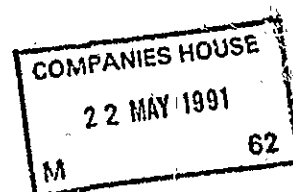


2294747 Directors' Report and  
Accounts 1990



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## Profitability and dividends

Group pre-tax profits for the year are £582 million compared with £501 million in 1989, an increase of 16.2%. After making an adjustment to assume that the flotation proceeds were available throughout 1989, this represents a 5.1% increase on 1989.

Post-tax earnings were £377 million compared with £323 million in 1989. This equates to earnings per share of 28.8p in 1990 compared with a pro forma figure of 27.3p in 1989.

The Board is declaring a final dividend of 6.35p per share, an increase of 11.4% on the final dividend for last year. The full year dividend of 9.50p is 11.8% up on last year's notional full year dividend of 8.50p. The dividend is three times covered.

The stated objective of growing dividends faster than the prevailing rate of retail price inflation remains to the forefront of the Board's objectives in setting the dividend level. This year's increase in dividends is ahead of inflation, and also ahead of underlying earnings growth, but the Board remains confident of the Group's medium and long term capacity to justify the increase.

## Net interest income and margin

Margins in the saving and mortgage markets remained under pressure until November when we were able to restore appropriate spreads following the base rate change. The overall Group margin, which benefited from the full year effect of net flotation proceeds, partially offset by the Bank of England deposit, rose from 2.23% to 2.28% despite this margin pressure.

## Other income and charges

Other income and charges has risen by some 9.2% to £190 million from £174 million. The full year figure has suffered due to additional provisioning in Abbey National Homes and continuing depressed conditions in estate agency.

Despite this adverse impact, strong underlying performances in the money transmission and administration fee areas have enhanced the overall numbers.

## Operating expenses

Despite our continued high level of investment in the business, the cost ratio is well below the average of clearing banks, and compares favourably with the larger building societies. The ratio fell from 45.2% to 44.4% in a year when both capital investment and investment in human resources continued to increase. An examination of the underlying situation, however, indicates that the ratio has risen from 42.8% if we include an extra half year of income from the net flotation proceeds, but the increase is being carefully controlled, and pay back from our investment is monitored constantly.

## Provisions

Provisions were substantially up on 1989 levels, which reflected the toughness of the housing market in particular, and tighter conditions generally. The charge in the profit and loss account is up from £14 million to £55 million which includes £10 million of losses written off. UK properties in possession rose from 1,724 at the start of the year to 4,711 by the end of the year, and the peak has yet to be reached. Nonetheless the figures stand

comparison with our fellow mortgage lenders whose experience on average is proving worse than ours. Equally, on serious arrears cases, 6 months or more in arrears, while the situation has deteriorated markedly from 3,202 cases to 11,563 cases, this still represents only 0.9% of open accounts, which is half industry norms. Total provisions represent only 0.26% of total commercial assets.

#### Capital expenditure

Capital expenditure increased to £136 million in 1990 compared to £85 million in 1989.

Continued commitment to the improvement of the UK distribution network is evidenced by the number of branches opened (10), extended (8), resited (19) and modernised (58). We also opened 23 mortgage centres and 6 cheque administration centres, which will help in our objective to get administration out of the high street branches. We commissioned another 124 ATMs, extending our own network to 854, which forms part of the LINK network of nearly 5,000 machines. Investment in Information Technology made up a third of our total capital expenditure.

#### UK saving and mortgage markets

Our shares of both markets are up in 1990 compared to 1989 levels. We increased our share of the mortgage market from 12.3% to an estimated 14.4% in a total market which shrank by around 5% in terms of net advances made. On the saving side, our market share of the liquid saving market rose from 4.2% to an estimated 6.8%. We undertook no commercial lending in the year, and have a very small historic exposure to this sector.

#### Subsidiary companies

In the UK, the depressed state of the housing market is reflected in the performance of our subsidiaries. Estate agency lost £20 million before tax, a deterioration on the 1989 loss of £16 million, and housing development lost £24 million, after making heavy provisions against work in progress. Our other UK subsidiaries were all profitable.

Abbey National Treasury Services, our wholesale banking arm, was extremely successful in raising and investing funds throughout the world.

In Europe, FicoFrance in its first year with the Group contributed a useful profit, as did our Jersey operations. The rest of Europe broke even in profit terms.

#### Prospects for the year to come

Arrears and reposessions are still rising although we expect them to peak during the year. We will therefore continue to counsel our borrowers the moment they fall into arrears. We believe that this close attention, our prudent provisioning in 1990, and continued wise lending will stand us in good stead in 1991, a year in which we do not expect to see any noticeable economic upturn. It is also encouraging that our capital ratios are strong – indeed amongst the strongest – and our costs amongst the lowest.

We are optimistic and confident about the medium and long term, and we will continue to invest in our distribution network.

## Directors' Report

The Directors have pleasure in presenting their report for Abbey National plc for the year ended 31 December 1990.

### Principal Activities

The principal activity of the Group continues to be the provision of an extensive range of personal financial services. Note 16 to the accounts on page 20 provides details of the principal subsidiaries.

### Results and Dividends

The profit on ordinary activities before tax of the Group for the year ended 31 December 1990 was £582 million (1989 pro forma £501 million).

An interim dividend of 3.15 pence per share was paid on 15 October 1990. This equates to a total of 4.20 pence per share with the related tax credit.

The Directors propose a final dividend for the year of 6.35 pence to be paid on 29 April 1991. With the related tax credit this is equivalent to 8.47 pence per share.

The dividends for the year absorb a total of £125 million leaving profits of £252 million to be retained.

### Business Review

Abbey National has continued to extend and improve the range of personal financial services offered to its customers during the year. The Group's distribution channels in the United Kingdom are being modernised and extended, and European operations were expanded to include France. The majority of

the Group's income derives from its mortgage lending business, and this will continue for the foreseeable future.

The related activities of the Group include personal unsecured lending, banking services, insurance, estate agency and housing development.

The turnover of the non-banking businesses derives principally from estate agency operations, on which there was a turnover of £51 million and a pre-tax loss for the year which amounted to £20 million, and from housing development on which there was a turnover of £23 million and a pre-tax loss for the year which amounted to £24 million.

### Future Activities

The Group intends to develop further its range of personal financial services offered to customers and to strengthen its position in the traditional loans and savings markets.

Abbey National will continue to diversify cautiously into European markets to ensure a sound base from which to address the changes which will affect the business community after 1992.

Ongoing investment in technology and training will ensure that high quality professional services are provided to customers.

### Employees

The Group's employment policies are based on equal opportunities for all staff irrespective of sex, race, religion or colour.

Wherever possible, the Group's policy is to encourage and assist the employment of disabled people, their recruitment, training, career development and promotion, and to retain employees who have become disabled. The sole criterion applied in considering applications from disabled people is, as far as practicable, their ability to do the job, albeit by provision of special aids and equipment.

The Company continues its commitment to an active programme of employee communication, using a wide variety of media. In addition to existing video newsletters and in-house journals, a series of "roadshows" have allowed staff to put questions directly to senior managers.

A Sharesave Scheme was introduced for employees, following approval by Shareholders at the last Annual General Meeting. It is intended that the employee Share Participation Scheme, also approved at the last AGM, will be introduced in 1991.

The Group continues to make substantial investments in training and development.

Details of the number of employees and their remuneration are set out in notes 5 and 7 to the accounts on pages 16 and 17.

#### **Share Capital**

The authorised and issued share capital of the Company are detailed in note 24 to the accounts on page 24.

#### **Tangible Fixed Assets**

The movements in tangible fixed assets are set out in note 17 to the accounts on page 21.

#### **Market Value of Land and Buildings**

The Directors believe that the open market value of the Group's land and premises exceeds the net book value of £208 million as disclosed in note 17 to the accounts by £134 million.

#### **Charitable and Political Contributions**

The Group donated £509,000 to UK charitable organisations during 1990. No contributions were made for political purposes.

#### **Directors and Directors' Interests**

Sir Myles Humphreys and J E Hugh Rees retired from the Board on 24 July 1990. The Lord Rockley was appointed to the Board with effect from 1 May 1990 and James Tuckey was appointed to the Board with effect from 1 September 1990. The directors appointed by the Board since the last Annual General Meeting will retire and being eligible, offer themselves for election.

All other directors listed on page 7 have served on the Board for the whole of the period 1 January 1990 to 31 December 1990. The Directors retiring at the Annual General Meeting are Richard Baglin, John Bayliss, Peter Davis, Dame Jennifer Jenkins and Sara Morrison.

## **Directors' Report continued**

All being eligible offer themselves for re-election, with the exception of Dame Jennifer Jenkins who is not seeking re-election.

John Bayliss and Richard Baglin both have contracts of employment determinable within a period of less than one year.

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 to be found on page 7 of this document.

Directors' interests in the shares of the Company are set out in note 31 to the accounts on page 27.

### **Close Company Provisions**

The Company is not a close company as defined by the Income and Corporation Taxes Act 1988.

### **Substantial Shareholdings**

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

### **Auditors**

A resolution to reappoint Coopers & Lybrand Deloitte as the Company's auditors will be proposed at the 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 the Annual General Meeting'.

By Order of the Board

B. John Ellis, General Manager and Secretary  
28 February 1991

## The Board

### **Sir Campbell Adamson** *Chairman*

Director-General of the CBI from 1969 to 1976, he joined the Board in 1976 and was appointed Chairman in 1978. Aged 68.

### **Peter Davis** *rca Deputy Chairman*

Appointed to the Board in 1982, he became non-executive Deputy Chairman in 1988. He is currently Group Finance Director of Sturge Holdings PLC. Aged 49.

### **Peter Birch** *rcasi Group Chief Executive\**

He joined the Board in 1984. He is a non-executive Director of Hoskyns Group plc and Argos plc and Chairman of the Council of Mortgage Lenders. Aged 53.

### **Richard Baglin** *Managing Director, New Business Operations\**

After joining the Group in 1964, he became a General Manager in 1981 and was appointed to the Board in 1988. Aged 48.

### **John Bayliss** *Managing Director, Retail Operations\**

He joined the Group in 1957, has held a number of executive positions and joined the Board in 1984. He is also Chairman of the Broomleigh Housing Association and a Director of House the Homeless of London PLC. Aged 57.

### **John Fry** *rcis rcasi Group Services Director\**

After joining the Group in 1961, he became a General Manager in 1979 and was appointed to the Board in 1984. Aged 54.

### **Sir John Garlick** *kcn*

Appointed to the Board in 1981. He is a member of the London Docklands Development Corporation and was formerly Permanent Secretary at the Department of the Environment. Aged 69.

### **Michael Heap** *rcasi*

A Board member since 1986, he was a Branch Manager with Abbey National from 1963 to 1985. Aged 56.

### **Dame Jennifer Jenkins** *DBE*

A Board member since 1984. She was formerly Chairman of the National Trust, Chairman of the Consumers' Association and a Director of J. Sainsbury plc. Aged 70.

### **Martin Llowarch** *rca*

A Board member since February 1989, he is Director and Chief Executive of British Steel plc. Aged 55.

### **Sara Morrison**

Formerly a Director from 1979 to 1986, she rejoined the Board in 1987. She is also a Director of the General Electric Company plc. Aged 56.

### **The Lord Rockley**

Joined the Board in May 1990. He is Vice-Chairman of the Kleinwort Benson Group and a Director of Christie's International. Aged 56.

### **James Tuckey** *FRICS*

James Tuckey was appointed a Director in September 1990. He is also Managing Director of MEPC plc. Aged 44.

### **James Tyrrell** *rca Finance Director\**

A Board member since February 1989. A chartered accountant, he was formerly Finance Director of EMI Records Limited and Managing Director of HMV Shops Limited. Aged 49.

### **Charles Villiers** *rca Managing Director, Corporate Development\**

A Board member since February 1989. A chartered accountant, he is a non-executive Director of Conder Group PLC. Aged 50.

Hugh Rees and Sir Myles Humphreys both retired from the Board in July. Hugh Rees had served on the Board for 14 years and will continue in his role as Chairman of Abbey Housing Association. After nine years' service, Sir Myles continues as Chairman of the Northern Ireland Advisory Board.

### **\*Executive Directors**

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



## *Auditors' Report*

### *Auditors' Report to the Members of Abbey National plc*

We have audited the accounts on pages 9 to 27 in accordance with Auditing Standards.

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 1990 and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Coopers & Lybrand Deloitte*  
Coopers & Lybrand Deloitte

*Chartered Accountants*

London

28 February 1991

**Consolidated profit and loss account***for the year ended 31 December 1990*

		1990	Pro forma Accounts for the year ended 31 December	Statutory Accounts for the nine months ended 31 December
	Notes	£m	1989* £m	1989* £m
Interest receivable	2	5,914	4,459	2,256
Interest payable	3	(4,959)	(3,693)	(1,845)
Net interest receivable		955	766	411
Other income and charges	4	190	174	89
Operating expenses	5	(508)	(425)	(215)
Provisions for loans and advances	8	(55)	(14)	(7)
<i>Profit on ordinary activities before tax</i>		582	501	278
Tax on profit on ordinary activities	9	(205)	(178)	(97)
<i>Profit on ordinary activities after tax</i>	10	377	323	181
Dividends	11	125	75	75
<i>Retained profit for the period</i>	25	252	248	106
<i>Earnings per share</i>	12	28.8p		13.8p
<i>Pro forma earnings per share</i>	12		27.3p	

\* See note 1 to the Accounts

**Consolidated balance sheet**

at 31 December 1990

	Notes	1990 £m	1989 £m
<b>Liquid assets</b>			
Cash and short term funds	13	4,035	3,587
Securities and investments	14	6,496	3,237
		10,531	6,824
<b>Commercial assets</b>			
Advances secured on residential property		34,044	29,126
Other advances secured on land		678	352
Other commercial assets	15	396	269
		35,118	29,747
Tangible fixed assets	17	354	254
Trade investments	18	2	1
Other assets		491	375
<b>Total assets</b>		46,496	37,201
<b>Deposits and loans</b>			
Retail funds and deposits	19	29,735	26,943
Non-retail funds and deposits	20	12,440	6,732
		42,175	33,675
Dividend		83	75
Other liabilities	21	1,295	730
Provisions for liabilities and charges	22	5	20
Subordinated liabilities	23	235	247
Minority interests		4	3
<b>Total liabilities</b>		43,797	34,750
Share capital	24	131	131
Share premium		834	834
Profit and loss account	25	1,734	1,486
<b>Shareholders' funds</b>		2,699	2,451
<b>Total liabilities and shareholders' funds</b>		46,496	37,201

Approved by the Board on 28 February 1991 and signed on its behalf by:

Sir Campbell Adamson Chairman

Peter Birch Group Chief Executive

James Tyrrell Finance Director

**Company balance sheet**

at 31 December 1990

	Notes	1990 £m	1989 £m
<i>Liquid assets</i>			
Cash and short term funds	13	188	105
Securities and investments	14	46	67
		234	172
<i>Commercial assets</i>			
Advances secured on residential property		33,566	29,040
Other advances secured on land		400	352
Other commercial assets	15	11	8
		33,977	29,400
Investments in subsidiaries	16	977	1,947
Tangible fixed assets	17	300	225
Trade investments	18	1	1
Other assets		177	157
<b>Total assets</b>		<b>35,666</b>	<b>31,902</b>
<i>Deposits and loans</i>			
Retail funds and deposits	19	29,339	26,613
Non-retail funds and deposits	20	282	354
		29,621	26,967
Dividend		83	75
Other liabilities	21	3,172	2,158
Subordinated liabilities	23	-	164
<b>Total liabilities</b>		<b>32,876</b>	<b>29,364</b>
Share capital	24	131	131
Share premium		834	834
Profit and loss account	25	1,825	1,573
<b>Shareholders' funds</b>		<b>2,790</b>	<b>2,538</b>
<b>Total liabilities and shareholders' funds</b>		<b>35,666</b>	<b>31,902</b>

Approved by the Board on 28 February 1991 and signed on its behalf by:  
 Sir Campbell Adamson Chairman  
 Peter Birch Group Chief Executive  
 James Tyrrell Finance Director

# Consolidated statement of source and application of funds

for the year ended 31 December 1990

	1990 £m	Pro forma Accounts for the year ended 31 December 1989* £m	Statutory Accounts for the nine months ended 31 December 1989* £m
<i>Source of funds</i>			
Increase in free capital (see below)	151	1,216	1,127
Advances and loans repaid by borrowers	3,232	3,147	1,569
Net receipts of deposits and loans	8,500	4,039	2,746
Other items	600	362	168
<i>Total source of funds</i>	12,483	8,764	5,610
<i>Application of funds</i>			
Increase in liquid assets	3,707	996	954
Advances and loans made to borrowers	8,560	7,384	4,385
Increase in other assets	216	384	271
<i>Total application of funds</i>	12,483	8,764	5,610
<i>Increase in free capital</i>			
<i>Source of funds</i>			
Profit on ordinary activities after tax	377	323	181
Adjustments for items not involving the movement of funds:			
Depreciation of tangible fixed assets	34	29	16
Increase in general provisions for loans and advances	14	3	1
<i>Funds generated from operations</i>	425	355	198
<i>Funds from other sources</i>			
Issue of share capital	-	965	965
Disposal of tangible fixed assets	2	1	-
Issue of subordinated loan capital	-	127	84
Increase in minority interests	1	2	-
	428	1,450	1,247
<i>Application of funds</i>			
Purchase of tangible fixed assets	(136)	(85)	(44)
Goodwill	(3)	(28)	(1)
Decrease in subordinated loan capital	(12)	-	-
Cost of free shares and cash distribution	-	(46)	-
Dividends	(125)	(75)	(75)
Exchange differences	(1)	-	-
<i>Increase in free capital</i>	151	1,216	1,127

The net effect of acquisition of subsidiaries is set out in note 26.

\* See note 1 to the accounts

## *Accounting policies*

### *Format*

The consolidated accounts are prepared in accordance with sections 227, 255, 255A and Schedule 9 of the Companies Act 1985.

### *Accounting convention*

The Group prepares its accounts under the historical cost convention and in accordance with Statements of Standard Accounting Practice.

### *Basis of consolidation*

The Group accounts comprise the accounts of the Company and its subsidiaries made up to 31 December, with the exception of Abbey National North America Corporation whose accounts are made up to 30 June to comply with local legislation and a number of leasing subsidiaries which, because of commercial considerations, have various accounting reference dates. The accounts of these subsidiary companies have been consolidated on the basis of interim accounts for the year to 31 December 1990.

### *Goodwill*

Goodwill arising on consolidation as a result of the acquisition of subsidiaries and goodwill arising on the purchase of businesses are charged directly to reserves in the year in which they occur.

### *Deferred taxation*

Deferred tax is accounted for only where it is probable that a liability or asset will arise. Provision is made at rates expected to be applicable when the liabilities or assets crystallise.

### *Depreciation*

Fixed assets are depreciated on a straight-line basis at the following annual rates:

#### *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	12½%
Computer equipment:	
mainframe	25%
peripheral	20%
Motor vehicles	25%

No depreciation is provided on freehold land.

## *Accounting policies continued*

### *Securities and investments*

Dated securities held for investment purposes are stated at cost adjusted for the amortisation of any premium or discount on a straight-line basis over the period to maturity.

Certain fixed interest investments are held within an internal investment fund which has 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 held for dealing purposes are included at market value.

### *Provisions for loans and advances*

Provisions for losses on loans and advances, which include both those specifically identified and those provided for on a general basis, are based upon a year end appraisal of the assets. The amount charged to the profit and loss account represents losses written off in the year together with the increase in the ongoing provisions less any releases. Credit is deferred in respect of a proportion of interest due but not received on certain mortgage accounts in arrears.

### *Development properties*

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

### *Equipment leased to customers*

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. The balance sheet amount, included within Commercial assets, represents total minimum lease payments, less deferred income. Income from finance leases is credited to the profit and loss account using the actuarial method to give a constant periodic rate of return on the net cash investment.

### *Foreign currency translation*

Assets and liabilities in foreign currency are translated into sterling at the year end rates of exchange except where they are covered by forward exchange contracts. Exchange differences arising on the translation of opening net assets of overseas subsidiaries are dealt with through reserves. All other exchange differences are dealt with through the profit and loss account.

### *Pensions*

Pensions are provided by means of funded defined benefit schemes and annual contributions are based on actuarial advice. The expected cost of providing pensions is recognised on a systematic and rational basis over the expected average remaining service lives of members of the schemes.

### *Other assets and other liabilities*

Accrued interest on investments and on non-retail funds and deposits is included in other assets and other liabilities respectively.

*Notes to the Accounts***1 1989 Accounts**

The statutory accounts of Abbey National plc were last drawn up for the nine month period ended 31 December 1989 during which period the Company traded from 12 July 1989 (the date of conversion from building society to plc) to 31 December 1989. For shareholders' information and 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. The pro forma accounts do not form part of the statutory accounts.

**2 Interest receivable**

		Pro forma Accounts for the year ended 31 December	Statutory Accounts for the nine months ended 31 December
	1990 £m	1989 £m	1989 £m
On secured advances	4,802	3,619	1,814
On other lending	50	87	69
Interest and other income on:			
Fixed interest liquid assets	642	686	302
Other liquid assets	433	79	74
Net losses on liquid assets	(13)	(12)	(3)
	5,914	4,459	2,256
Including:			
Income from listed investments	263	214	140
Income from unlisted investments	799	539	233

**3 Interest payable**

	1990 £m	1989 £m	1989 £m
On non-retail funds and deposits	1,358	736	405
On retail funds and deposits	2,834	2,335	1,145
Income tax on retail funds and deposits	767	622	295
	4,959	3,693	1,845
Including payable on borrowings with a maturity greater than five years	49	60	35

**4 Other income and charges**

	1990 £m	1989 £m	1989 £m
Commissions receivable	105	95	48
Commissions payable	(12)	(10)	(5)
Other financial income	58	31	18
Rent receivable	5	9	4
Income receivable from finance leases	1	-	-
Other	33	49	24
	190	174	89



## Notes to the Accounts

### 5 Operating expenses

	1990 £m	Pro forma Accounts for the year ended 31 December 1989 £m	Statutory Accounts for the nine months ended 31 December 1989 £m
Staff costs:			
Salaries and wages	198	162	80
Social security costs	16	12	6
Other pension costs	10	16	7
Other staff costs	22	21	12
Depreciation of tangible fixed assets	34	29	16
Hire of equipment	17	18	7
Rent and rates payable	34	31	15
Other expenses	177	136	72
	508	425	215

The figure for other expenses includes £0.9m (£0.6m for the nine months) for auditors' remuneration.

### 6 Directors' emoluments

The aggregate emoluments of directors were:

	1990 £000	1989 £000
In respect of services as directors	296	302
Other	784	862
	1,080	1,164

On an annual basis the emoluments, excluding pension contributions, of the Chairman were £108,193 (£81,626) and of the highest paid director were £191,806 (£189,229).

The following table shows the number of other directors receiving emoluments on an annual basis, before pension contributions, within the undermentioned ranges.

	1990	1989
£ 0 - £5,000	1	-
£5,001 - £10,000	1	-
£10,001 - £15,000	5	3
£15,001 - £20,000	2	4
£20,001 - £25,000	1	2
£25,001 - £30,000	1	2
£30,001 - £35,000	1	1
£35,001 - £40,000	1	1
£40,001 - £45,000	2	1

Pensions to former directors amounted to £21,837 (nil).

**7 Employees**

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

	1990	1989
<i>Full time</i>		
Chief administrative offices	3,532	2,786
Branch offices	9,127	8,751
	12,659	11,537
Male	3,761	3,347
Female	8,898	8,190
	12,659	11,537
<i>Part time</i>		
Chief administrative offices	378	284
Branch offices	3,634	3,032
	4,012	3,366
Male	126	115
Female	3,886	3,251
	4,012	3,366

**8 Provisions for loans and advances**

	On advances secured on residential property £m	On other advances secured on land £m	On unsecured loans £m	Total £m
<b>Group</b>				
At 1 January 1990				
General	7	2	4	13
Specific	10	4	9	23
Arising on acquisition of subsidiary	9	2	—	11
Transfer from profit and loss account	28	10	17	55
Irrecoverable amounts written off	(4)	(1)	(5)	(10)
At 31 December 1990	50	17	25	92
<b>Being for the Group:</b>				
General	20	2	5	27
Specific	30	15	20	65
<b>Including for the Company:</b>				
General	14	1	1	16
Specific	23	13	9	45

*Notes to the Accounts***9 Tax on profit on ordinary activities**

		Pro forma Accounts for the year ended 31 December	Statutory Accounts for the nine months ended 31 December
	1990 £m	1989 £m	1989 £m
UK Corporation tax at 35%			
Current	218	169	77
Deferred	(15)	8	19
Overseas taxation	2	1	1
	205	178	97

**10 Profit on ordinary activities after tax**

The profit of the Company after tax, attributable to the shareholders, is £377m (£140m).

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these accounts.

**11 Dividends**

Dividends include an interim dividend paid of 3.15 pence per share and the final dividend now proposed of 6.35 (5.70) pence per share.

**12 Earnings per share**

Earnings per ordinary share are calculated by dividing the consolidated profit after tax of £377m, (£181m) by the number of ordinary shares in issue of 1,310m.

Pro forma earnings per share for 1989 were calculated by adjusting the pro forma consolidated profit after tax of £323m, assuming the benefit from the new share capital raised, net of the flotation expenses, cash distribution and interest free deposit with The Bank of England, had been derived from 1 January 1989, and dividing these adjusted earnings by the 1,310m ordinary shares in issue. An assumed rate of interest of 13% for 1989 to Vesting Day (12 July 1989), net of corporation tax, was used.

**13 Cash and short term funds**

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Cash in hand and with central banks	349	245	187	105
Money at call and short notice	1,213	236	1	—
Treasury and other bills discounted	1,031	1,634	—	—
Certificates of deposit	1,442	1,417	—	—
Other deposits and loans	—	55	—	—
	4,035	3,587	188	105

14 Securities and investments

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Remaining maturity of:				
Not more than one year	25	435	20	27
More than one year but not more than five years	951	645	10	30
More than five years	5,464	2,157	10	10
No specific maturity	56	-	6	-
	6,496	3,237	46	67
Being:				
UK Government Securities	-	1,021	-	-
Securities issued or guaranteed by US Federal Government agencies	2,914	971	-	-
Other listed investments:				
UK	1,326	399	-	-
Overseas	1,394	779	-	-
Unlisted investments	862	67	46	67
Including total listed investments of	2,720	2,199	-	-
Aggregate market value of these listed investments	2,724	2,134	-	-

Fixed interest securities and bills held within the investment fund amount to £1,210m (£1,601m), including an unamortised loss of £41m (£22m).

*Notes to the Accounts*

## 15 Other commercial assets

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Unsecured loans	214	183	11	8
Secured loans	-	3	-	-
Residential development properties	78	83	-	-
Net investment in finance leases	104	-	-	-
	396	269	11	8

The figure for residential development properties includes completed properties of £41m (£11m), and work in progress of £37m (£72m).

During the year £104m of assets were acquired for the purpose of letting under finance leases.

## 16 Investments in subsidiaries

	Company	
	1990 £m	1989 £m
Shares	311	17
Loans	666	1,930
	977	1,947

The increase in shares relates mainly to additional investment in Abbey National Treasury Services plc of £250m and the acquisition of FicoFrance SA, with effect from 1 January 1990, for £40m.

The principal subsidiary companies of Abbey National plc at 31 December 1990 are listed below, all of which are directly held except for Abbey National (Overseas) Limited and Abbey National (Gibraltar) Limited 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 Estate Agency Ltd	Estate Agency	England & Wales
Abbey National Homes Ltd	Housing Development	England & Wales
Abbey National Personal Finance Ltd	Personal Finance	England & Wales
Abbey National Financial Services Ltd	Personal Finance	England & Wales
FicoFrance SA	Personal Finance	France
Abbey National (Gibraltar) Ltd	Personal Finance	Gibraltar
Abbey National Mutui SpA	Personal Finance	Italy
Abbey National (Overseas) Ltd	Personal Finance	Jersey
Abbeycor Nacional Hipotecario SCH	Personal Finance	Spain
Cornerstone Espana SA	Estate Agency	Spain
Abbey National North America Corporation	Treasury Operations	United States

The Company holds 100% of the issued ordinary share capital of its major subsidiary companies except for Abbey National Mutui SpA in which it has a 92% interest, Abbeycor Nacional Hipotecario SCH in which it has a 67% interest and Cornerstone Espana SA in which it has a 51% interest.

All companies operate mainly in their country of incorporation or registration. Abbey National (Gibraltar) Ltd also operates in Spain and Portugal.

17 Tangible fixed assets

	Group			Company		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
<i>Cost</i>						
At 1 January 1990	192	185	377	178	162	340
Additions	43	93	136	22	84	106
Disposals	(2)	(7)	(9)	(2)	(5)	(7)
At 31 December 1990	233	271	504	198	241	439
<i>Depreciation</i>						
At 1 January 1990	23	100	123	22	93	115
Charge for the year	3	31	34	2	26	28
Disposals	(1)	(6)	(7)	(1)	(3)	(4)
At 31 December 1990	25	125	150	23	116	139
<i>Net Book Value</i>						
At 31 December 1990	208	146	354	175	125	300
At 31 December 1989	169	85	254	156	69	225

The net book value of premises comprises:

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Freeholds	166	137	139	129
Long leaseholds	10	4	10	4
Short leaseholds	32	28	26	23

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Capital expenditure which has been contracted, but has not been provided in the accounts	34	35	23	34
Capital expenditure which has been authorised by the Directors, but has not yet been contracted	28	11	27	9

*Notes to the Accounts***18 Trade investments**

These comprise trade investments held by Abbey National plc and stated at Directors' valuation of £1m (£1m) and other long term investments held by subsidiaries and stated at cost £1m (market value £1m).

**19 Retail funds and deposits**

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Repayable on demand	29,477	26,741	29,324	26,597
Repayable:				
In not more than three months	243	186	-	-
In more than one year but not more than five years	15	16	15	16
	29,735	26,943	29,339	26,613

**20 Non-retail funds and deposits**

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Amounts owed to other banks	145	97	-	-
Time deposits	4,087	1,894	-	-
Certificates of deposit	2,664	1,429	-	-
Fixed and floating rate notes	2,963	2,307	11	101
Other deposits and loans	2,581	1,005	271	253
	12,440	6,732	282	354
Repayable on demand	393	346	271	253
Repayable:				
In not more than three months	6,368	3,275	-	-
In more than three months but not more than one year	2,561	814	-	-
Between one and two years	480	139	-	-
Between two and five years	2,143	1,729	8	-
In more than five years*	495	429	3	101
	12,440	6,732	282	354

\*These loans represent bond issues at wholesale market rates redeemable between 1996 and 2000.

# Abbey National plc

## 21 Other liabilities

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Income tax	351	278	348	278
Corporation tax	188	99	174	93
Other taxation and social security costs	7	4	5	4
Amounts due to subsidiaries	-	-	2,504	1,675
Other creditors	749	349	141	108
	1,295	730	3,172	2,158

## 22 Provisions for liabilities and charges

	Group £m	Company (included in other assets) £m
Deferred taxation	20	-
At 1 January 1990	(15)	(13)
Transfer for the year	5	(13)
At 31 December 1990		

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	15	6	15	6
Other	(10)	(19)	(10)	(19)
	5	(13)	5	(13)

## 23 Subordinated liabilities

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Subordinated floating rate note 1995	120	120	-	120
Subordinated floating rate note 1997	44	44	-	44
Subordinated floating rate note 2004 (US\$137m)	71	83	-	-
	235	247	-	164

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

During the year the 1995 and 1997 notes were transferred from Abbey National plc to Abbey National Treasury Services plc.



## Notes to the Accounts

### 24 Share capital

The authorised share capital of the Company is £175m (£175m) comprising ordinary shares of 10p each. The issued and fully paid share capital at 31 December 1990 was £131m (£131m).

Under the Company's savings related Sharesave Scheme, approved by the shareholders on 10 April 1990, employees hold options, granted on 14 May 1990, to subscribe for 11,056,342 ordinary shares at 149 pence per share, exercisable within six months of 1 July following the fifth or seventh anniversary of the option being granted.

Under the terms of the Share Participation Scheme, approved by the shareholders on 10 April 1990, 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 65,500,000 shares representing 5% of the issued share capital of the Company.

As of 13 February 1991 there were 3,693,703 shareholders. The following table shows an analysis of their holdings:

Size of Shareholding	Shareholders	Shares
1 - 100	2,618,610	261,000,222
101 - 1,000	1,053,346	498,377,195
1,000+	21,747	550,622,583
Total	3,693,703	1,310,000,000

### 25 Movement on reserves

	Profit and loss account	
	Group	Company
	£m	£m
At 1 January 1990	1,486	1,573
Retained profit for the year	252	252
Goodwill written off (see note 26)	(3)	-
Exchange differences	(1)	-
At 31 December 1990	1,734	1,825

The cumulative amount of goodwill written off by the Group to 31 December 1990 is £140m.

26 Net effect of acquisition of subsidiaries

	1990			Pro forma Accounts for the year ended 31 December 1989	Statutory Accounts for the nine months ended 31 December 1989
	Estate Agencies £m	Ficofrance £m	Total £m	£m	£m
Fixed assets	1	1	2	1	-
Liquid assets	-	66	66	1	-
Commercial and other assets	-	526	526	1	-
Deposits, loans and other liabilities	(1)	(552)	(553)	(3)	-
Net assets acquired	-	41	41	-	-
Discharged by:					
Cash	4	40	44	4	-
Debentures in subsidiaries	-	-	-	15	-
Goodwill arising	4	(1)	3	19	-

There was no material difference between the book value and the fair value of the assets and liabilities acquired by the Group during the year ended 31 December 1990.

27 Contingent liabilities

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 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.

Total guarantees given by Abbey National plc in respect of subsidiaries' liabilities	£m 10,661
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28 Other financial commitments

	Group		Company	
	1990 £m	1989 £m	1990 £m	1989 £m
Commitments as lessors for the purchase of equipment for use in finance leases	160	-	-	-

The Company has entered into interest rate swap agreements for hedging purposes.

In addition, Abbey National Treasury Services plc, a wholly-owned subsidiary of Abbey National plc, has commitments under interest-rate and currency swaps, financial futures contracts, forward interest rate agreements, forward foreign exchange contracts and option contracts. These contracts are used to hedge assets and liabilities of the Group. It is not envisaged that any material irrecoverable loss will arise from these transactions.

## Notes to the Accounts

### 29 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 £0.6 billion at 31 December 1990.

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.

### 30 Retirement benefits

The Abbey National Amalgamated Pension Fund is the principal pension scheme within the Group, covering 64% of the Group's employees, and is a funded defined benefit scheme.

The latest actuarial valuation was made as at 31 March 1990, at which date the market value of the Scheme assets was £360m. The valuation was prepared by using the projected unit funding method and disclosed a funding level of 137% and a regular company contribution rate of 19.2% 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 suspended. It is estimated that this will remove the surplus by 31 March 1995.

The main financial assumptions used in the valuation were:

	% per annum
Investment return	10.0
Equity dividend growth	5.5
Pension increases	5.0
General salary increases	7.5

The pension cost of £9.1m (£14.0m) 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. No contributions were made to the Fund in 1990 and a provision of £9.1m 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 1993.

The Associated Bodies Pension Fund, which covers 1% of the Group's UK employees, is similarly constituted. An actuarial review has been conducted as at 31 March 1990 which revealed a modest excess of assets over liabilities.

31 *Directors' interests*

Details of loans, quasi loans and credit transactions entered into by the Company or its subsidiaries with directors and connected persons and officers of the Company comprise:

	Number of persons	Total £000
Directors		
Loans	9	667
Quasi loans	—	—
Credit transactions	—	—
Officers		
Loans	13	1,336
Quasi loans	—	—
Credit transactions	—	—

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

	At 31 December 1990		At 1 January 1990 (or date of appointment if later)
	Shares	Options	Shares
Sir Campbell Adamson	20,875	—	20,875
R J Baglin	4,282	7,248	4,282
J Bayliss	1,300	7,248	1,300
P G Birch	106,843	8,456	56,843
P A Davis	11,750	—	11,750
J M Fry	1,400	7,248	1,400
Sir John Garlick	1,900	—	1,900
M A Heap	1,875	—	1,875
Dame Jennifer Jenkins	1,000	—	1,000
M E Llowarch	1,750	—	1,750
Sara Morrison	1,000	—	1,000
The Lord Rockley	5,000	—	—
J L Tuckey	1,000	—	—
J M Tyrrell	1,000	7,248	1,000
C N Villiers	13,492	7,248	13,492

The options refer to those granted under the Company's Sharesave Scheme, as set out in note 24.

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 28 January 1991.

*Group financial summary*

	1990 £m	1989 £m	1988 £m	1987 £m	1986 £m
<i>Profit and loss accounts</i>					
Interest receivable	5,914	4,459	3,113	2,792	2,448
Interest payable	(4,959)	(3,693)	(2,479)	(2,269)	(2,042)
Net interest receivable	955	766	634	523	406
Other income and charges	190	174	131	94	78
Operating expenses	(508)	(425)	(338)	(254)	(205)
Provisions for loans and advances	(55)	(14)	(13)	(11)	(10)
Profit on ordinary activities					
before tax	582	501	414	352	269
Tax on profit on ordinary activities	(205)	(178)	(144)	(129)	(98)
Profit for the year	377	323	270	223	171
Dividends	125	75	-	-	-
Retained profit for the year	252	248	270	223	171
<i>Balance sheets</i>					
Liquid assets	10,531	6,824	5,828	4,245	3,566
Commercial assets	35,118	29,747	25,466	21,993	19,309
Tangible fixed assets	354	254	199	166	157
Trade investments	2	1	1	-	-
Other assets	491	375	43	7	9
Total assets	46,496	37,201	31,537	26,411	23,041
Retail funds and deposits	29,735	26,943	25,316	21,572	19,151
Non-retail funds and deposits	12,440	6,732	4,320	3,287	2,588
	42,175	33,675	29,636	24,859	21,739
Dividend	83	75	-	-	-
Other liabilities	1,295	730	456	395	350
Provisions for liabilities and charges	5	20	12	24	24
Subordinated liabilities	235	247	120	-	-
Minority interests	4	3	1	-	-
Total liabilities	43,797	34,750	30,225	25,278	22,113
Share capital	131	131	-	-	-
Share premium	834	834	-	-	-
Profit and loss account	1,734	1,486	1,312	1,133	928
Shareholders' funds	2,699	2,451	1,312	1,133	928
Total liabilities and shareholders' funds	46,496	37,201	31,537	26,411	23,041
Earnings per share	28.8p				
Pro forma earnings per share		27.3p	24.5p		

Pro forma earnings per share for 1988 and 1989 were calculated on the basis set out in Note 12 to the accounts with the exception that for 1988 an assumed rate of interest of 10% was used.