between average lending rates and average funding rates) from 2.11% to 2.05%. The latter is in part a reflection of the relatively wide spread achieved in 1992 when falling interest rates presented more opportunities for spread management. The spread in 1993 remains higher than in the years 1988-1991.

Other income and charges were 13% ahead, reflecting higher insurance commission and fixed-rate mortgage fee income associated with the strong lending performance. Operating expenses increased by 14%, largely explained by profit share bonus payment to staff, higher pensions costs and increased promotional expenditure. The latter has made an important contribution to the increase in mortgage market share.

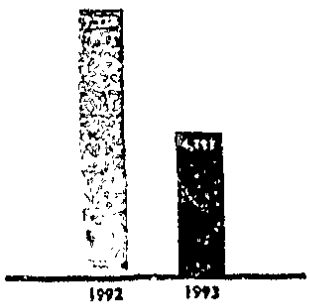
During 1993 the number of full-time equivalent staff employed by UK Retail Banking increased by 6%, with the increase largely concentrated in customer-facing areas. In particular, the number of Financial Planning Advisors in the branches more than doubled to 260. The total number of branch staff authorised by the Securities and Investments Board to sell Abbey National Life policies is now more than 1,800. These staff are remunerated on a salaried rather than a sales commission basis.

Suspended interest and capital provision charges were lower, reflecting in particular significant reductions in mortgage arrears and repossessions. The number of arrears cases has fallen consistently through the year: the number of cases six months or more in arrears has fallen by 21% and now represents 1.64% of total accounts (December 1992: 2.15%), which continues to compare favourably with the Council of Mortgage Lenders' (CML) average of 3.12% (December 1992: 3.55%). The comparison of cases twelve months or more in arrears is even more favourable (Abbey National 0.49%: CML 1.50%). The stock of repossessed properties has halved since the end of 1992, to 4,797. While there has been no change in the Group's policy on repossessions, the total intake of 4,898 was 37% down on 1992. This compares with a 15% fall in the level of repossessions in the UK as a whole. Property sales of 9,432 were 31% higher than in 1992. These arrears and repossessions statistics are a reflection of Abbey National's arrears counselling, the



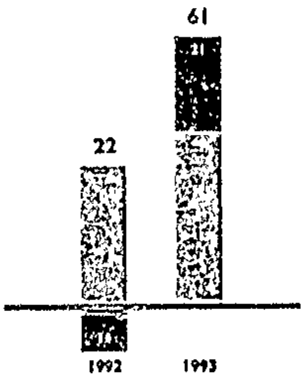
Number of mortgage accounts 6 months or more in arrears

Down 21%

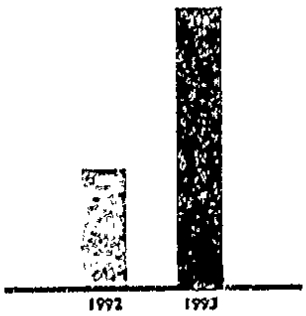


Stock of repossessed properties

Down 49%



Life assurance operations profit before tax (£m)



Scottish Mutual new business premium income (£m)

efficiency of its property sales unit and the underlying quality of its mortgage book.

For those repossessed properties on which purchase offers have been received, the average provision for capital losses and interest arrears was £18,800 per property at December 1993, slightly higher than at December 1992 (£18,400), although lower than at June 1993 (£19,600). Despite the small year-on-year increase, the lower arrears and repossessions levels resulted in the provisions charge against loans secured on residential property falling from £199 million to £107 million.

Under the terms of mortgage indemnity cover taken out with leading insurance companies, Abbey National has been able to make claims which have limited the losses realised by the Company where properties have had to be repossessed and sold. The stringent approach taken by the insurance companies in evaluating these claims has resulted in certain claims remaining unsettled. Uncertainty over payment in respect of these claims was one of the factors underpinning the increase in general provisions in the 1992 accounts. Settlements are being negotiated with the insurance companies and in cases where agreement has been reached, specific provisions have been made if appropriate. The likelihood of future non payment has been assessed and, as a result, general provisions have been reduced by a net £20 million, from £96 million to £76 million.

Mortgage Indemnity cover for loans made after 1 January 1993 is provided by Carfax Insurance Limited, an insurance company established by Abbey National. It is Carfax's policy to arrange reinsurance of mortgage indemnity cover where appropriate. The cost of reinsurance was such that it was not commercially justifiable for Carfax to reinsure loans made in 1993, particularly given the high credit quality at that point in the economic cycle. However, reinsurance has now been agreed in principal with a number of insurance companies for loans made from 1994.

The charge for provisions against the remainder of the UK retail loan book was also down in 1993. A provisions write back of £1 million was made against other secured advances compared with a £10 million charge in 1992, while the charge for unsecured personal loans and current account overdrafts fell from £18 million to £13 million.

Life Assurance Operations

Profit before tax (£m)	
1992	1993
22	61

Life Assurance Operations includes both Scottish Mutual, which now exclusively serves the Independent Financial Advisor (IFA) market, and Abbey National Life, whose products are sold only through Abbey National branches. The contribution to Group profit from this segment increased by £39 million to £61 million.

Scottish Mutual contributed earnings of £40 million (1992: £32 million). Its new business premiums more than doubled in 1993 to £390 million, with strong growth in both single premium life and single premium pension business.

While new annual premium business was slightly down on 1992, this roughly mirrored the general industry trend. Following rationalisation of its branch office structure, Scottish Mutual has reduced its headcount and held its costs at 1992 levels while continuing to support the high new business levels.

Abbey National Life commenced trading on 1 February 1993 as planned. In its first eleven months £145 million of new business premiums were generated. As with Scottish Mutual, single premium business has provided the bulk of this total, representing over three quarters of business written. Around 38% of new business policies related to mortgage endowments, with the remainder taken out as forms of long-term saving. Abbey National Life products now form a key part of Abbey National's savings product range. Pre-tax earnings in 1993 were £21 million, after £2 million of launch costs incurred in January.

Treasury Operations

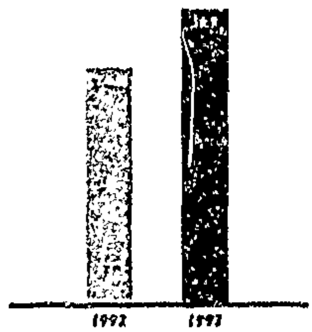
Profit before tax (£m)

1992	1993
100	145

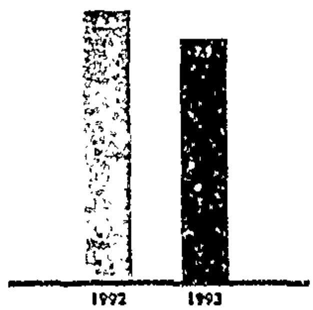
Treasury Operations had another successful year in 1993, increasing profit before tax by 45% to £145 million. The increase in earnings largely reflects growth in investment assets. This asset growth, although lower than in previous years, amounted to 28% and reflected investment in floating-rate notes, mortgage backed securities and leasing. In addition, profit benefited from investments made at advantageous margins towards the end of 1992, and from a low-cost base.

In total, net funding of £7.9 billion was raised to finance both the increases in treasury investment assets and mortgage lending by UK Retail Banking. Funding from the wholesale markets as a proportion of total Group funding now just exceeds 50%. Three major Eurobond issues were made in the year which raised a total of £2.2 billion. In addition, $250 million was raised through a Dragon Bond issued and listed in Hong Kong and Singapore. Around half of the net funding was raised in the short-term interbank, commercial paper and certificate of deposit markets, although the overall maturity profile of funding has been lengthened considerably.

In August, the formation of Abbey National Baring Derivatives (ANBD), a joint initiative between Abbey National Treasury Services plc and Baring Brothers & Co., Limited, was announced. This operation provides risk management services in the currency and interest rate swap and option markets, and began operating on 25 October. Abbey National employs only a modest amount of capital in the operation, which is governed by very strict internal risk control limits. ANBD's biggest customer has been Abbey National. It will continue to provide UK Retail Banking with appropriate instruments to be used in the risk management of retail products such as fixed-rate mortgages, emphasising the complementary nature of the businesses. The operation is expected to generate a

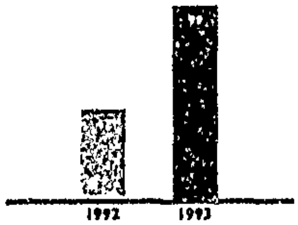


Treasury Operations total assets (£bn)



Treasury Operations net funding raised (£bn) relatively modest but nevertheless important contribution to Treasury Operations' future profits.

After rapid growth in the years immediately following Abbey National's conversion to public limited company status, Treasury Operations now represents a substantial and integral part of the Abbey National Group, its investment assets utilising 27% of the Group's capital. The challenge for this business now is to identify new investment opportunities to replace assets which are maturing, without compromising its low-risk profile. It is the Board's belief that utilisation of 35% of the Group's capital represents an appropriate ceiling for Treasury Operations.



Continental Europe and Offshore provisions (£m)

Continental Europe and Offshore

Loss before tax (£m)	
1992	1993
46	105

Continental Europe and Offshore operations comprise mortgage lending activities in France, Spain, Italy and Gibraltar and deposit-taking in Jersey and Gibraltar. In total these operations made an increased pre-tax loss of £105 million, principally as a result of provisions for commercial lending in France.

At the interim results stage, it was announced that a *provisions charge of £77 million* was necessary in France as a result of further deterioration in the commercial property market. Since then there has been some stabilisation of this market. As a result, a reduced provisions charge of £11 million was made in the second half, bringing the charge for the year to £88 million. Commercial lending ceased in March 1992 and management controls in France have been tightened further. The provisions charge is expected to be considerably lower in 1994, although interest will continue to be suspended on poorly performing loans. Suspended interest amounted to £30 million in 1993.

In Spain, the provisions charge was reduced from £18 million in 1992 to £10 million in 1993. Lending to residential property developers, against which most of these charges have been made, is no longer a key element of new business. Of the other operations, Gibraltar made a marginal loss while Italy and Jersey made a positive contribution to Group profit.

Estate Agency

Loss before tax (£m)	
1992	1993
20	2

When reporting Abbey National's 1992 results, the Board announced that it had decided it was no longer in the best interests of shareholders to continue in the residential estate agency business. Accordingly, the entire Cornerstone residential estate agency network was sold in 1993, the deal being completed on 31 August. The network made a loss of £2 million in the year up until this date. A loss on disposal of the business of £30 million was made at the time of the sale.

Other Operations

Profit before tax (£m)	
1992	1993
5	17

This segment includes Abbey National Financial Services, Abbey National Homes and a number of investment companies. The improvement in the result of the segment reflects a £10 million reduction in the loss incurred by Abbey National Homes to £3 million, with a stabilisation in property sales prices meaning no further significant write down in the value of completed properties and work in progress has been necessary.

Capital expenditure

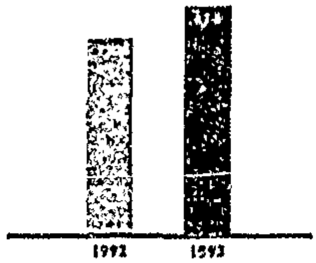
The Group invested £101 million (1992: £115 million) in its capital expenditure programmes during 1993. Again the largest element of this spend was on the development of the UK retail branch network: two thirds of the 676 branches have now been extended, resited or modernised. In addition, around one third of the total spend was incurred on information technology equipment to enhance processing centrally, in the UK retail network and in the life assurance operations.

Balance sheet

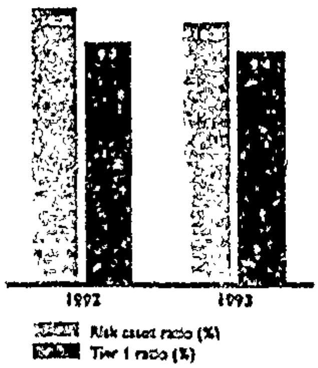
Total assets increased by £11.6 billion or 16% in 1993, with UK mortgage lending and Treasury investments accounting for £3.2 billion and £6.8 billion of the increase respectively. Of this asset growth, £7.9 billion was funded from wholesale sources. Shareholders' funds increased by £202 million which, together with additional subordinated debt of £220 million raised during the year, enabled the Group's risk asset ratio to remain broadly unchanged at 10.5%. The Tier 1 capital ratio remains strong at 9.4%.

Future prospects

With housing now at its most affordable for 30 years, and with a gradual rise in house prices reducing the negative equity situation, we expect the UK net mortgage lending market to increase by around 10% this year. The trends in arrears and repossessions remain downwards and consequently we expect UK provisions to be lower in 1994. Our results will no longer be held back by estate agency and we believe the worst of the problems in Continental Europe are now behind us. Although the personal financial services markets are competitive, we feel that with our three mutually reinforcing businesses of UK Retail Banking, Life Assurance and Treasury Operations, we are well positioned to benefit as the economic recovery gathers pace.



Total assets (£bn)



Capital ratios

Corporate Governance

As in last year's report, I have set out below some of the key features in how the Board operates, against the backdrop of recommendations made by the Committee on the Financial Aspects of Corporate Governance, known as the 'Cadbury Committee'.

The Board continues to comprise a majority of non-executive directors, with eight executive and nine independent directors, including the Chairman. The Board meets *monthly (except in August)* and there exists a clear division of responsibilities between the Chairman and the Chief Executive. The non-executive directors are of sufficient number and calibre for their independent views to carry weight on issues of strategy, performance, standards of conduct and key operational matters. The long-term strategic direction of Abbey National is a critical issue for the Board, and during the year an additional meeting during the year was devoted to considering this.

There is a well-established Audit Committee comprised wholly of non-executive directors which has written terms of reference and meets four to five times a year. The external auditors normally attend each meeting and have the opportunity to raise matters or concerns in the absence of the executive directors, if appropriate. The *Chief Internal Auditor attends* most meetings and reports formally to the Committee every six months.

Mr Allan Denholm took over from me as Chairman of the Audit Committee with effect from November 1993.

This year I would like to provide greater detail on the arrangements for dealing with executive directors' remuneration. The Board has maintained for a number of years a Personnel Policy Committee whose primary purpose is to provide a mechanism through which the Board can satisfy itself that the Company is adopting human resource policies which are consistent with the Company's business objectives, and philosophy. Consideration of rewards for individual executive directors and other members of top management also falls within the remit of this Committee. The Committee is made up of four non-executive directors and two executive directors, though the latter do not, of course, participate in any discussion of their own remuneration. The Committee is an advisory body and its recommendations on remuneration are referred for consideration and final approval by the full complement of non-executive directors.

The remuneration package for executive directors comprises three major elements:

a) salary and benefits

b) participation in an Executive Bonus scheme together with participation in the Company's Profit Share scheme; and

c) subject to recommendations made by the Personnel Policy Committee, participation in the Executive Share Option scheme which was approved by shareholders.

Like all eligible employees of the Company, executive directors are also entitled to participate in the Sharesave scheme, which was also approved by shareholders. Detailed information about directors' emoluments for 1993 is set out on pages 29 and 30, while details on Share Options may be found on pages 30 and 52.

The Directors' Report on compliance with the Code of Best Practice published by the Cadbury Committee is to be found on page 12.

Peter Davis
Deputy Chairman
20 February 1994

Directors' Report

The directors have pleasure in presenting their report for Abbey National plc for the year ended 31 December 1993.

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 1994, including a review of the non-banking activities, are set out in the Financial Review on pages 2 to 9 of this document. Note 25 to the Accounts on page 38 provides a list of principal subsidiaries and the nature of each one's business. Details of important events which have occurred since the end of the financial year are also included in the Financial Review.

Results and dividends

The profit on ordinary activities before tax for the year ended 31 December 1993 was £704 million (1992: £564 million).

An interim dividend of 4.15 pence per share was paid on 11 October 1993 (1992: 3.8 pence per share).

The directors propose a final dividend for the year of 9.85 pence (1992: 7.7 pence per share) to be paid on 16 May 1994.

The dividends for the year absorb a total of £184 million, leaving profits of £174 million to be retained.

Corporate Governance

The Stock Exchange requires directors to report on compliance with the recommendations made by the Cadbury Committee in its Code of Best Practice. Draft guidance notes have been issued by a joint committee of the accountancy profession, accounts users and preparers on two of the recommendations. These relate to statements of internal control and going concern but the notes have not yet been finalised. We are therefore not able to comply formally with these parts of the code.

Notwithstanding this delay, the directors have prepared a preliminary statement on internal control, which is set out below.

The directors confirm that Abbey National meets, in the light of the Company's particular circumstances, the relevant recommendations set out in the Code of Best Practice published by the Cadbury Committee.

Directors' report on internal control

Abbey National has established, and maintains, comprehensive systems of internal control including systems of financial control.

These controls are designed to provide the Board with reasonable assurance that it can rely on the accuracy and reliability of the accounting records and other sources of financial information used both within the business and for publication. The controls are documented and their operation is independently reviewed by internal and, where relevant, by external auditors.

Having made appropriate enquiries the directors consider that during the period covered by these financial statements these controls operated effectively.

Employees

The Company has continued to take forward its equal opportunities initiative, 'Success through Equality'.

A particular focus during 1993 has been the introduction of flexible working practices, designed to enable staff to combine work and external commitments to the Company's best advantage.

The Company has sponsored and actively participated in a number of external initiatives, for example, Opportunity 2000, Employers for Childcare and the Employers' Forum on Disability.

A further priority for 1993 has been to enhance employment opportunities for people with disabilities, with a series of high level briefings on disability issues. The Company's policy states that it will take all practical steps to assist the recruitment, retention and development of disabled persons.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 and that they are able to express their opinions on matters affecting them.

A further invitation to employees to participate in the Company's Sharesave scheme was made during the year.

Details of the average number of employees are set out in note 10 to the Accounts on page 31.

Share capital

The authorised and issued share capital of the Company are detailed in note 37 to the Accounts on page 45.

During the year, 175,576 ordinary shares were issued on the exercise of options under the Sharesave scheme, and 70,000 shares were issued under the terms of the Executive Share Option scheme. (No shares were issued under the Share Participation scheme.)

Tangible fixed assets

The movements in tangible fixed assets are set out in note 26 to the Accounts on page 40.

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 £259 million as disclosed in note 26 to the Accounts, by approximately £8 million.

Charitable and political contributions

The Company has continued to help the wider community particularly through its support of the Abbey National Charitable Trust.

The total value of support given to charities in the voluntary sector in 1993 was £1,024,500. This comprised cash donations of £420,000 provided to the Trust and other charities, together with the value of secondments and staff involvement in youth training, employment and enterprise initiatives and charitable sponsorship. Apart from the direct support provided by Abbey National plc, the Trust is now in receipt of its own investment income flowing from the £5 million which the

Company settled on it in 1992. This investment income is included in the total value of support quoted above.

No contributions were made for political purposes.

Directors and directors' interests

James Tyrrell resigned as a director on 30 June 1993. John Bayliss resigned on 31 December 1993 after thirty-seven years' service with Abbey National. Peter Davis will resign from the Board at the conclusion of the Annual General Meeting.

Ian Harley was appointed to the Board on 1 June 1993 and Gareth Jones and Robert Knighton were appointed on 8 September 1993. All three directors, having been appointed since the last Annual General Meeting, will retire and, being eligible, offer themselves for election.

All other directors listed on pages 16 and 17 have served on the Board for the whole of the period 1 January 1993 to 31 December 1993. Peter Birch, Allan Denholm, Sara Morrison, Lord Rockley and James Tuckey will retire by rotation at the Annual General Meeting and, all being eligible, offer themselves for re-election.

Peter Birch has a service contract with the Company which is terminable by either party at 12 months' notice. None of the other directors seeking election or re-election has a service contract with the Company which is of such duration or on such terms as would require it to be made available for inspection. 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 16 and 17 of this document.

Directors' interests in the shares of the Company and options to acquire shares are set out in note 46 to the Accounts on page 52.

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 1993.

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 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 1994'.

Statement of directors' responsibilities

The directors of Abbey National plc are required by UK company law to prepare financial statements 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. Appropriate accounting policies, which follow generally accepted accounting practice, have been applied consistently and are explained in the Notes to the Accounts. In add'don, reasonable and prudent judgements and estimates have been used in the preparation of the accounts.

Ian K. Treacy.

By Order of the Board
Ian K. Treacy
Company Secretary
28 February 1994

The Board

The Lord Tugendhat ‡
Chairman
Appointed Joint Deputy Chairman on 1 June 1991, and Chairman on 1 July 1991. He is also Chairman of the Royal Institute of International Affairs (Chatham House) and a non-executive director of the BOC Group plc, LWT (Holdings) 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 57.

Mair Barnes ‡
Appointed to the Board in July 1992. Until recently she was Managing Director of Woolworths plc. Aged 49.

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 56.

Peter Davis FCA + ‡
Deputy Chairman
Appointed to the Board in 1982, he became non-executive Deputy Chairman in 1988. He was formerly the Deputy Chairman of Sturge Holdings PLC. In October 1993, he was appointed Director General of the National Lottery. Aged 52.

Allan Denholm CBE CA +
Appointed to the Board in January 1992. He is Deputy Chairman of Scottish Mutual Assurance plc and since November 1993 a director of Abbey National Life plc. He is also a director of William Grant and Sons Limited and Chairman of the East Kilbride Development Corporation. He is the immediate past President of the Institute of Chartered Accountants of Scotland. Aged 57.

John Fry FCIS FCIB • ‡
Group Services Director
After joining Abbey National in 1961, he has held a number of senior executive positions. He became a General Manager in 1979 and was appointed to the Board in 1984. Aged 57.

Ian Harley FCA •
Finance Director
Appointed to the Board in June 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 Finance, Treasury and Retail Divisions. Aged 43.

Sir Terry Heiser GCB +
Appointed to the Board in October 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 the Environment from 1985 to June 1992. Aged 61.

Gareth Jones FCA FCT •
Treasurer
Appointed to the Board in September 1993. He joined Abbey National in 1989 as Assistant General Manager and Treasurer. He was reappointed Treasurer in September 1993 with responsibility for Abbey National Treasury Services plc after serving as Director, Retail Operations. Aged 45.

Robert Knighton •
Managing Director,
Operations Division
Appointed to the Board in September 1993. After joining Abbey National in 1969, he was appointed General Manager in 1988 with responsibility for information technology and computer systems. Aged 47.

Martin Llowarch FCA +
A Board member since 1989. 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 58.

Sara Morrison
Formerly a 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 59.

Douglas Patrick FFA •
Managing Director,
Life Assurance Division
Appointed to the Board in January 1992. He joined Scottish Mutual in 1960, and has held a number of executive positions, including appointment as director in 1988 and Chief Executive in 1990. Aged 51.

The Lord Rockley +
Joined the Board in 1990. He is Chairman of the Kleinwort Benson Group plc, which is 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 FR Group plc.
Aged 59.

Charles Toner •
Managing Director, Retail Division
Appointed to the Board in October 1992. After joining Abbey National in 1964, he has held a number of executive positions, including appointment as a General Manager in 1986.
Aged 52.

James Tuckey FRICS ‡
Appointed to the Board in 1990. He is currently Chief Executive of MEPC plc.
Aged 47.

Charles Villiers FCA •
Managing Director,
Corporate Development
A Board member since 1989. He was formerly the Chief Executive of NatWest Investment Bank Limited, an executive director of National Westminster Bank plc and the Chairman of County NatWest Limited. Aged 53.

John Bayliss resigned on 31 December 1993. Peter Davis will resign at the conclusion of the Annual General Meeting on 28 April 1994. James Tyrrell resigned on 30 June 1993.

- • Executive Director
- + Audit Committee Member
- ‡ Personnel Policy 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 19 to 52.

Respective Responsibilities of Directors and Auditors

As described on page 14, 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 1993 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

28 February 1994

Consolidated Profit and Loss Account

for the year ended 31 December 1993

	1993 £m	1992 £m	Notes
Interest receivable			
Interest receivable and similar income arising from debt securities	1,196	1,414	3
Other interest receivable and similar income	3,778	4,372	4
Interest payable	(3,636)	(4,521)	5
Net interest income	1,338	1,265	
Dividend income	46	28	6
Fees and commissions receivable	244	224	
Fees and commissions payable	(13)	(10)	
Dealing profits	8	3	
Other operating income	91	74	7
Total operating income	1,714	1,584	
Administrative expenses	(679)	(629)	8
Depreciation and amortisation	(84)	(77)	
Provisions for bad and doubtful debts	(218)	(274)	11
Amounts written off fixed asset investments	1	(3)	
Profit on ordinary activities before tax and exceptional items	734	601	
Exceptional items:			
Loss on disposal/reorganisation of estate agency business	(30)	(138)	12
Sale of unclaimed shares	–	101	13
Profit on ordinary activities before tax	704	564	
Tax on profit on ordinary activities	(314)	(247)	14
Profit on ordinary activities after tax	390	317	15
Transfer to non-distributable reserve	(32)	(7)	38
Dividends	(184)	(151)	16
Profit retained for the financial year	174	159	
Profit on ordinary activities before tax and exceptional items includes for discontinued operations	(2)	(20)	
Earnings per share	29.7p	24.2p	17

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

Abbey National plc

Consolidated Balance Sheet

at 31 December 1993

Notes		1993 £m	1992 £m
	Assets		
	Cash and balances at central banks	168	150
18	Treasury bills and other eligible bills	589	347
19	Loans and advances to banks	3,556	2,276
20	Loans and advances to customers	45,049	42,061
21	Net investment in finance leases	2,253	1,737
22	Debt securities	24,789	19,563
23	Equity shares and other variable yield securities	523	435
24	Long term assurance business	287	215
26	Tangible fixed assets	509	518
27	Other assets	1,128	1,204
28	Prepayments and accrued income	1,080	901
24	Assets of long term assurance funds	3,871	2,816
	Total assets	83,802	72,223
	Liabilities		
29	Deposits by banks	16,368	13,103
30	Customer accounts	36,143	34,348
31	Debt securities in issue	19,030	14,929
	Dividend proposed	129	101
32	Other liabilities	1,732	1,192
34	Accruals and deferred income	1,979	1,736
35	Provisions for liabilities and charges	296	166
36	Subordinated liabilities	868	648
24	Liabilities of long term assurance funds	3,871	2,816
		80,416	69,039
37	Called up share capital	131	131
	Share premium account	836	836
38	Reserves	39	7
38	Profit and loss account	2,380	2,210
	Total liabilities	83,802	72,223
	Memorandum Items		
	Contingent liabilities		
40	Guarantees and assets pledged as collateral security	702	512
41	Other contingent liabilities	96	191
		798	703
42	*Commitments*	784	1,250

Approved by the Board on 28 February 1994 and signed on its behalf by:

LORD TUGENDHAT	PETER G BIRCH	IAN HARLEY
Chairman	Chief Executive	Finance Director

Company Balance Sheet

at 31 December 1993

	1993 £m	1992 £m	Notes
Assets			
Cash and balances at central banks	167	149	
Loans and advances to banks	324	289	19
Loans and advances to customers	45,064	41,718	20
Debt securities	1,501	1,010	22
Equity shares and other variable yield securities	1	1	23
Shares in Group undertakings	698	693	25
Tangible fixed assets	497	490	26
Other assets	191	196	27
Prepayments and accrued income	85	96	28
Total assets	48,528	44,642	
Liabilities			
Deposits by banks	5,934	3,766	29
Customer accounts	37,184	35,811	30
Debt securities in issue	21	14	31
Dividend proposed	129	101	
Other liabilities	637	631	32
Accruals and deferred income	820	784	34
Subordinated liabilities	695	473	36
	45,420	41,580	
Called up share capital	131	131	37
Share premium account	836	836	
Profit and loss account	2,141	2,095	38
Total liabilities	48,528	44,642	
Memorandum items			
Contingent liabilities			
Guarantees and assets pledged as collateral security	37,050	27,711	40
Other contingent liabilities	96	191	41
	37,146	2[illegible]902	
Commitments	77	51	42

Approved by the Board on 28 February 1994 and signed on its behalf by.

LORD TUGENDHAT
Chairman

PETER G BIRCH
Chief Executive

IAN HARLEY
Finance Director

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ABBEY NATIONAL PLC

Company Profit and Loss Account for the Year Ended 31 December 1993

	1993 £m	1992 £m
Interest receivable		
Interest receivable	73	23
Other interest receivable and similar income arising from debt securities	3,946	4,552
Interest payable	(2,889)	(3,486)
Net interest income	1,130	1,089
Fees and commissions receivable	228	152
Fees and commissions payable	(53)	(4)
Dealing profits	11	2
Other operating income	13	15
Total operating income	1,329	1,254
Administrative expenses	(580)	(506)
Depreciation and amortisation	(78)	(69)
Provisions for bad and doubtful debts	(113)	(406)
Amounts written off fixed asset investments	(116)	-
Profit on ordinary activities before tax and exceptional items	442	273
Exceptional items:		
Loss on disposal of estate agency business	(21)	-
Sale of unclaimed shares	-	101
Profit on ordinary activities before tax	421	374
Tax on profit on ordinary activities	(191)	(164)
Profit on ordinary activities after tax	230	210
Dividends	(184)	(151)
Profit retained for the financial year	46	59

The statement of total recognised gains and losses is presented on the attached page.

Lord Tugendhat

Peter G Birch
Chief Executive

Ian Harley
Finance Director

Statement of Total Recognised Gains and Losses
for the Year Ended 31 December 1993

	1993 £m	1992 £m
Profit on ordinary activities after tax	230	210
Currency translation differences	-	(1)
Total recognised gains relating to the year	230	209

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

Statement of Total Recognised Gains and Losses

for the year ended 31 December 1993

Notes		1993 £m	1992 £m
	Profit on ordinary activities after tax	390	317
	Translation differences on foreign currency net investment	(8)	4
	Total recognised gains relating to the year	382	321

Consolidated Cash Flow Statement

for the year ended 31 December 1993

Notes		1993 £m	1992 £m
44(a)	Net cash inflow from operating activities	5,738	5,971
	Returns on investments and servicing of finance		
	Dividends paid	(156)	(142)
	Net cash outflow from returns on investments and servicing of finance	(156)	(142)
	Taxation		
	UK corporation tax paid	(46)	(156)
	Overseas tax paid	(16)	(10)
	Total taxation paid	(62)	(166)
	Investing activities		
	Purchases of investment securities	(22,087)	(16,027)
	Sales of investment securities	17,126	9,935
	Purchases of tangible fixed assets	(101)	(115)
	Sales of tangible fixed assets	19	13
	Transfers to life assurance funds	(40)	(285)
	Purchases of shares from minority shareholders	–	(1)
	Purchases of subsidiary undertakings	–	(3)
	Sale of subsidiary undertakings	1	–
	Net cash outflow from investing activities	(5,082)	(6,483)
	Net cash inflow/(outflow) before financing	438	(820)
	Financing		
	Issue of ordinary share capital	–	2
	Issue of loan capital	220	240
	Net cash inflow from financing	220	242
44(c)	*Increase/(Decrease) in cash and cash equivalents*	658	(578)

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.

The presentation of these accounts reflects the Companies Act 1985 (Bank Accounts) Regulations 1991 which brought into effect the requirements of the EC Bank Accounts Directive for accounting years beginning on or after 23 December 1992. These requirements include comprehensive changes to the format of the profit and loss account and balance sheet.

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 subsidiaries made up to 31 December, with the exception of a number of leasing and investment subsidiaries which, because of commercial considerations, have various accounting reference dates. The accounts of these subsidiaries have been consolidated on the basis of interim accounts for the year to 31 December 1993.

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

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.

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. All securities not held for investment purposes are stated at market value. The cost of such securities is not disclosed as it can not be determined without unreasonable expense.

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 and their associated funding 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.

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.

Where fixed interest investments are held within an internal investment fund with a planned maturity, profits and losses arising on transactions within the fund are spread evenly over the period to maturity of the fund. All other profits and losses on securities are dealt with in the profit and loss account as these arise.

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.

Gains and losses arising from hedging transactions are released to the profit and loss account over the life of the transaction against which the hedge was held. 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 such instruments, if purchased or sold for purposes other than investment, or in order to hedge assets held for purposes other than investment, are taken directly to the profit and loss account. Any such transactions outstanding at the balance sheet date are stated at market value.

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.

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.

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.

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.

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 12.5% per annum 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 value 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.

1. Changes in accounting policies and presentation

Following amendments to the Companies Act 1985 consequent on the implementation in the UK of the EC Bank Accounts Directive, and the adoption for the first time of Statements of Recommended Accounting Practice (SORPs) of the British Bankers' Association, the accounting policies and presentation of the accounts have been changed as outlined below. Comparative figures have been restated accordingly.

The Companies Act 1985 (Bank Accounts) Regulations 1991

The consolidated profit and loss account and balance sheets have been presented in accordance with the formats now laid down in legislation. Certain assets and liabilities which were previously reported on a net basis are now shown gross in accordance with the new regulations. The effect of this is to increase both total assets and total liabilities in the 1992 balance sheet by £300m.

SORP on advances

The SORP on advances makes recommendations on the recognition and valuation of loans and advances, and includes a recommendation that interest due but not received on loans and advances in arrears should not be recognised in interest receivable where collectability is in doubt. The implementation of the SORP has led to a review of the methodology by which interest is suspended. The result of this review has not changed the aggregate of suspended interest and provisions for bad and doubtful debts reported for 1992, but has resulted in transfers being made between these two amounts. The 1992 charge for provisions for bad and doubtful debts has been reduced by £48m and suspended interest has been increased by the same amount. The 1992 balance of provisions for bad and doubtful debts has been reduced by £19m and the balance of suspended interest has been increased by the same amount.

SORP on securities

The SORP on securities makes recommendations on the recognition and valuation of securities, including the classification of securities into those held for investment purposes and those held for other purposes. Investment securities have been defined as those intended for use on a continuing basis in the activities of the Group. All securities not held for investment purposes should be stated at market value.

On the implementation of the SORP, the categorisation of securities has been reviewed. Securities which are not for the purpose of investment, certain money market deposits and the associated funding of these assets have been stated at market value. Profits and losses arising from the revaluation of these assets and liabilities are included in the profit and loss account in dealing profits. The previous accounting policy was to show these assets at cost adjusted for any amortisation of premium or discount on an appropriate basis over their estimated lives. The effect of this change in accounting policy on 1992 profits is immaterial.

In accordance with the SORP, interests in securities are recognised as assets or, in the case of short positions, liabilities, at the date on which the commitment to purchase or sell is considered to be binding. The previous accounting policy was to recognise such assets on settlement. The effect of the change on the 1992 balance sheet is to increase debt securities by £111m, with a corresponding increase in other liabilities.

SORP on off-balance sheet instruments and other commitments and contingent liabilities

This SORP makes recommendations regarding the recognition, valuation and disclosure of off-balance sheet instruments and other commitments and contingent liabilities. Additional disclosures recommended by the SORP are included in note 42.

2. 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. The Life Assurance Operations segment relates to the writing of life assurance business and consists of the results of Scottish Mutual Assurance plc and Abbey National Life plc. The results of Abbey National Life plc include costs incurred in preparing for the launch of the operation, which occurred on 1 February 1993.

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 £m	Treasury Operations £m	Continental Europe & Offshore £m	Other Operations £m	Estate Agency £m	Group Total £m
1993							
Group result before tax and exceptional items	618	61	145	(105)	17	(2)	734
Exceptional items	–	–	–	–	–	(30)	(30)
Group result 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
1992							
Group result before tax and exceptional items	540	22	100	(46)	5	(20)	601
Exceptional items	–	–	–	–	101	(138)	(37)
Group result before taxation	540	22	100	(46)	106	(158)	564
Includes for discontinued operations	–	–	–	–	–	(158)	(158)
Total assets	42,153	3,056	24,072	1,265	1,637	40	72,223
Net assets	2,516	15	761	108	(8)	(208)	3,184

3. Interest receivable and similar income arising from debt securities

	1993 £m	1992 £m
Income from listed and registered securities	942	926
Income from unlisted securities	254	488
	1,196	1,414

Preference dividends of £31m (1992: £31m) are included in income from unlisted securities after amortisation amounting to £59m (£59m).

4. Other interest receivable and similar income

	1993 £m	1992 £m
On secured advances	3,424	4,087
On other lending	80	70
On finance leases	142	116
On other assets and investments	132	99
	3,778	4,372

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 1993	96	33	5	134
Exchange movements	(1)	(3)	–	(4)
Amounts suspended in the year	69	39	1	109
Irrecoverable amounts written off	(87)	–	(2)	(89)
At 31 December 1993	77	69	4	150
Including for the Company	59	22	1	82

The value of loans at 31 December 1993 on which interest is suspended is as follows:

Loans and advances to customers	720	334	35	1,089
Provisions on these loans	(183)	(135)	(28)	(346)

5. Interest payable

	1993 £m	1992 £m
On retail customer accounts	1,813	2,563
On other deposits and loans	1,823	1,958
	3,636	4,521
Including amounts payable on subordinated liabilities	66	57

6. Dividend income

	1993 £m	1992 £m
Income from equity shares and other variable yield securities	46	28

7. Other operating income

	1993 £m	1992 £m
Income from long term assurance business (see note 24)	61	31
Profits less losses on disposal of investment securities	(2)	13
Rents receivable	5	6
Other	27	24
	91	74

8. Administrative expenses

	1993 £m	1992 £m
Staff costs:		
Wages and salaries	268	242
Social security costs	25	22
Other pension costs	29	19
	322	283
Other administrative expenses	357	346
	679	629
Other administrative expenses include the following items:		
Hire of equipment	7	9
Finance charges in respect of leased assets	3	4
Rent and rates payable	57	56

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

Staff costs incurred by the Life Assurance division are:

	1993 £m	1992 £m
Staff costs:		
Wages and salaries	23	18
Social security costs	2	1
Other pension costs	3	2
	28	21

The auditors' remuneration was £1.3m (£1.2m) for audit services and £1.6m (£2.4m) 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 in the Life Assurance division of £0.2m (£0.1m).

9. Directors' emoluments

The aggregate emoluments of directors were:

	1993 £000	1992 £000
Fees in respect of services as directors	400	368
Other emoluments:		
Salary and benefits	1,334	1,187
Performance related benefits	274	–
Ex-gratia payments to former directors	–	53
Total emoluments	2,008	1,608
Compensation for loss of office	250	266
	2,258	1,874

Fees are paid only to non-executive directors including the Chairman. The basic fee for non-executive directors of £17,500 is augmented for service on Board committees. The basic fee has not changed during 1993.

The basic salaries of executive directors are considered annually by the non-executive members of the Personnel Policy Committee of the Board. Recommendations for any changes are then made to the full complement of non-executive directors of the Board. Bonuses are treated in the same way and are considered in the light of individual and Group performance.

The remuneration arrangements for executive directors are as follows:

a) basic pay is considered in relation to similar jobs in comparable organisations;

b) a discretionary bonus payment may be made, the total amount of which is determined by the non-executive directors on the basis of their view of Group performance. Payments to individual executive directors are decided by reference to individual performance. In 1993 the bonus pool for apportionment among executive directors represented 13.9% (nil) of the relevant executive directors' salaries;

c) all eligible employees, including executive directors, participate in a profit sharing scheme which, at the discretion of the Board, can pay out a maximum of 10% of salary. The factors which the Board takes into account when exercising that discretion include the growth in Group profits compared with the growth in the Retail Prices Index. The maximum payment of 10% (nil) has been provided in respect of 1993; and

d) an Executive Share Option scheme has been approved by the shareholders. This scheme includes executive directors, and their interests are set out on page 30 and in note 46.

The emoluments of the Chairman, Lord Tugendhat, were £224,246 (£211,575). This appointment is non-pensionable so the Chairman's emoluments include an allowance for him to make his own private pension arrangements. The Chairman's emoluments are comprised wholly of fees and expenses in respect of services. He is not entitled to participate in any bonus and profit sharing arrangements, or the Executive Share Option Scheme, but he is entitled to participate in the Company's Sharesave scheme which is available to all eligible employees.

The highest paid director is the Chief Executive. His emoluments, excluding pension contributions were:

	1993 £	1992 £
Salary and benefits	266,779	257,566
Performance related payments	62,400	–
	329,179	257,566

9. Directors' emoluments (continued)

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.

£	1993	1992
0 - 5,000	–	1
5,001 - 10,000	–	1
10,001 - 15,000	–	1
15,001 - 20,000	5	5
20,001 - 25,000	2	–
30,001 - 35,000	–	2
35,001 - 40,000	1	–
50,001 - 55,000	1	–
55,001 - 60,000	1	–
60,001 - 65,000	–	1
80,001 - 85,000	1	–
90,001 - 95,000	1	–
120,001 - 125,000	–	1
130,001 - 135,000	–	1
145,001 - 150,000	–	1
150,001 - 155,000	1	–
155,001 - 160,000	–	1
160,001 - 165,000	–	1
165,001 - 170,000	1	–
170,001 175,000	1	1
200,001 - 205,000	1	–
210,001 - 215,000	–	1
220,001 - 225,000	1	–
235,001 - 240,000	1	–
255,001 - 260,000	–	1
325,001 - 330,000	1	–

Pensions to former directors amounted to £155,415 (£143,310).

Options were granted during the year ended 31 December 1993 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 139,694 (392,173) ordinary shares. These included options over 104,773 shares granted at 369 pence and normally exercisable between 1996 and 2003 . 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 34,921 shares were granted at 314 pence and are normally exercisable between 1998 and 2003 . 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 exercise. In addition, parallel options were granted over the same shares exercisable at 369 pence on the same basis as detailed in the preceding paragraph. The option holder may exercise either option, thereby reducing both options, subject to achievement of the performance criteria.

The entitlements of individual directors are set out in note 46.

The grant of options under the Executive Share Option scheme is considered annually by the Personnel Policy Committee of the Board in the light of individual and Group performance. Recommendations are then made to the non-executive directors of the Board.

10. Employees

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

	1993	1992
Full time		
Chief administrative offices	4,783	4,552
Branch offices	8,801	9,902
Life Assurance division	1,200	1,004
	14,784	15,458
Male	4,657	4,981
Female	10,127	10,477
	14,784	15,458
Part time		
Chief administrative offices	724	511
Branch offices	3,522	4,000
Life Assurance division	16	17
	4,262	4,528
Male	46	93
Female	4,216	4,435
	4,262	4,528

11. 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 1993				
General	106	5	3	114
Specific	171	58	30	259
Exchange movements	(4)	(4)	-	(8)
Transfer from profit and loss account	117	88	13	218
Irrecoverable amounts written off	(122)	-	(15)	(137)
At 31 December 1993	268	147	31	446
Being for the Group:				
General	85	12	3	100
Specific	183	135	28	346
Including for the Company:				
General	76	1	1	78
Specific	151	25	10	186

12. Loss on disposal/reorganisation of estate agency business

	1993 £m	1992 £m
Loss on disposal of estate agency business	26	–
Goodwill recognised on disposal of business/branches	4	13
Reorganisation costs	–	12
Permanent diminution in value of goodwill	–	113
	30	138

Following the reorganisation and restructuring of the estate agency business in 1992, 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. The value of goodwill on acquisition remaining for this business has been recognised in the profit and loss account, having previously been taken to reserves in accordance with standard accounting practice. In 1992, a permanent diminution in value of goodwill on acquisition was recognised in the profit and loss account following a reassessment by the directors of the value taken to reserves.

13. Sale of unclaimed shares

	1993 £m	1992 £m
Net proceeds of share sales less provision for future claims	–	106
Endowment of charitable trust	–	(5)
	–	101

During 1992, Abbey National plc sold 31m shares which had remained unclaimed for more than three years after conversion, as permitted by the Company's Articles of Association. The remaining eligible borrowers and savers are entitled to the proceeds of the sale of their shares if they validate their entitlement before December 1998.

14. Tax on profit on ordinary activities

	1993 £m	1992 £m
UK Corporation tax:		
Current at 33% (33%)	224	181
Deferred	75	63
Prior year under provision including deferred tax	14	2
Double tax relief	(16)	(8)
Overseas taxation	17	9
	314	247

No reduction in the tax charge for 1993 has been made as a result of the exceptional item described in note 12 or in respect of overseas losses for which tax relief is not currently available. The 1992 charge included £10m as a result of the items described in notes 12 and 13.

15. Profit on ordinary activities after tax

The profit of the Company after tax, attributable to the shareholders, is £230m (£210m). As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these accounts.

16. Dividends

Dividends include the interim dividend paid of 4.15 (3.80) pence per share and the final dividend now proposed of 9.85 (7.70) pence per share.

17. Earnings per share

Earnings per share have been calculated by dividing the consolidated profit after tax of £390m (£317m) by the average number of ordinary shares in issue of 1,311m (1,311m).

18. Treasury bills and other eligible bills

	Group 1993		Group 1992	
	Book Value £m	Market Value £m	Book Value £m	Market Value £m
Investment securities				
Treasury bills and similar securities	47	47	160	160
Other securities				
Treasury bills and similar securities	474		134	
Other eligible bills	68		53	
	542		187	
Total	589		347	

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

	Group 1993 £m
At 1 January 1993	160
Additions	869
Disposals	(985)
Amortisation of discounts/(premiums)	3
At 31 December 1993	47
Unamortised discounts/(premiums) at 31 December 1993	–

Treasury bills and other eligible bills with a book value of nil (£154m) form part of an internal investment fund.

19. Loans and advances to banks

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Items in the course of collection	143	118	143	118
Amounts due from subsidiaries	–	–	176	170
Other loans and advances	3,413	2,158	5	1
	3,556	2,276	324	289
Repayable:				
On demand	1,154	355	181	171
In not more than three months	2,070	1,569	143	118
In more than three months but not more than one year	36	86	–	–
In more than one year but not more than five years	128	114	–	–
In more than five years	168	152	–	–
	3,556	2,276	324	289

20. Loans and advances to customers

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Advances secured on residential properties	43,653	40,399	43,070	39,613
Other secured advances	477	636	129	247
Unsecured loans	484	531	14	14
Collateralised mortgage loans	435	495	–	–
Amounts due from subsidiaries	–	–	1,851	1,844
	45,049	42,061	45,064	41,718
Repayable:				
On demand or at short notice	4,010	3,410	5,397	5,115
In not more than three months	199	435	93	72
In more than three months but not more than one year	304	341	258	141
In more than one year but not more than five years	1,952	1,840	1,598	1,396
In more than five years	38,950	36,408	37,982	35,275
Less: provisions	(446)	(373)	(264)	(281)
	45,049	42,061	45,064	41,718

Amounts due from subsidiaries that are subordinated amount to £20m (£nil).

21. Net investment in finance leases

	Group 1993 £m	Group 1992 £m
Amounts receivable	4,749	3,465
Less: deferred income	(2,496)	(1,728)
	2,253	1,737
Repayable:		
In not more than three months	1	–
In more than three months but not more than one year	14	–
In more than one year but not not more than five years	722	624
In more than five years	1,516	1,113
	2,253	1,737
Cost of assets acquired for the purpose of letting under finance leases in the year	729	1,107
Gross rentals receivable	348	181
Commitments as lessor for the purchase of equipment for use in finance leases	304	773
Amounts outstanding subject to a sub-participation	57	44

22. Debt securities

	Group 1993		Group 1992		Company 1993		Company 1992	
	Book Value £m	Market Value £m	Book Value £m	Market Value £m	Book Value £m	Market Value £m	Book Value £m	Market Value £m
Investment securities								
Issued by public bodies:								
Government securities	4,539	4,775	1,958	1,992	1,211	1260	451	470
Other public sector securities	2,526	2,679	1,619	1,769	37	37	29	29
	7,065	7,454	3,577	3,761	1,248	1,297	480	499
Issued by other issuers:								
Bank and building society certificates of deposit	127	127	79	78	–	–	–	–
Other debt securities	15,634	16,024	14,099	14,052	31	31	10	10
	15,761	16,151	14,178	14,130	31	31	10	10
Sub-total	22,826	23,605	17,755	17,891	1,279	1,328	490	509
Other securities								
Issued by public bodies:								
Government securities	656		753		222		520	
Issued by other issuers:								
Bank and building society certificates of deposit	1,307		1,055		–		–	
Sub-total	1,963		1,808		222		520	
Total	24,789		19,563		1,501		1,010	

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

22. Debt securities (continued)

	Group 1993 Book Value £m	Group 1993 Market Value £m	Group 1992 Book Value £m	Group 1992 Market Value £m	Company 1993 Book Value £m	Company 1993 Market Value £m	Company 1992 Book Value £m	Company 1992 Market Value £m
Analysed by listing status:								
Investment securities								
Listed in the UK	6,810	6,992	5,050	5,053	1,211	1,260	451	470
Listed or registered elsewhere	12,718	13,281	8,612	8,758	-	-	-	-
Unlisted	3,298	3,332	4,093	4,080	68	68	39	39
	22,826	23,605	17,755	17,891	1,279	1,328	490	509
Other securities								
Listed in the UK	222		520		222		520	
Listed or registered elsewhere	434		233		-		-	
Unlisted	1,307		1,055		-		-	
	1,963		1,808		222		520	
Total	24,789		19,563		1,501		1,010	
Analysed by maturity:								
Due within one year	2,970		1,968		125		345	
Due one year and over	21,819		17,595		1,376		665	
	24,789		19,563		1,501		1,010	

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

	Cost £m	Provisions £m	Net Book Value £m
Group			
At 1 January 1993	17,773	(18)	17,755
Exchange adjustments	148	(1)	147
Acquisitions	21,167	-	21,167
Disposals	(16,261)	-	(16,261)
Provisions released	-	1	1
Amortisation of discounts/(premiums)	17	-	17
At 31 December 1993	22,844	(18)	22,826
Unamortised discounts/(premiums) at 31 December 1993			(72)
Company			
At 1 January 1993	490	-	490
Acquisitions	1,753	-	1,753
Disposals	(950)	-	(950)
Amortisation of discounts/(premiums)	(14)	-	(14)
At 31 December 1993	1,279	-	1,279
Unamortised discounts/(premiums) at 31 December 1993			(129)

22. Debt securities (continued)

The Group enters into sale and repurchase agreements. The total value of assets so transferred and which are included above is £1,010m (£1,037m) including, for the Company, £830m (£842m).

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.

Included in debt securities at 31 December 1992 were certain fixed interest securities held within an internal investment fund with a planned maturity, amounting to £646m, including an unamortised loss of £17m. During 1993 the directors decided to transfer the securities from the fund and incorporate them within the overall investment holdings. The unamortised loss has been charged in full to other operating income in the profit and loss account.

23. Equity shares and other variable yield securities

	Group 1993		Group 1992		Company 1993		Company 1992	
	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	1	2	1	2	–	–	–	–
Unlisted	522	525	434	434	1	1	1	1
	523	527	435	436	1	1	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 1993	435	1
Exchange adjustments	1	–
Acquisitions	87	–
Disposals	–	–
At 31 December 1993	523	1

Included in unlisted securities are 100% of the preference shares of ACP Treasury Ltd, which is incorporated in Jersey. These securities have been valued at the lower of cost and directors' valuation.

24. Long term assurance business

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

	1993 £m	1992 £m
Embedded value of policies in force and surplus retained within the long term assurance funds	287	215

Income from long term assurance business included as other operating income in the consolidated profit and loss account is £61m (£31m) and consists of an increase in the value of the shareholders' interest in the long term assurance business of £47m (£10m) before tax and £32m (£7m) after tax and profit transferred from the long term assurance funds during the year of £14m (£21m) before tax and £9m (£14m) after tax.

On the formation of Abbey National Life plc on 1 February 1993, a transfer of £40 million was made into the long term assurance fund. This contributes to the increase in the value of long term assurance business.

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

	1993 £m	1992 £m
Fixed assets	6	6
Investments	3,796	2,680
Current assets	282	209
Current liabilities	(213)	(79)
	3,871	2,816
Long term assurance funds including investment reserve	3,871	2,816

25. Shares in Group undertakings

	Cost and book value	
	1993 £m	1992 £m
Subsidiary undertakings		
Banks	314	300
Others	384	393
Total	698	693

The movement in shares in Group undertakings was as follows:

	1993 £m
At 1 January 1993	693
Additions	126
Disposals	(6)
Amounts written off	(115)
At 31 December 1993	698

Additions include the subscription for share capital in Abbey National Life plc for £52 million on 1 February 1993, the subscription for share capital in Carfax Insurance Limited for £10 million, and additional subscriptions for share capital in Abbey National Bank SAE and Abbey National France SA.

Subsequent to the year ended 31 December 1993, Abbey National plc acquired the UK residential mortgage business of the Canadian Imperial Bank of Commerce, representing £900 million of secured residential mortgage assets and related wholesale funding. The acquisition was made on 4 February 1994, and consequently is not included in the financial statements as at 31 December 1993. The business has been renamed Abbey National Mortgage Finance plc.

Disposals include the sale of Abbey National Estate Agency Ltd on 31 August 1993. Abbey National Property Services Ltd took over certain residual estate agency activities which were not sold. Disposals also include the transfer of the business of Abbey National Mutui SpA to Abbey National plc on 31 December 1993. The company Abbey National Mutui SpA was wound up at that date. The value of the investment in the share capital of Abbey National France SA has been written down by £113 million as a result of a review which identified a permanent diminution in value. A further £2 million was written off in respect of the investment in Cornerstone Espana SA, which has now ceased to trade.

The principal subsidiaries of Abbey National plc at 31 December 1993 are listed below, all of which are directly held except for Abbey National (Overseas) Ltd, Abbey National (Gibraltar) Ltd, 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 Personal Finance Ltd	Personal finance	England & Wales
Abbey National Property Services Ltd	Estate agency	England & Wales
Abbey National Financial Services 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 (Overseas) Ltd	Personal finance	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 100% of the issued ordinary share capital of its principal subsidiaries.

All companies operate in their country of incorporation or registration. Abbey National (Gibraltar) Ltd also operates in Spain and Portugal. All the above companies are included in the consolidated accounts.

26. Tangible fixed assets

	Group			Company		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
Cost						
At 1 January 1993	291	502	793	278	461	739
Additions	24	77	101	24	73	97
Disposals	(17)	(40)	(57)	(7)	(16)	(23)
At 31 December 1993	298	539	837	295	518	813
Depreciation						
At 1 January 1993	37	238	275	31	218	249
Charge for the year	7	77	84	7	71	78
Disposals	(5)	(26)	(31)	–	(11)	(11)
At 31 December 1993	39	289	328	38	278	316
Net book value						
At 31 December 1993	259	250	509	257	240	497
At 31 December 1992	254	264	518	247	243	490

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
The net book value of premises comprises:				
Freeholds	200	196	199	195
Long leaseholds	10	10	10	10
Short leaseholds	49	48	48	42
Land and buildings occupied for own activities:				
Net book value at 31 December	220	206	218	199
The net book value of equipment includes:				
Assets held under finance leases	19	28	19	28
Depreciation charge for the year on these assets	15	15	15	15
Capital expenditure which has been contracted, but has not been provided in the accounts	35	25	35	25
Capital expenditure which has been authorised by the directors but has not yet been contracted	15	23	15	22

27. Other assets

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Residential development properties	29	50	–	–
Foreign exchange and interest rate contracts	747	904	–	–
Other	352	250	191	196
	1,128	1,204	191	196

The figure for residential development properties includes completed properties of £12m (£39m) and work in progress of £17m (£11m).

The amount in respect of foreign exchange and interest rate contracts relates 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.

28. Prepayments and accrued income

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Accrued interest due from subsidiaries	–	–	4	14
Other accrued interest	1067	878	74	74
Prepayments and other accruals	13	23	7	8
	1,080	901	85	96

29. Deposits by banks

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Items in the course of transmission	246	298	246	298
Amounts due to subsidiaries	–	–	4,607	2,425
Other deposits	16,122	12,805	1,081	1,043
	16,368	13,103	5,934	3,766
Repayable:				
On demand	1,316	1,262	4,607	2,425
In not more than three months	12,335	10,029	1,098	1,267
In more than three months but not more than one year	2,540	1,610	88	–
In more than one year but not more than five years	145	128	139	–
In more than five years	24	74	2	74
	16,368	13,103	5,934	3,766

30. Customer accounts

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Retail funds and deposits	34,210	32,798	33,600	32,362
Amounts due to subsidiaries	–	–	3,153	3,026
Other customer accounts	1,933	1,550	431	423
	36,143	34,348	37,184	35,811
Repayable:				
On demand	33,979	33,220	36,994	35,668
In not more than three months	1,888	939	145	123
In more than three months but not more than one year	276	167	45	–
In more than one year but not more than five years	–	22	–	20
	36,143	34,348	37,184	35,811

31. Debt securities in issue

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Bonds and medium term notes	11,648	7,153	21	14
Other debt securities in issue	7,382	7,776	–	–
	19,030	14,929	21	14
Bonds and medium term notes are repayable:				
In not more than three months	1,489	782	–	11
In more than three months but not more than one year	2,587	2,459	–	–
In more than one year but not more than five years	5,162	3,526	3	–
In more than five years	2,410	386	18	3
	11,648	7,153	21	14
Other debt securities in issue are repayable:				
In not more than three months	4,547	6,297	–	–
In more than three months but not more than one year	2,728	1,325	–	–
In more than one year but not more than five years	84	120	–	–
In more than five years	23	34	–	–
	7,382	7,776	–	–

32. Other liabilities

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Creditors and accrued expenses	721	621	235	202
Short positions in Government debt securities	211	–	–	–
Income tax	171	229	170	227
Corporation tax	271	188	191	159
Foreign exchange and interest rate contracts	336	124	19	13
Obligations under finance leases (see note 33)	22	30	22	30
	1,732	1,192	637	631

The amount in respect of foreign exchange and interest rate contracts relates 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.

33. Obligations under finance leases

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Amounts payable:				
In not more than one year	13	15	13	15
In more than one year but not more than five years	9	15	9	15
	22	30	22	30
Amounts payable in not more than one year relate to finance leases ending:				
In not more than one year	4	1	4	1
In more than one year but not more than five years	9	14	9	14
	13	15	13	15

34. Accruals and deferred income

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Accrued interest due to subsidiaries	–	–	79	34
Other accrued interest	1,930	1,736	741	750
Deferred income	49	–	–	–
	1,979	1,736	820	784

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 £49 million (nil). The amount released during the year was nil (nil).

35. Provisions for liabilities and charges

	Group £m	Company (included in other assets) £m
Deferred taxation		
At 1 January 1993	166	(39)
Transfer from profit and loss account (including prior year charge for the Group of £55m)	130	4
At 31 December 1993	296	(35)

The amounts provided (recoverable) and total potential liabilities (assets) 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	17	17	17	17
Capital allowances on finance lease receivables	259	–	259	–
Other	20	(52)	20	(52)
	296	(35)	296	(35)

36. Subordinated liabilities

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Subordinated floating rate notes 1995	120	120	–	–
Subordinated floating rate notes 1997	42	42	–	–
9.00% Subordinated guaranteed bonds 2002 (LUX 1,000m)	19	20	–	–
Subordinated loan stock 2002*	–	–	17	17
Subordinated guaranteed bonds 2002 (US $75m)	51	49	–	–
Subordinated floating rate notes 2002 (US $75m)*	–	–	51	49
8.00% Subordinated guaranteed bonds 2002 (DFL 200m)	70	73	–	–
Subordinated loan 2002 (US $112m)*	–	–	76	74
10.375% Subordinated guaranteed bonds 2002	101	101	–	–
10.512% Subordinated loan stock 2001*	–	–	100	100
Subordinated floating rate notes 2003 (US $100m)	68	–	–	–
Subordinated floating rate notes 2003 (US $100m)*	–	–	68	–
Subordinated floating rate notes 2004 (US $137m)	92	90	–	–
Subordinated floating rate notes 2004*	–	–	83	83
11.50% Subordinated guaranteed bonds 2017	153	153	–	–
11.59% Subordinated loan stock 2017*	–	–	150	150
10.125% Subordinated guaranteed bonds 2023	152	–	–	–
10.18% Subordinated loan stock 2023*	–	–	150	–
	868	648	695	473

The subordinated floating rate notes pay a rate of interest related to sterling or US$ LIBOR depending on the currency of denomination.

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

37. Called up share capital

The authorised share capital of the Company is £175m (£175m) comprising ordinary shares of 10 pence each. The issued and fully paid share capital at 31 December 1993 was £131m (£131m).

Under the Company's Executive and Sharesave schemes, employees hold options to subscribe for 23,654,025 (22,022,439) ordinary shares at prices ranging from 149.0 to 369.0 pence per share, exercisable between 1994 and 2003. During the year 245,576 shares were issued on the exercise of options for a consideration of £444,242.

Under the terms of the Share Participation scheme, employees can elect to contribute, gross of tax, any performance related bonus to a trust fund. The trustees of the scheme will use such funds to subscribe for or purchase ordinary shares in the Company on behalf of the employees. The maximum that can be subscribed for under the terms of the scheme is 65,564,019 shares representing 5% of the issued share capital of the Company as at 28 February 1994. During 1993 no performance related bonus was paid, and therefore no shares were issued under the terms of the scheme.

As of 31 December 1993 there were 2,618,944 shareholders. The following table shows an analysis of their holdings:

Size of shareholding	Shareholders	Shares
1 – 100	1,765,049	175,564,330
101 – 1,000	823,108	383,899,862
1,001+	30,787	751,604,916
	2,618,944	1,311,069,108

38. Reserves and profit and loss account

	Profit and loss account		Non-distributable reserve	
	Group £m	Company £m	Group £m	Company £m
At 1 January 1993	2,210	2,095	7	–
Retained profit for the year	174	46	–	–
Goodwill recognised in the profit and loss account in the year	4	–	–	–
Exchange differences	(8)	–	–	–
Transfer to non-distributable reserve	–	–	32	–
At 31 December 1993	2,380	2,141	39	–

The cumulative amount of goodwill taken to reserves by the Group to 31 December 1993 and not yet recognised in the profit and loss account is £100m (£104m).

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

39. Reconciliation of movements in shareholders' funds

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Profit for the financial year	390	317	230	210
Dividends	(184)	(151)	(184)	(151)
	206	166	46	59
Other recognised gains and losses relating to the year	(8)	4	–	(1)
New share capital subscribed	–	2	–	2
Goodwill recognised in the profit and loss account in the year	4	126	–	–
Goodwill taken to reserves during the year	–	(85)	–	–
Net addition to shareholders' funds	202	213	46	60
Shareholders' funds at 1 January	3,184	2,971	3,062	3,002
Shareholders' funds at 31 December	3,386	3,184	3,108	3,062

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

40. Guarantees and assets pledged as collateral security

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Guarantees given by Abbey National plc in respect of subsidiaries' liabilities	–	–	37,050	27,711
Guarantees given to third parties	61	63	–	–
Mortgaged assets granted to secure future obligations to third parties who have provided security to the leasing subsidiaries	641	449	–	–
	702	512	37,050	27,711

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 Bank SAE, Abbey National (Overseas) Ltd, Abbey National (Gibraltar) Ltd and Abbey National France SA.

41. 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 £96m (£191m) at 31 December 1993.

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 transfer business

The Securities and Investments Board (SIB) is currently carrying out an industry-wide review over the conduct of business involving the transfer of pensions between schemes. In view of the uncertainty in this area, provisions in respect of possible compensation to customers have been made which are considered to be prudent.

42. 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 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.

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Forward asset purchases and forward deposits placed	126	341	35	25
Formal standby facilities, credit lines and other commitments to lend:				
One year and over	616	883	–	–
Less than one year	42	26	42	26
	784	1,250	77	51

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

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Exchange rate contracts:				
Contract or underlying principal amount	13,734	10,504	2,641	2,792
Credit risk weighted amount	243	231	–	3
Interest rate contracts:				
Contract or underlying principal amount	33,534	18,701	6,945	2,555
Credit risk weighted amount	300	126	21	23

The exchange rate and interest rate contracts are used predominantly for hedging purposes.

43. Assets and liabilities denominated in foreign currency

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

	Group 1993 £m	Group 1992 £m	Company 1993 £m	Company 1992 £m
Assets	18,228	12,754	641	347
Liabilities	22,892	18,035	2,992	2,869

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.

44. Consolidated cash flow statement

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

	1993 £m	1992 £m
Operating profit	704	564
Increase in interest receivable and pre-paid expenses	(188)	(484)
Increase in interest payable and accrued expenses	174	222
Provisions for bad and doubtful debts	218	274
Net advances written off	(137)	(83)
Increase in the value of long term assurance business	(47)	(10)
Depreciation	84	77
Profit on sale of tangible fixed assets and investments	(8)	(4)
Loss on disposal of subsidiary undertakings	30	–
Effect of other deferrals and accruals of cash flows from operating activities	49	118
Net cash flow from trading activities	879	674
Net increase in loans and advances	(4,219)	(4,708)
Net increase in investment in finance leases	(516)	(948)
Net decrease in bills and securities	8	752
Net increase in deposits and customer accounts	5,060	7,050
Net increase in debt securities in issue	4,101	3,946
Net increase in other liabilities less assets	607	195
Exchange movements	(182)	(990)
Net cash inflow from operating activities	5,738	5,971

b) Analysis of cash and cash equivalents

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

	1993 £m	1992 £m
Cash and balances with central banks	168	150
Treasury and other eligible bills	–	44
Loans and advances to banks	1,792	1,574
Debt securities	1,036	474
	2,916	2,242

The group is required to maintain balances with the Bank of England which at 31 December 1993 amounted to £167m (£152m). These are shown in loans and advances to banks.

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

	1993 £m	1992 £m
At 1 January	2,242	2,613
Net cash inflow/(outflow) before adjustment for the effect of foreign exchange rate changes	658	(578)
Effect of foreign exchange rate changes	16	207
At 31 December	2,916	2,242

44. Consolidated cash flow statement (continued)

d) Analysis of changes in financing during the year

	Share Capital inc. Share Premium 1993 £m	Subordinated Liabilities 1993 £m	Share Capital inc. Share Premium 1992 £m	Subordinated Liabilities 1992 £m
At 1 January	967	648	965	388
Cash inflow from financing	–	220	2	240
Effect of foreign exchange differences	–	–	–	20
At 31 December	967	868	967	648

e) Purchase of subsidiaries

	1993 £m	1992 £m
Net assets acquired:		
Long term assurance business	–	208
Fixed assets	–	1
Current assets	–	–
Current liabilities	–	(3)
Minority shareholders' interest	–	(2)
	–	204
Goodwill	–	85
	–	289
Satisfied by:		
Transfer to the long term assurance fund	–	285
Cash	–	4
	–	289

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

	1993 £m	1992 £m
Cash consideration	–	(4)
Cash and cash equivalents acquired	–	–
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	–	(4)

44. Consolidated cash flow statement (continued)

g) Disposal of subsidiary undertakings

	1993 £m	1992 £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 disposal of the subsidiary undertakings:

	1993 £m	1992 £m
Cash received as consideration	8	–
Cash and cash equivalents disposed of	(7)	–
Net inflow of cash and cash equivalents in respect of disposal of subsidiary undertakings	1	–

45. 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

The pension cost of £28m (£17m) 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 £6m (£nil) were made to the fund in 1993 and a provision of £62m 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.

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 (£0.1m) to the profit and loss account has been made in respect of them. The Board has determined that it will no longer award such pensions to non-executive directors who joined the Board after 31 December 1988.

46. Directors' Interests

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	13	1,256
Quasi loans	–	–
Credit transactions	–	–
Officers		
Loans	45	4,069
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:

	At 31 December 1993		Options granted during the year (or since appointment if later)		At 1 January 1993 (or date of appointment if later)	
	Shares	Options	Executive	Sharesave	Shares	Options
M Barnes	1,000	–	–	–	1,000	–
P G Birch	111,980	323,808	33,619	–	111,790	290,189
P A Davis	11,750	–	–	–	11,750	–
J A Denholm	1,500	–	–	–	1,500	–
J M Fry	3,324	203,375	–	–	3,324	203,375
I Harley	3,621	109,369	–	–	3,621	109,369
Sir Terry Heiser	1,500	–	–	–	1,500	–
D G Jones	1,000	137,823	–	–	1,000	137,823
R F Knighton	1,100	147,347	–	–	1,100	147,347
M E Llowarch	1,750	–	–	–	1,750	–
S Morrison	5,000	–	–	–	5,000	–
F D Patrick	1,000	91,365	31,951	–	1,000	59,414
The Lord Rockley	5,000	–	–	–	5,000	–
C G Toner	1,783	152,050	32,598	–	1,743	119,452
J L Tuckey	2,000	–	–	–	2,000	–
The Lord Tugendhat	10,000	7,845	–	–	10,000	7,845
C N Villiers	17,777	200,404	41,526	–	17,777	158,878

The options refer to those granted under the Company's Executive and Sharesave schemes, as set out in note 37. The terms under which the options under the Executive scheme were granted to directors are set out in note 9.

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 1994.

Group Financial Summary

Profit and loss accounts

	New Format 1993 £m	New Format 1992 £m	1992 £m	1991 £m	1990 £m	1989 £m
Net interest income	1,338	1,265	1,246	1,143	956	766
Other income and charges	376	319	335	265	189	174
Operating expenses	(763)	(706)	(706)	(635)	(508)	(425)
Provisions for bad and doubtful debts	(218)	(274)	(274)	(155)	(55)	(14)
Amounts written off fixed asset investments	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	704	564	564	618	582	501
Tax on profit on ordinary activities	(314)	(247)	(247)	(204)	(205)	(178)
Profit on ordinary activities after tax	390	317	317	414	377	323
Transfer to non-distributable reserve	(32)	(7)	(7)	–	–	–
Dividends	(184)	(151)	(151)	(138)	(125)	(75)
Retained profit for the year	174	159	159	276	252	248
Profit on ordinary activities before tax includes as a result of acquisitions	–	30	30	–	4	1
Profit on ordinary activities before tax and exceptional items includes for discontinued operations	(2)	(20)	(20)	–	–	–
Earnings per share	29.7p	24.2p	24.2p	31.6p	28.8p	–
Pro forma earnings per share	–	–	–	–	–	27.3p
Dividends per share (pence)						
Net	14.0p	11.5p	11.5p	10.5p	9.5p	5.7p
Gross equivalent	17.5p	14.7p	14.7p	14.0p	12.7p	7.6p
Dividend cover (times)	2.1	2.1	2.1	3.0	3.0	–

Balance sheets and an explanation of the old and new formats are provided on pages 54 and 55.

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.

The statutory accounts for 1989 were drawn up for a nine month period during which the Company traded from 12 July 1989 (the date of conversion from building society to plc) to 31 December 1989. For comparative purposes pro forma accounts have been produced for the year to 31 December 1989 reflecting the results of the business for the whole of that year.

Pro forma earnings per share for 1989 were calculated by adjusting the pro forma consolidated profit after tax assuming the benefit of new share capital raised had been derived from 1 January 1989. An assumed interest rate of 13% net of corporation tax was used.

The dividend paid in 1989 was a final dividend only, relating to the period following conversion to 31 December 1989. The notional full year dividend was 8.5p and 11.3p gross equivalent.

Group Financial Summary

Balance sheets *New format 1992-1993*

	1993 £m	1992 £m
Assets		
Cash, treasury bills and other eligible bills	757	497
Loans and advances to banks	3,556	2,276
Loans and advances to customers	45,049	42,061
Net investment in finance leases	2,253	1,737
Securities and investments	25,312	19,998
Long-term assurance business	287	215
Tangible fixed assets	509	518
Other assets	2,208	2,105
Assets of long-term assurance funds	3,871	2,816
Total assets	83,802	72,223
Liabilities		
Deposits by banks	16,368	13,103
Customer accounts	36,143	34,348
Debt securities in issue	19,030	14,929
Other liabilities	4,136	3,195
Subordinated liabilities	868	648
Liabilities of long-term assurance funds	3,871	2,816
	80,416	69,039
Total shareholders' funds	3,386	3,184
Total liabilities	83,802	72,223

The Group financial summary for the years 1992 and 1993 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 are 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

Old format 1989-1992 Balance sheets

	1992 £m	1991 £m	1990 £m	1989 £m
Assets				
Cash and short-term funds	3,819	5,193	4,035	3,587
Securities and investments	17,186	9,995	6,113	3,237
Advances secured on residential property	40,399	37,867	34,044	29,126
Other advances secured on land	636	639	678	352
Net investment in finance leases	1,781	729	104	–
Other commercial assets	1,076	451	292	269
Long-term assurance business	215	–	–	–
Long-term investments	1,567	1,249	385	1
Tangible fixed assets	518	489	354	254
Other assets	1,799	793	491	375
Assets of long-term assurance funds	2,816	–	–	–
Total assets	71,812	57,405	46,496	37,201
Liabilities and shareholders' funds				
Retail funds and deposits	33,616	32,711	29,735	26,943
Non-retail funds and deposits	29,330	19,642	12,440	6,732
Other liabilities	2,218	1,693	1,389	830
Subordinated liabilities	648	388	233	245
Liabilities of long-term assurance funds	2,816	–	–	–
Total liabilities	68,628	54,434	43,797	34,750
Total shareholders' funds	3,184	2,971	2,699	2,451
Total liabilities and shareholders' funds	71,812	57,405	46,496	37,201

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

> The 'cash and short-term funds' heading is replaced by the more restrictive 'cash, treasury bills and other eligible bills' heading. 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 requires certain other assets and liabilities which were previously shown net to be shown gross. The effect on the 1992 balance sheet is to increase both assets and liabilities by £300m. The implementation of the SORP on securities results in a further increase in both assets and liabilities of £111m in the 1992 balance sheet.

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