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Directors' Report & Accounts 1992

ABBEY NATIONAL PLC

Contents

Financial Review

Group profitability and dividends

The 1992 results of the Abbey National Group have been prepared in accordance with FRS 3, 'Reporting Financial Performance'.

Group pre tax profit for the year was £564 million, compared with £618 million in 1991, a decrease of 9%. Before a net charge for exceptional items of £37 million, however, Group pre tax profit was £601 million, a decrease of just 3%. The exceptional items relate to a review of the residential estate agency business and the sale of unclaimed shares. Further details of these items are provided below. Provisions against loans and advances were substantially higher at £322 million (£155 million). Before provisions and exceptional items, Group pre tax profit increased by 19% to £923 million (£773 million).

Post tax earnings, at £317 million (£414 million) were 23% down on the previous year and equate to earnings per share of 24.2p compared with 31.6p in 1991. The fall in earnings per share was accentuated by an abnormally high effective tax rate of 44% (33%). The latter was due primarily to the recognition of a permanent diminution in the value of goodwill in Estate Agency, which is disallowed for tax. A further contributing factor was the increased loss in the Group's Continental European operations for which no tax relief is currently available. The effective tax rate is expected to reduce in 1993.

The Board is recommending a final dividend of 7.7p per share, an increase of 10% on the final dividend for last year. The full year total dividend of 11.5p (10.5p) is 9.5% up on last year and is covered 2.1 times. The Board intends to rebuild cover while, at the same time, maintaining real growth in dividends.

Net interest receivable

While interest bearing assets increased by 20% to £67.0 billion (£56.0 billion), net interest receivable grew by 13% to £1,294 million (£1,143 million), resulting in a drop in the overall Group margin.

Due to the more substantial asset growth in the treasury balance sheet, and the narrower spreads earned, the overall Group margin, calculated on average interest bearing assets, narrowed from 2.25% to 2.10%. In addition, the Group margin has also been reduced by the loss of interest earnings on the investment of £288 million in Scottish Mutual and, despite an active hedging policy, a lower yield on the Group's free reserves.

The charge in respect of the deferral of interest on certain mortgage accounts in arrears increased to £58 million compared with £45 million in 1991. The additional charge covers the UK and Continental European residential and commercial loan books.

Other income and charges

Other income and charges at £335 million (£265 million), increased by 26% over the previous year. The pre tax earnings of Scottish Mutual accounted for almost half this increase.

Financial Review
continued

Insurance commission earnings of £113 million (£133 million) were 15% lower, reflecting lower commission rates on buildings insurance and reduced lending volumes. Other commission earnings, predominantly life, were better than expected, however, due to increased sales of non mortgage related products.

Total fee income in Estate Agency at £[illegible] million was marginally below last year (£45 million) Abbey National Homes, the residential housing developer, incurred further gross trading losses before expenses of £10 million (£21 million). Dividends earned on investment assets, primarily held by Abbey National Treasury Services, were £58 million (£40 million) and other financial income, including penalty charges, survey and administration fees, increased by 40% to £91 million (£65 million).

Operating expenses

Operating expenses increased by 11% to £706 million (£635 million). Staff costs, which accounted for 44% of the total, increased by 7%. The average number of staff employed by the Group during the year, including part time staff, was 19,986 (18,153), an increase of 10%. Excluding Scottish Mutual, whose staff costs are already charged in the calculation of its earnings, the increase in the average number of staff employed was 4.5%. Non staff costs increased by 15% to £393 million (£342 million). A depreciation charge of £77 million, following a charge of £67 million in 1991, reflects the ongoing branch modernisation programme in the UK together with the associated expenditure on information technology. Launch costs of £10 million for Abbey National Life are also included in operating expenses.

The Group's cost income ratio was 43.3% compared with 45.1% in 1991, reflecting income growth of 16% against growth in expenses of 11%. This is the lowest level reported since 1987 when the ratio was 41.2% and has been achieved through controlling costs without prejudicing either investment in the Group's activities or diversification outside them.

Provisions against loans and advances

The total charge for provisions against loans and advances more than doubled to £322 million (£155 million). This historically high charge comprises three main elements: significantly increased provisions for UK repossessions of £184 million (£88 million) reflecting a continuing fall in residential property values; a general provision in the UK of £62 million (£20 million), principally reflecting uncertainties in the housing market, and provisions in Continental Europe and Offshore of £47 million (£13 million) in the light of deteriorating property market conditions. In contrast, provisions in respect of unsecured lending were down to £19 million compared with £28 million in 1991. A charge of £10 million (£6 million) is also included in respect of UK commercial lending.

Write offs against provisions in respect of realised losses were £125 million (£60 million) predominantly accounted for by losses of £99 million (£48 million) incurred on UK residential lending.

Exceptional items

Share sales

In December of last year the Company disposed of 29 million shares unclaimed by former Abbey National Building Society members, eligible for a distribution of free shares at the date of conversion to a plc. The net proceeds from the disposal of these shares, together with a small number of misallocated shares sold in August, were £101 million and are reflected as an exceptional item. Provision has been made for the possibility that valid claims will continue to be received although it is not anticipated that such future claims will be material.

Estate Agency Operations

In 1992 a review of residential estate agency was undertaken. Following this review a decision was taken to make further branch closures as part of ongoing rationalisation, and to recognise a permanent diminution in the value of goodwill in this business. Therefore, following UITF (Urgent Issues Task Force) 3, the Board made a write down of £113 million, through the profit and loss account, to reflect this permanent diminution in value. A further £13 million was written off in respect of the loss of goodwill on the sale and closure of certain segments of the business during the year. Together, the latter represent a considerable element of the original goodwill paid on acquisition (£141 million) which had already been taken to reserves. There is, thus, no net effect on the reserves of the Group. Included in the exceptional item charge are reorganisation costs totalling £12 million in respect of estate agency branch closures made or announced in 1992, as part of the ongoing rationalisation of the business.

Review of individual operations

UK Retail Operations

Although pre tax profit of £540 million (£585 million) was 8% down on last year, operating profit before provisions increased by 12% to £815 million (£727 million).

Abbey National's estimated share of the net lending market improved in the second half, to end the year at 13.5% (13.8%). Net residential mortgage lending was £2.5 billion (£3.7 billion), giving rise to a 7% increase in the gross mortgage asset. The market share of the total outstanding mortgage asset was 11.8% (11.7%). The promotion of fixed rate mortgage products, competitive rates of interest and first class service, proved to be very successful in stimulating activity in a smaller market. The share of household liquid savings fell, however, to 5.5% from 10.8% in 1991 reflecting increased competition for retail funds, particularly from National Savings. The share of the total household liquid savings liability was marginally lower at 8.8% (9.0%). The mortgage asset continues, however, to be largely funded by retail liabilities, at 83% (86%) of the total. In addition, the Group's strong credit rating, and the support of its treasury operation, have meant ready availability of wholesale funds and matched finance for fixed rate products at competitive rates of interest.

Financial Review
continued

Net interest income grew by 12% on 1991, in spite of a reduction in earnings on the Group's free reserves and the loss of interest on capital invested in Scottish Mutual. This resulted in an increase in the retail margin, being the average spread between lending and funding rates, from 1.91% to 2.28%. In achieving this level of growth, UK Retail Operations has again demonstrated its ability to manage actively this margin. On two occasions during the year reductions in mortgage interest rates were announced ahead of any change in the base rate. The business enters 1993 with competitive rates for both mortgages and savings and with a sound margin.

Other income and charges at £184 million (£181 million) was broadly unchanged, in total, from the previous year, with increases in fee income compensating for reductions in insurance commissions, particularly buildings insurance where commission rates have fallen. Despite lower lending volumes, life commission earnings held up, giving confidence in the future potential growth from this source.

The charge for provisions against loans and advances increased by £133 million to £275 million (£142 million) of which £246 million (£108 million) related to lending secured on residential property. The single most important factor behind the increase in provisions was the continued fall in house prices, which contributed to a specific charge of £184 million (£88 million), and an increase in the general provision of £62 million (£20 million).

Average losses per repossessed property have increased steadily over the year to reach £13,800 (£9,900) for the year as a whole. For those properties on which purchase offers have been received, average provisions have increased from £12,000 at December 1991, to £14,500 at June and £18,400 at December, 1992.

The total stock of repossessions increased to 9,331 from 8,732 at the end of 1991, although the number of repossessions continued to decline. Total repossessions of 7,819 were 12% down on 1991, falling from 4,139 in the first half to 3,680 in the second, against disposals of 7,220.

The total number of cases six months or more in arrears has increased over the year to 25,600 (19,000). In considering these figures, it should be noted that the basis of calculation is such that the effect of a fall in interest rates is to increase the number of months arrears a given sum represents. In spite of this effect, however, the number of cases less than six months in arrears, has fallen by 31%. The number of cases six months or more in arrears continues to compare favourably with the Council of Mortgage Lenders' average.

Provision charges in respect of unsecured personal loans and the cheque account were £19 million (£28 million), 32% down on the previous year.

Discussions with UK insurers, referred to at the half year, on terms and conditions attaching to future mortgage indemnity cover, have now concluded. The terms and conditions on offer did not provide acceptable cover. An alternative option of establishing a captive insurer is currently being progressed and will provide cover with effect from 1 January 1993.

Financial Review
continued

Life Assurance Operations

This segment includes the results of Scottish Mutual and the launch costs of Abbey National Life. Scottish Mutual, which serves the IFA market, contributed pre tax earnings of £32 million. Total premium income was £307 million (£272 million). Total new business income rose by 32% to £184 million (£139 million), compared with 1991, with single premiums increasing by 46% to £163 million (£112 million) and annual premiums falling by 22% to £21 million (£27 million). Scottish Mutual's performance compared well with that of the industry in general. Declared rates of reversionary bonus have been maintained giving an indication of the strength of the fund and the underlying resources available.

In acquiring Scottish Mutual it was also a major objective to use its skills to help launch Abbey National Life. This operation, which commenced trading on 1 February 1993, provides life assurance, pensions and long term savings products to core business customers. In 1992 launch costs of £10 million were incurred. Since the year end the Group has invested capital of £40 million in the operation to cover these costs and satisfy DTI reserve requirements for the anticipated level of business. Under its service agreements Scottish Mutual will be providing management facilities, including actuarial, investment and systems support, to Abbey National Life. This will enable both operations to benefit from low cost bases and thereby enhance product competitiveness.

Goodwill of £80 million, included in the Scottish Mutual acquisition cost of £288 million, has been taken to reserves.

Estate Agency Operations

Before exceptional items, Estate Agency made a trading loss of £20 million (£19 million) on total revenues of £52 million (£54 million). The exceptional item relates to a write down in the value of goodwill in the business, the loss of goodwill on the closure and sale of certain segments and reorganisation costs. These issues have been dealt with under the section on exceptional items.

In Cornerstone, the residential estate agency business, income remained flat. A small increase in the number of houses sold and a hardening of commission rates was offset by a continuing fall in average house prices. The ongoing rationalisation of the branch network continued with the closure of a further 59 branches, following 16 closures in 1991.

In J Trevor and Sons, the commercial property practice, income was marginally down on 1991. During 1992 a programme of rationalisation was undertaken to reduce the number of offices from 20 to 15.

The Board has recently undertaken a strategic review of the residential estate agency business and has concluded that the business has not fulfilled the objectives for which it was originally acquired. These were to safeguard market share of mortgage lending and insurance commission earnings while, at the same time, generating commission earnings on the sale of residential properties. In fact no significant change in the distribution of housing finance through intermediaries has occurred and the perceived threat to the core mortgage business has therefore

Financial Review
continued

not materialised. The Group has also enhanced its distribution capabilities since the acquisition of Estate Agency through investment in the UK retail branch network and development of a telephone sales operation. The Board has therefore decided it is no longer in the best interests of shareholders to continue in the residential estate agency business and intends to put it up for sale.

Treasury Operations

Treasury Operations enjoyed a highly successful year, contributing £100 million (£62 million) to Group pre tax profit. This was achieved on the back of a 35% growth in assets to £23.8 billion, after adjusting for the impact of a stronger US dollar which added £1.6 billion to the opening position of £16.0 billion. The growth took place in both the sterling and dollar investment portfolios, with some reallocation also taking place within portfolios to optimise returns, and in the finance leasing book, which grew to £1.8 billion (£0.7 billion).

The central strategy for Treasury Operations remains one of managing the Group's liquidity, and deploying its international funding capability and management expertise to assist other subsidiaries in planning their funding and risk management. At the same time the cautious and risk averse approach to the acquisition of high credit quality investment assets will continue as a means of generating a satisfactory return on surplus Group capital. A significant proportion of these assets are highly liquid and, as such, represent a second tier of liquidity for the Group.

It is envisaged, however, that the future growth of the treasury balance sheet from this activity will be more modest. The treasury balance sheet has grown significantly since conversion and is now approaching what is considered to be an appropriate size and maturity profile relative to the overall Group balance sheet.

Other Operations

This covers the Continental European and Offshore subsidiaries, Abbey National Financial Services, Abbey National Homes and certain investment companies. In aggregate the result, before exceptional items, was a loss of £41 million, compared with a £10 million loss in 1991. The exceptional item in this segment relates to the sale of unclaimed shares, and has been dealt with under the section on exceptional items.

Total losses in the Group's Continental European operations were £50 million (£1 million) reflecting the impact of provisions made against our loan books in France and Spain. In Italy, on the other hand, where lending is solely to the residential sector, there was healthy growth resulting in a marginal loss of only £0.4 million (£0.4 million), after bearing the cost of expanding the network by three branches, to a total of nine. Provisions in France and Spain amounted to £47 million (£12 million). A significant proportion of these provisions was in respect of advances to property developers, who have suffered as the economies in these countries fell into deeper recession. New lending to property developers in our French operation ceased altogether in March of 1992. In addition to these provisions a further charge of £19 million (nil) was made for deferred interest. To enable these subsidiaries to meet local regulatory requirements and to support future growth, further capital injections were made: £37 million in France and £28 million in Spain. A new managing director has been appointed to our Spanish operation while our French management team, operating in an uncertain political and economic climate, are taking steps to refocus the business. It continues to be our aim to seek profitable

Financial Review
continued

growth opportunities in Continental Europe, capitalising on our skills in the personal financial services market.

The continuing difficulties in the UK housing market gave rise to the need to make further provisions in Abbey National Homes, despite selling a record 363 (258) units in 1992 and achieving a 4% increase in sales revenue to £29 million (£28 million). The increased provisions reflect lower anticipated sales revenue as prices fell, and the selling programme extending further into the future. The loss of £13 million (£24 million) was, however, down on 1991. No additional development commitments have been undertaken by this company since mid 1990.

Consolidated balance sheet

Total assets grew by £14.4 billion (£10.9 billion) to £71.8 billion (£57.4 billion), an increase of 25%. Of this, £2.8 billion resulted from the inclusion of long term assurance fund assets. Total interest bearing assets grew by £11.0 billion (£10.4 billion) to £67.0 billion (£56.0 billion), a 20% increase, largely accounted for by growth in the gross UK mortgage asset, £2.5 billion (£3.7 billion), and treasury assets, £7.3 billion (£5.4 billion).

Available reserves increased by £204 million, while additional subordinated debt of £240 million was raised during the year to increase gearing and strengthen the overall capital of the Group. Total qualifying subordinated debt as a percentage of Tier I capital is now 19%. The Group's risk asset ratio at the end of the year was largely unchanged at 10.7% (10.8%) with a Tier I ratio of 9.7% (11.4%). Wholesale funding increased by 49% primarily to support the asset growth in our treasury operations. The percentage of the UK retail mortgage book funded by retail liabilities is now 83%.

The Group incurred capital expenditure in 1992 of £115 million (£209 million). Continued development of the UK retail branch network, purchase and development of property for the Group's own use, and investments in information technology, both centrally and in the UK retail network, account for the bulk of this expenditure. Expenditure in 1993 is expected to be significantly above the 1992 level and will reflect the ongoing commitment to strengthen the distribution network. Further investment in the Life Assurance Operations is also planned.

Future prospects

The economic outlook remains uncertain, although there are some signs that the low point of the housing cycle may have passed. As mortgage rates have fallen, home ownership has become increasingly more affordable. When viewed against the known pent-up demand in the market this gives ground for cautious optimism, borne out by the Group's strong levels of mortgage demand over the winter months and a high number of mortgage offers at the start of 1993.

Abbey National Life has made an encouraging start to its operations, and there is every confidence that it will considerably enhance the Group's overall performance. Scottish Mutual and Abbey National Treasury Services will also continue to make a significant contribution to Group earnings.

The Group's financial position remains strong and with continued investment, careful lending and tight control of costs, the Group will be well placed to achieve real growth for shareholders in 1993 and beyond.

Corporate Governance

The issue of corporate governance – how the Board manages a company – has become a growing concern in the UK. This concern led to a committee being set up in May 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession to consider the financial aspects of corporate governance. The committee was chaired by Sir Adrian Cadbury and its recommendations were published on 1 December 1992.

It is the intention of the Board that Abbey National will follow the Code of Best Practice recommended by the "Cadbury Committee" in the light of the Company's particular circumstances. Current arrangements are very much in line with these recommendations.

The Board comprises seven executive and eight independent non-executive directors with a non-executive Chairman. There is a clear separation of roles between the Chairman and the Group Chief Executive. The Board meets at regular intervals to review the performance of the Company and its management. Strategic and key operational decisions are reserved for the Board to decide upon. The calibre and number of non-executive directors is such that they can exert a valuable and independent influence on Board decisions about the running of Abbey National.

The Board has two key committees :–

The Audit Committee

The Audit Committee, of which I am Chairman, has written terms of reference and meets five or six times each year. There are currently three other members of this Committee who are all non-executive directors. They are identified on pages 16 and 17 of this document.

The principal responsibilities of the Audit Committee are:–

- to review the published accounts before they are presented to the Board
- to agree with the external auditors the general scope of their audit, and review their findings before making appropriate recommendations to the Board
- to review the work of internal audit and receive reports from the Group Chief Internal Auditor
- to review the adequacy of internal controls, and consider any special points raised by the Board or auditors and make recommendations to the Board about improvements.

The external auditors normally attend each meeting and are given an opportunity to raise any matters or concerns they may have. The Group Chief Internal Auditor attends meetings as required or at his request.

Corporate Governance

The Personnel Policy Committee

The primary purpose of the Personnel Policy Committee 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. In particular it meets to consider and recommend individual rewards for executive directors and other members of top management. Recommendations made by the Personnel Policy Committee concerning executive directors' remuneration, are considered and decided upon by the full complement of non-executive directors.

The Committee is chaired by Sir Christopher Tugendhat. There are currently three other non-executive directors on the Committee and two executive directors. They are identified on pages 16 and 17 of this document.

Peter A. Davis
Deputy Chairman and Chairman of the Audit Committee.

Directors' Report

The directors have pleasure in presenting their report for Abbey National plc for the year ended 31 December 1992.

Principal Activities

The principal activity of the Group continues to be the provision of an extensive range of personal financial services. The Group's business review and prospects for 1993, including a review of the Group's non-banking activities, are set out in the Financial Review on pages 3 to 9 of this document. Note 22 to the accounts provides a list of principal subsidiaries and their operations. 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 of the Group for the year ended 31 December 1992 was £564 million (1991 £618 million).

An interim dividend of 3.8 pence per share was paid on 12 October 1992 (1991: 3.5 pence per share). This equates to a total of 5.07 pence per share (1991: 4.67 pence per share) with the related tax credit.

The directors propose a final dividend for the year of 7.7 pence (1991: 7.0 pence per share) to be paid on 10 May 1993. With the related tax credit this is equivalent to 10.27 pence per share (1991: 9.33 pence per share).

The dividends for the year absorb a total of £151 million leaving profits of £159 million to be retained.

Corporate Governance

It is the intention of the Board that Abbey National plc will, in the light of the Company's particular circumstances, comply with the Code of Best Practice recommended by the committee on the financial aspects of corporate governance (the "Cadbury Committee"). Although the Code does not come into force until financial years ending after 30 June 1993, the directors are satisfied that Abbey National plc meets its requirements save for three of the nineteen recommendations where guidance is awaited from the accountancy profession on reporting arrangements. These relate to the auditors' reporting responsibilities, the effectiveness of the systems of internal control, and the "going concern" report. A statement of the directors' responsibilities for the preparation of the financial statements is included at the end of this report.

Employees

During 1992 a major programme was initiated under the banner "Success through Equality". This is designed to ensure that the Group's employment policies provide equal opportunities for all staff, irrespective of sex, race, religion, colour, ethnic origin or disability and to refocus efforts to encourage the progression of groups who are under-represented at certain levels or areas in the organisation. Wherever possible the Group's policy is to encourage and assist the employment of disabled people and to retain employees who have become disabled. The Company is also an original member and active participant in the Opportunity 2000 initiative.

Directors' Report
continued

The Company maintains its commitment to open communication with staff using a wide range 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 including, for the first time, the staff of Scottish Mutual Assurance where there was a high level of participation.

The Group has continued to make substantial investments in the training and development of staff. A major aspect of this activity during the second half of 1992 has been training on new systems and procedures in preparation for the launch of Abbey National Life. Eighty-six recruits joined the Company's graduate management training programme during the year together with seventy-two recruits to a new school leaver training programme. 1992 also saw the first graduates from the Company's special MBA programme which is run in conjunction with Loughborough University.

Details of the number of employees are set out in note 7 to the accounts on page 29.

Share Capital

The authorised and issued share capital of the Company are detailed in note 30 to the accounts on page 39.

During the year, 68,773 ordinary shares were issued on the exercise of options under the Sharesave scheme and 437,314 shares were issued under the terms of the Share Participation scheme.

Tangible Fixed Assets

The movements in tangible fixed assets are set out in note 23 to the accounts on page 36.

Market Value of Land and Buildings

The directors believe, on the basis of the Group's regular valuation review, that the open market value of the Group's land and buildings exceeds the net book value of £254 million as disclosed in note 23 to the accounts by approximately £56 million.

Charitable and Political Contributions

The Company has maintained its support for areas of need in the wider community. The total value of this support in 1992 in cash and benefits in kind was over £6 million. This includes a special donation of £5 million to endow Abbey National Charitable Trust Limited in order to further the Trust's objectives. Other cash donations, channelled mainly through the Trust, amounted to £570,000.

Other support included secondments and staff involvement in youth training, employment and enterprise initiatives and in a major charitable sponsorship.

No contributions were made for political purposes.

Directors' Report

continued

Directors and Directors' Interests

Sir John Garlick and Michael Heap retired as directors on 22 April 1992. After more than twenty eight years' service with Abbey National, Richard Baglin retired on 31 December 1992.

Mair Barnes was appointed to the Board on 1 July 1992 and Sir Terry Heiser and Charles Toner were appointed on 1 October 1992. 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 1992 to 31 December 1992. John Bayliss, Peter Davis, James Tyrrell and Charles Villiers will retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

None of the directors seeking re-election has a service contract with the Company or any of its subsidiaries which is terminable at more than twelve months' notice. 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 38 to the accounts on page 45.

Directors' Liability Insurance

During the year the Company arranged 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 1992.

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. Until 1 June 1992 the firm practised in the name of Coopers & Lybrand Deloitte.

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 1993".

Directors' Report

continued

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 and are explained in the notes to the accounts, have been applied consistently. In addition, 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, Group Secretary

1 March 1993

The Board

Sir Christopher 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 56.

Mair Barnes ‡

Appointed to the Board in July 1992. Since 1987 she has been Managing Director of Woolworths plc. Aged 48.

John Bayliss FCBSI *
Deputy Chairman

He joined the Group in 1957 and was appointed to the Board in 1984. He has held a number of executive positions in the Group including Managing Director, Retail Operations and from October 1992, he was appointed a Deputy Chairman. He is also Chairman of the Broomleigh Housing Association and a director of House the Homeless of London PLC, House the Homeless of London (Westminster) PLC and House the Homeless of London (Greenwich) PLC. Aged 59.

Peter Birch CBE FCBSI * ‡
Group Chief Executive

He joined Abbey National as Chief Executive in 1984. He is a non-executive director of Argos plc, Hoskyns Group plc, and Dalgety PLC. Aged 55.

Peter Davis FCA ✧ ‡
Deputy Chairman

Appointed to the Board in 1982, he became non-executive Deputy Chairman in 1988. He is currently a non-executive director of Abbey National Life plc and the Chairman of the Audit Committee. He was formerly the Deputy Chairman of Sturge Holdings PLC. Aged 51.

Allan Denholm CBE CA

Appointed to the Board in January 1992. He is Deputy Chairman of Scottish Mutual Assurance plc and a director of William Grant and Sons Limited and Chairman of East Kilbride Development Corporation. He is currently President of the Institute of Chartered Accountants of Scotland. Aged 56.

John Fry FCIS FCBSI * ‡
Group Services Director

After joining the Group 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 56.

Sir Terry Heiser GCB ✧

Appointed to the Board in October 1992 and is currently a non-executive director of J Sainsbury PLC and Wessex Water plc. He is also Chairman of the General Advisory Committee to the BBC. He was formerly with the Civil Service holding various senior positions, including Permanent Secretary to the Department of Environment from 1985 to June 1992. Aged 60.

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 57.

The Board

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 and a non-executive director of Carlton Television Holdings Limited. Aged 58.

Douglas Patrick FFA *

Chief Executive, Scottish Mutual Assurance plc

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 50.

The Lord Rockley ❖

Joined the Board in 1990. He has been Vice-Chairman of the Kleinwort Benson Group plc since 1988. He is also a non-executive director of Christie's International plc, The Foreign and Colonial Investment Trust PLC and FR Group plc, and Chairman of Dartford River Crossing plc and Midland Expressway Limited. Aged 58.

Charles Toner *

Managing Director, New Businesses

Appointed to the Board in October 1992. After joining the Group in 1964, he has held a number of executive positions, including appointment as a General Manager in 1986. Aged 51.

James Tuckey FRICS ‡

Appointed to the Board in 1990. He is currently Managing Director of MEPC plc. Aged 46.

James Tyrrell FCA *

Group Finance Director

Joined the Group in 1982 from Thorn EMI plc where he was Managing Director of HMV Shops. He was appointed to the Board in 1989. He is also a non-executive director of the Boddington Group plc. Aged 51.

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 Ltd. Aged 52.

Michael Heap and Sir John Garlick retired from the Board at the conclusion of the 1992 Annual General Meeting and Richard Baglin retired on 31 December 1992.

* 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 45 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 1992 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers + Lybrand.

Coopers & Lybrand
Chartered Accountants and Registered Auditors

London

1 March 1993

Consolidated Profit and Loss Account
for the year ended 31 December 1992

	1992 £m	1991 £m	Notes
Interest receivable	5,963	5,851	2
Interest payable	(4,669)	(4,708)	3
Net interest receivable	1,294	1,143	
Other income and charges	335	265	4
Operating expenses	(706)	(635)	5
Provisions for loans and advances	(322)	(155)	8
Profit on ordinary activities before tax and exceptional items	601	618	
Exceptional items:			
Reorganisation of estate agency business	(138)	–	9
Sale of unclaimed shares	101	–	10
Profit on ordinary activities before tax	564	618	11
Tax on profit on ordinary activities	(247)	(204)	12
Profit on ordinary activities after tax	317	414	13
Transfer to non-distributable reserve	(7)	–	31
Dividends	(151)	(138)	14
Retained profit for the year	159	276	31
Profit on ordinary activities before tax and exceptional items includes as a result of acquisitions	30	–	
Earnings per share	24.2p	31.6p	15

Statement of total recognised gains and losses
for the year ended 31 December 1992

	1992 £m	1991 £m
Profit for the financial year	317	414
Currency translation differences on foreign currency net investments	4	1
Total recognised gains relating to the year	321	415

Consolidated Balance Sheet
at 31 December 1992

Notes		1992 £m	1991 £m
	Assets		
16	Cash and short term funds	3,819	5,193
17	Securities and investments	17,186	9,995
	Advances secured on residential property	40,399	37,867
	Other advances secured on land	636	639
18	Net investment in finance leases	1,781	729
19	Other commercial assets	1,076	451
20	Long term assurance business	215	–
21	Long term investments	1,567	1,249
23	Tangible fixed assets	518	489
24	Other assets	1,799	793
20	Assets of long term assurance funds	2,816	–
	Total assets	71,812	57,405
	Liabilities and shareholders' funds		
25	Retail funds and deposits	33,616	32,711
26	Non-retail funds and deposits	29,330	19,642
	Dividend proposed	101	92
27	Other liabilities	1,951	1,539
28	Provisions for liabilities and charges	166	61
29	Subordinated liabilities	648	388
	Minority interests	–	1
20	Liabilities of long term assurance funds	2,816	–
	Total liabilities	68,628	54,434
30	Share capital	131	131
	Share premium	836	834
31	Reserves	2,217	2,006
32	*Total shareholders' funds*	3,184	2,971
	Total liabilities and shareholders' funds	71,812	57,405

Approved by the Board on 1 March 1993 and signed on its behalf by:

SIR CHRISTOPHER TUGENDHAT Chairman	PETER BIRCH Group Chief Executive	JAMES TYRRELL Group Finance Director

Company Balance Sheet
at 31 December 1992

	1992 £m	1991 £m	Notes
Assets			
Cash and short term funds	184	146	16
Securities and investments	1,010	294	17
Advances secured on residential property	39,613	37,241	
Other advances secured on land	247	308	
Other commercial assets	14	15	19
Long term investments	1	1	21
Investment in subsidiaries	3,021	2,626	22
Tangible fixed assets	490	461	23
Other assets	278	298	
Total assets	44,858	41,390	
Liabilities and shareholders' funds			
Retail funds and deposits	33,180	32,302	25
Non-retail funds and deposits	1,480	521	26
Dividend payable	101	92	
Other liabilities	6,562	5,240	27
Subordinated liabilities	473	233	29
Total liabilities	41,796	38,388	
Share capital	131	131	30
Share premium	836	834	
Reserves	2,095	2,037	31
Total shareholders' funds	3,062	3,002	32
Total liabilities and shareholders' funds	44,858	41,390	

Approved by the Board on 1 March 1993 and signed on its behalf by:

SIR CHRISTOPHER TUGENDHAT
Chairman

PETER BIRCH
Group Chief Executive

JAMES TYRRELL
Group Finance Director

Consolidated Cash Flow Statement
for the year ended 31 December 1992

Notes		1992 £m	1991 £m
33a	*Net cash inflow from operating activities*	96	1,184
	Returns on investments and servicing of finance		
	Ordinary share dividends paid	(142)	(129)
	Net outflow from returns on investments and servicing of finance	(142)	(129)
	Taxation		
	UK Corporation tax paid	(156)	(112)
	Overseas tax paid	(10)	(4)
	Total taxation paid	(166)	(116)
	Investing activities		
	Additions to long term investments	(322)	(792)
	Repayment of long term investments	105	6
	Purchase of tangible fixed assets	(115)	(209)
	Sales of tangible fixed assets	13	8
	Transfer to life fund	(285)	–
	Purchase of shares from minority shareholders	(1)	(8)
	Purchase of subsidiary undertakings	(3)	–
	Net cash outflow from investing activities	(608)	(995)
	Net cash outflow before financing	(820)	(56)
	Financing		
	Issue of ordinary share capital	2	–
	Issue of loan capital	240	153
	Net cash inflow from financing	242	153
33c	*Increase/(decrease) in cash and cash equivalents*	(578)	97

Cash and cash equivalents in this statement are calculated in accordance with the definition set out in Financial Reporting Standard 1 (FRS 1). The Group's total liquidity includes not only these cash and cash equivalents but also short-term funds and certain securities and investments which fall outside the FRS 1 definition.

Accounting Policies

Basis of presentation

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

Accounting convention

The Group prepares its accounts under the historical cost convention as modified for the revaluation of long term assurance business and in accordance with applicable 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 1992.

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 bee 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 in reserves is made.

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 liability or asset crystallises.

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: 12.5%

Computer equipment:

- mainframe: 25%
- peripheral: 20%

Motor vehicles: 25%

No depreciation is provided on freehold land.

Interest receivable

Credit is deferred in respect of a proportion of interest due but not received on certain mortgage accounts in arrears where recovery is doubtful.

Securities and investments

Dated securities held for investment purposes are stated at cost adjusted for the amortisation of any premium or discount on an appropriate basis over their estimated lives. Securities held for dealing purposes are included at market value.

Provision is made for any permanent diminution in value.

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 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 Company 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.

Accounting Policies
continued

Provisions for loans and advances

Specific provisions are made against loans and advances when, as a result of a detailed year end appraisal 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 against profits. Where interest on doubtful loans and advances is credited to the profit and loss account, provision is made as appropriate.

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 costs, 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, persistence 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 investigations in accordance with the terms of the Insurance Companies Act 1982.

Long term investments

Long term investments are stated at cost adjusted for amortisation of any premium or discount on an appropriate basis over their estimated lives. Provision is made for any permanent diminution in value.

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 currency 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.

Other assets and other liabilities

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

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.

Notes to the Accounts

1. Segmental analysis

The equity capital of UK Retail Operations and Treasury Operations is managed on a unified basis and earnings thereon are shown within the UK Retail Operations result. Earnings on equity capital in other segments are shown in the result of the relevant segment. The Life Assurance segment relates to the writing of life assurance business and consists of the result of Scottish Mutual Assurance plc and the costs incurred in preparing for the launch of Abbey National Life plc.

No geographical analysis is presented as the non-UK business is not significant.

Class of business	UK Retail Operations £m	Life Assurance £m	Estate Agency £m	Treasury Operations £m	Other £m	Group Total £m
1992						
Group result before taxation and exceptional items	540	22	(20)	100	(41)	601
Exceptional items	–	–	(138)	–	101	(37)
Group result before taxation	540	22	(158)	100	60	564
Includes as a result of acquisitions	–	31	(1)	–	–	30
Total assets	42,038	3,056	40	23,776	2,902	71,812
Net assets	2,516	15	(208)	761	100	3,184
1991						
Group result before taxation	585	–	(19)	62	(10)	618
Includes as a result of acquisitions	–	–	–	–	–	–
Total assets	38,987	–	41	15,965	2,412	57,405
Net assets	2,421	–	(183)	647	86	2,971

2. Interest receivable

	1992 £m	1991 £m
On secured advances	4,134	4,513
On other lending	71	70
Interest and other income on:		
Fixed interest liquid assets, securities and investments	918	745
Other liquid assets, securities and investments	712	480
Net profits/(losses) on liquid assets, securities and investments	12	(1)
Income receivable from finance leases	116	44
	5,963	5,851
Including:		
Income from listed and registered investments	944	751
Income from unlisted investments	698	473

Interest due but not received of £58m (1991: £45m) on certain mortgage accounts in arrears has not been recognised in interest receivable.

Notes to the Accounts
continued

	1992 £m	1991 £m
3. Interest payable		
On retail funds and deposits	2,563	3,209
On non-retail funds and deposits	2,106	1,499
	4,669	4,708
Including payable on borrowings with a maturity greater than five years	59	54
4. Other income and charges		
Income from long term assurance business (Note 20)	31	–
Commissions and fees receivable	113	133
Commissions and fees payable	(10)	(15)
Dividend income	58	40
Other financial income	90	65
Rent receivable	6	6
Other	47	36
	335	265

Dividend income is shown after amortisation of the relevant unlisted securities. This amortisation amounts to £59m (£50m)

5. Operating expenses

Operating expenses include the following items:

	1992 £m	1991 £m
Staff costs:		
Salaries and wages	242	235
Social security costs	22	19
Other pension costs	19	16
Other staff costs	30	23
	313	293
Depreciation of tangible fixed assets	77	67
Hire of equipment	9	9
Finance charges in respect of leased assets	4	4
Rent and rates payable	56	47

The charges above exclude those incurred by Scottish Mutual Assurance plc which have been charged to the revenue account of the long term business fund and are therefore not included in operating expenses. Staff costs incurred by Scottish Mutual Assurance plc are:

	1992 £m	1991 £m
Staff costs:		
Salaries and wages	18	–
Social security costs	1	–
Other pension costs	2	–
Other staff costs	2	–
	23	–

The auditors' remuneration was £1.2m (£1.1m) for audit services and £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 (£0.5m) and for Scottish Mutual Assurance plc of £0.1m (£nil).

Notes to the Accounts
continued

6. Directors' emoluments

The aggregate emoluments of directors were:

	1992 £000	1991 £000
Fees in respect of services as directors	368	350
Other emoluments		
Salary and benefits	1,187	911
Performance related benefits	–	170
Ex-gratia payments to former directors	53	36
Total emoluments	1,608	1,467
Compensation for loss of office	266	–
	1,874	1,467

Fees are paid only to non-executive directors and the Chairman. The basic fee for non-executive directors of £17,500 is augmented for service on board committees. These fees have not changed during 1992.

The details of directors' pensions granted in the year are set out in note 37 on page 44.

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 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 size 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;

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 Retail Prices Index.

The emoluments of the Chairman, Sir Christopher Tugendhat, were £211,575. This appointment is non-pensionable, so the Chairman makes his own pension arrangements. In 1991 the emoluments of the Chairmen were £159,625. Of these, £64,469, excluding pension contributions, is attributable to Sir Campbell Adamson for the period 1 January to 30 June 1991 £95,156 is attributable to Sir Christopher Tugendhat for the remainder of that year.

Notes to the Accounts
continued

Directors' emoluments (continued)

The emoluments, excluding pension contributions, of the highest paid director were.

	1992	1991
	£	£
Salary and benefits	257,566	216,756
Performance related payments	–	45,150
	257,566	261,906

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

	1992	1991
£0 - £5,000	1	–
£5,001 - £10,000	1	1
£10,001 - £15,000	1	–
£15,001 - £20,000	5	6
£30,001 - £35,000	2	1
£40,001 - £45,000	–	1
£60,001 - £65,000	1	–
£120,001 - £125,000	1	–
£130,001 - £135,000	1	–
£145,001 - £150,000	1	1
£155,001 - £160,000	1	2
£160,001 - £165,000	1	–
£170,001 - £175,000	1	1
£185,001 - £190,000	–	1

Pensions to former directors amounted to £143,310 (£87,572).

Options were granted during the year ended 31 December 1992 under the Executive Share Option scheme which was approved by shareholders in April 1991 (and amended in April 1992). Total options granted to directors were over 392,173 (693,926) ordinary shares. These included options over 209,940 shares granted at 299p and normally exercisable between 1995 and 2002. 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 217,233 shares were granted at 254p and normally exercisable between 1997 and 2002. 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 299p 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 38 on page 45.

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.

Notes to the Accounts
continued

7. Employees

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

	1992	1991
Full time		
Chief administrative offices	4,552	4,063
Branch offices	9,902	9,619
Scottish Mutual Assurance	1,004	–
	15,458	13,682
Male	4,981	4,117
Female	10,477	9,565
	15,458	13,682
Part time		
Chief administrative offices	511	472
Branch offices	4,000	3,999
Scottish Mutual Assurance	17	–
	4,528	4,471
Male	93	109
Female	4,435	4,362
	4,528	4,471

8. Provisions for loans and advances

	On advances secured on residential properties £m	On other advances secured on land £m	On unsecured loans £m	Total £m
Group				
At 1 January 1992:				
General	44	2	6	52
Specific	75	24	36	135
Exchange movements	3	5	–	8
Transfer from profit and loss account	265	38	19	322
Irrecoverable amounts written off	(101)	(1)	(23)	(125)
At 31 December 1992	286	68	38	392
Being for the Group:				
General	106	5	3	114
Specific	180	63	35	278
Including for the Company:				
General	96	1	1	98
Specific	148	26	14	188

Notes to the Accounts
continued

9. Reorganisation of estate agency business

	1992 £m
Reorganisation costs	12
Goodwill:	
Recognition on disposal of branches	13
Permanent diminution in value of remaining business	113
	138

Following the reorganisation and restructuring of the estate agency business, the directors have reassessed the value of goodwill on acquisition of the business which was previously taken to reserves in accordance with standard accounting practice. This practice is not considered to mean that the goodwill has no value. However, in the opinion of the directors there has, since acquisition, been a permanent diminution in the value of the goodwill of the remaining business. In order to recognise this diminution in value in the profit and loss account, it has been charged as an exceptional item in the current year.

10. Sale of unclaimed shares

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

Under the terms of conversion of Abbey National Building Society to plc status in July 1989, eligible borrowers and savers were entitled to 100 free shares in Abbey National plc. In order to claim the shares, borrowers and savers were required to validate their entitlement. By the terms of Abbey National plc's articles of association, it is entitled to sell any shares which were wrongly allocated or remain unclaimed for more than three years after conversion. Consequently, following an extensive campaign to encourage the borrowers and savers whose shares were unclaimed to validate their entitlement, Abbey National plc sold 31m shares during 1992. 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. Provision for such claims has been made. Following the sale of unclaimed shares, the directors of Abbey National plc decided to endow the Abbey National Charitable Trust Limited with a sum of £5m. Income from this endowment will be used in furtherance of the Trust's objectives.

11. Note of historical cost profits

	1992 £m	1991 £m
Reported profit on ordinary activities before tax	564	618
Revaluation of long term assurance business	(10)	-
Historical cost profit on ordinary activities before tax	554	618
Historical cost retained profit for the year	159	276

Notes to the Accounts
continued

12. Tax on profit on ordinary activities

	1992 £m	1991 £m
UK Corporation tax		
Current at 33% (33.25%)	181	186
Deferred	63	24
Prior year under/(over) provision including deferred tax	2	(8)
Double tax relief	(8)	(3)
Overseas taxation	9	5
	247	204

The tax charge for 1992 has been increased by £10m as a result of the exceptional items described in notes 9 and 10.

In 1991, a group company entered into a property leasing transaction. A further transaction in 1992 has resulted in the company ceasing to receive primary period rentals from the underlease it had previously granted. Consequently, the deferred tax liability of £20m in respect of those rentals is no longer required and has been released. In accounting for the 1992 transaction, the release has been treated as reducing the cost of the investment in the property headlease.

13. Profit on ordinary activities after tax

The profit of the Company after tax, attributable to the shareholders, is £210m (£350m). As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these accounts.

14. Dividends

Dividends include an interim dividend paid of 3.80 (3.50) pence per share and the final dividend now proposed of 7.70 (7.00) pence per share.

15. Earnings per share

Earnings per ordinary share are calculated by dividing the consolidated profit after tax of £317m (£414m) by the average number of ordinary shares in issue of 1,311m (1,310m).

16. Cash and short term funds

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Cash in hand and with central banks	404	324	183	145
Money at call and short notice	1,934	1,969	1	1
Treasury and other bills discounted	347	746	–	–
Certificates of deposit	1,134	2,154	–	–
	3,819	5,193	184	146

Notes to the Accounts
continued

17. Securities and investments

	Group		Company	
	1992	1991	1992	1991
Remaining maturity of:	£m	£m	£m	£m
Not more than one year	933	370	365	162
More than one year but not more than five years	8,997	3,310	338	12
More than five years	7,213	5,933	270	43
No specific maturity	43	382	37	77
	17,186	9,995	1,010	294
Being:				
UK Government securities	974	201	970	201
Registered securities issued or guaranteed by				
US Federal Government agencies	1,840	1,948	–	–
Other listed investments:				
UK	4,576	3,223	–	–
Overseas	6,912	3,934	–	–
Unlisted investments	2,884	689	40	93
	17,186	9,995	1,010	294
Including total listed and registered investments of	14,302	9,306	970	201
Aggregate market value of these listed and registered investments	14,468	9,616	1,006	203
Securities sold subject to agreement to repurchase	1,037	–	842	–

There are hedges in place in respect of a number of securities. Consequently any rise or fall in their market value is offset by a corresponding reduction or increase in the value of the hedges.

Fixed interest securities and bills held within the investment fund amount to £800m (£1,068m) including an unamortised loss of £17m (£25m).

Included in unlisted investments are 100% of the preference shares of ACP Treasury Ltd. which is incorporated in Jersey.

18. Net investment in finance leases

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Amounts receivable	3,509	1,572	–	–
Less: deferred income	1,728	843	–	–
	1,781	729	–	–
Costs of assets acquired for the purpose of letting under finance leases in the year	1,107	636	–	–
Gross rentals receivable	181	59	–	–
Amounts outstanding subject to a sub-participation	44	13	–	–

Notes to the Accounts
continued

19. Other commercial assets

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Unsecured loans	531	278	14	15
Residential development properties	50	65	–	–
Collateralised mortgage loans	495	108	–	–
	1,076	451	14	15

The figure for residential development properties includes completed properties of £39m (£49m), and work in progress of £11m (£16m).

The collateralised mortgage loans are held as investments by Abbey National Treasury Services plc.

20. Long term assurance business

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

	1992	On acquisition 1 January 1992
	£m	£m
Embedded value of policies in force and surplus retained within the long term assurance funds	215	208

The acquisition of the business of The Scottish Mutual Assurance Society was made at a cost of £288m giving rise to goodwill of £80m which has been taken to reserves. Income from long term assurance business since acquisition included as Other income in the consolidated profit and loss account is £31m and consists of an increase in the value of the shareholders' interest in the long term assurance business of £10m and profit transferred from the long term assurance funds during the year of £21m.

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

	1992	On acquisition 1 January 1992
	£m	£m
Fixed assets	6	4
Investments	2,680	2,079
Current assets	209	137
Current liabilities	(79)	(113)
	2,816	2,107
Long term assurance fund including investment reserve	2,816	2,107

21. Long term investments

	Group 1992 £m	Group 1991 £m	Company 1992 £m	Company 1991 £m
Securities and investments	1,567	1,189	1	1
Net investment in property finance lease	–	60	–	–
	1,567	1,249	1	1
Securities and investments				
Remaining maturity of more than five years	1,564	1,187	–	–
No specific maturity	3	2	1	1
	1,567	1,189	1	1
Being:				
UK listed investments	1	1	–	–
Unlisted investments	1,566	1,188	1	1
	1,567	1,189	1	1
Aggregate market value of these listed investments	2	1	–	–
Cost of assets acquired for the purpose of letting under finance leases in the year	–	60	–	–

The movements on long term investments during the year were:

	Group £m	Company £m
At 1 January 1992	1,249	1
Additions	443	–
Repayments	(125)	–
At 31 December 1992	1,567	1

Notes to the Accounts
continued

22. Investments in subsidiaries

	Company	
	1992	1991
	£m	£m
Shares	693	619
Loans	2,028	1,707
Capital contribution	300	300
	3,021	2,626

During 1992, Abbey National plc acquired the 6% minority holding in Abbey National Bank SAE for £0 3m and subscribed £28m for additional shares in the company. Abbey National plc also subscribed £37m for additional shares in Abbey National France SA.

The value of loans to Abbey National Estate Agency Ltd has been further written down by £155m as a result of a review which identified a permanent diminution of its value. The value of loans to Abbey National Homes Ltd has similarly been written down by £33m. All other investments in subsidiaries are shown at cost.

The increase in value of shares in subsidiaries relates primarily to the additional subscription for shares in Abbey National Bank SAE and Abbey National France SA. The increase in loans principally reflects the funding of Abbey National Investment Holdings Ltd, and the write down of loans to Abbey National Estate Agency Ltd and Abbey National Homes Ltd.

On 1 January 1993 the name of Ficofrance SA was changed to Abbey National France SA.

The principal subsidiaries of Abbey National plc at 31 December 1992 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 Sc ish Mutual Assurance plc which are held indirectly through subsidiaries.

	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 Investment Holdings Ltd	Investment	England & Wales
Abbey National leasing companies (17 companies)	Leasing	England & Wales
Abbey National Personal Finance Ltd	Personal finance	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
Abbey National Mutui SpA	Personal finance	Italy
Abbey National (Overseas) Ltd	Personal finance	Jersey
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.

Notes to the Accounts
continued

23. Tangible fixed assets

	Group			Company		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
Cost						
At 1 January 1992	270	428	698	260	392	652
Additions	24	91	115	21	82	103
Disposals	(3)	(17)	(20)	(3)	(13)	(16)
At 31 December 1992	291	502	793	278	461	739
Depreciation						
At 1 January 1992	30	179	209	27	164	191
Charge for the year	7	70	77	4	64	68
Disposals	–	(11)	(11)	–	(10)	(10)
At 31 December 1992	37	238	275	31	218	249
Net book value						
At 31 December 1992	254	264	518	247	243	490
At 31 December 1991	240	249	489	233	228	461

The net book value of premises comprises:

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Freeholds	196	185	195	185
Long leaseholds	10	11	10	11
Short leaseholds	48	43	42	37

The net book value of equipment includes:

Assets held under finance leases	28	37	28	36
Depreciation charge for the year on these assets	15	13	15	13
Capital expenditure which has been contracted, but has not been provided in the accounts	25	19	25	19
Capital expenditure which has been authorised by the directors, but has not yet been contracted	23	26	22	26

Notes to the Accounts
continued

24. Other assets

Other assets includes £67[illegible]m which relates to the net translation difference arising from instruments which are used to hedge currency assets and liabilities. This translation difference is offset by corresponding translation differences in the underlying assets and liabilities. No loss is expected to arise on the maturity of these investments. At 31 December 1991 this value was a liability of £72m and was included in Other liabilities.

25. Retail funds and deposits

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Repayable:				
On demand	33,173	32,351	33,055	32,212
In not more than three months	443	360	125	90
	33,616	32,711	33,180	32,302

26. Non-retail funds and deposits

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Amounts owed to other banks	12,849	7,411	1,043	46
Time deposits	1,127	893	–	–
Certificates of deposit	4,864	4,048	–	–
Other deposits	3,337	2,693	423	463
Bonds and notes	7,153	4,597	14	12
	29,330	19,642	1,480	521
Bonds and notes are repayable:				
In not more than one year	3,241	1,287	11	–
Between one and two years	1,259	996	–	9
Between two and five years	2,267	2,058	–	–
In more than five years*	386	256	3	3
	7,153	4,597	14	12

*These loans represent bond issues at various wholesale market rates redeemable between 1998 and 2007.

Notes to the Accounts
continued

27. Other liabilities

	Group 1992 £m	Group 1991 £m	Company 1992 £m	Company 1991 £m
Income tax	229	285	227	283
Corporation tax	188	249	159	243
Other taxation and social security costs	9	8	7	6
Amounts due to subsidiaries	–	–	5,835	4,464
Items in the course of transmission to other banks	108	39	108	39
Other creditors and accrued interest	1,417	958	226	205
	1,951	1,539	6,562	5,240

Obligations under finance leases included within Other creditors are:

	Group 1992 £m	Group 1991 £m	Company 1992 £m	Company 1991 £m
Payable:				
In not more than one year	15	13	15	13
In more than one year but not more than five years	15	25	15	25
	30	38	30	38

Amounts payable in not more than one year relate to finance leases ending:

	Group 1992 £m	Group 1991 £m	Company 1992 £m	Company 1991 £m
In not more than one year	1	1	1	1
In more than one year but not more than five years	14	12	14	12
	15	13	15	13

28. Provisions for liabilities and charges

	Group £m	Company (included in Other assets) £m
Deferred taxation		
At 1 January 1992	61	(29)
Transfer from profit and loss account	105	(10)
At 31 December 1992	166	(39)

The amounts provided (recoverable) and total potential liabilities (assets) are:

	Amount provided (recoverable) Group £m	Amount provided (recoverable) Company £m	Total potential liability (asset) Group £m	Total potential liability (asset) Company £m
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	14	15	14	15
Capital allowances on finance lease receivables	167	–	167	–
Other	(15)	(54)	(15)	(54)
	166	(39)	166	(39)

Notes to the Accounts
continued

29. Subordinated liabilities

	Group 1992 £m	Group 1991 £m	Company 1992 £m	Company 1991 £m
Subordinated floating rate note 1995	120	120	–	–
Subordinated floating rate note 1997	42	42	–	–
9.00% Subordinated guaranteed bonds 2002 (LUX 1,000m)	20	–	–	–
Subordinated loan stock 2002*	–	–	17	–
Subordinated guaranteed bonds 2002 (US $75m)	49	–	–	–
Subordinated floating rate note 2002 (US $75m)*	–	–	49	–
8.00% Subordinated guaranteed bonds 2002 (DFL 200m)	73	–	–	–
Subordinated loan 2002 (US $112m)*	–	–	74	–
10.375% Subordinated guaranteed bonds 2002	101	–	–	–
10.512% Subordinated loan stock 2002*	–	–	100	–
Subordinated floating rate note 2004 (US$137m)	90	73	–	–
Subordinated floating rate note 2004*	–	–	83	83
11.50% Subordinated guaranteed bonds 2017	153	153	–	–
11.59% Subordinated loan stock 2017*	–	–	150	150
	648	388	473	233

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.

30. 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 1992 was £131m (£131m).

Under the Company's Executive and Sharesave schemes, employees hold options to subscribe for 22,022,439 (17,394,309) ordinary shares at prices ranging from 149.0 to 299.0 pence per share, exercisable between 1994 and 2002 or earlier in certain circumstances. During the year 68,773 shares were issued on the exercise of options for a consideration of £106,607.

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 65,541,177 shares representing 5% of the issued share capital of the Company. During 1992 437,314 shares were issued under the terms of the scheme for a consideration of £1,263,837.

As at 15 January 1993 there were 2,844,276 shareholders. The following table shows an analysis of their holdings:

Size of Shareholding	Shareholders	Shares
1 – 100	1,926,790	191,755,796
101 – 1000	888,590	416,490,849
1,001 +	28,896	702,584,726
	2,844,276	1,310,831,371

Notes to the Accounts
continued

31. Reserves

	Profit and Loss Account		Non-distributable reserve	
	Group £m	Company £m	Group £m	Company £m
At 1 January 1992	2,006	2,037	–	–
Retained profit for the year	159	59	–	–
Goodwill recognised in the profit and loss account in the year	126	–	–	–
Goodwill taken to reserves during the year	(85)	–	–	–
Exchange differences	4	(1)	–	–
Transfer to non-distributable reserve	–	–	7	–
At 31 December 1992	2,210	2,095	7	–

Goodwill taken to reserves during the year represents goodwill on the acquisition of the business of The Scottish Mutual Assurance Society, minority interests in subsidiaries and estate agency businesses.

The cumulative amount of goodwill taken to reserves by the Group to 31 December 1992 and not yet recognised in the profit and loss account is £104m (£145m).

The non-distributable reserve represents the Group's shareholder interest retained in the long term assurance fund of Scottish Mutual Assurance plc.

32. Reconciliation of movements in shareholders' funds

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

33. Consolidated cash flow statement

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

	1992 £m	1991 £m
Operating profit	564	618
Increase in interest receivable and prepaid expenses	(490)	(173)
Increase in interest payable and accrued expenses	222	370
Provisions for bad and doubtful debts	322	155
Net advances written off	(125)	(60)
Increase in the value of long term assurance business	(10)	-
Depreciation	77	67
Profit on sale of tangible fixed assets	(4)	(1)
Effect of other deferrals and accruals of cash flows from operating activities	118	37
Net cash inflow from trading activities	674	1,013
Net increase in:		
Short term funds other than cash equivalents	1,003	(1,052)
Securities	(7,191)	(3,882)
Advances	(3,046)	(3,988)
Investment in finance leases	(1,053)	(625)
Other assets	(950)	(255)
Retail funds and deposits	1,126	2,791
Non-retail funds and deposits	9,688	7,202
Other liabilities	19	(15)
Exchange movements	(174)	(5)
Net cash inflow from operating activities	96	1,184

b) Analysis of cash and cash equivalents

	1992 £m	1991 £m	Change 1992 £m	Change 1991 £m
Cash in hand	253	172	81	(34)
Money at call	1,471	1,028	443	180
Treasury and other bills discounted	44	384	(340)	(553)
Certificates of deposit	474	1,029	(555)	513
Cash and cash equivalents	2,242	2,613	(371)	106
Other short term funds not treated as cash equivalents	1,577	2,580	(1,003)	1,052
Cash and short term funds as shown in the balance sheet	3,819	5,193	(1,374)	1,158

The group is required to maintain balances with the Bank of England which at 31 December 1992 amounted to £152m (£152m). These are included in other short term funds.

Notes to the Accounts
continued

33. Consolidated cash flow statement (continued)

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

	1992 £m	1991 £m
At 1 January	2,613	2,507
Net cash inflow before adjustments for the effect of foreign exchange rate changes	(578)	97
Effect of foreign exchange rate changes	207	9
At 31 December	2,242	2,613

d) Analysis of changes in financing during the year

	Share capital including share premium		Subordinated liabilities	
	1992 £m	1991 £m	1992 £m	1991 £m
At 1 January	965	965	388	233
Cash inflow from financing	2	–	240	153
Effect of foreign exchange rate changes	–	–	20	2
At 31 December	967	965	648	388

e) Purchase of subsidiary undertakings

	1992 £m	1991 £m
Net assets acquired:		
Long term assurance business	208	–
Fixed assets	1	–
Current assets	–	–
Current liabilities	(3)	–
Minority shareholders' interest	(2)	3
	204	3
Goodwill	85	5
	289	8
Satisfied by:		
Transfer to the long term assurance fund	285	–
Cash	4	8
	289	8

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

	1992 £m	1991 £m
Cash consideration	(4)	(8)
Cash and cash equivalents acquired	–	–
Net outflow of cash and cash equivalents in respect of purchase of subsidiaries	(4)	(8)

Notes to the Accounts
continued

34. 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 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 Mutui SpA, Abbey National (Overseas) Ltd and Abbey National (Gibraltar) Ltd.

Total guarantees given by Abbey National plc in respect of subsidiaries' liabilities	£27,711m
Guarantees given by subsidiaries	£63m

35. Other financial commitments

	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Commitments as lessors for the purchase of equipment for use in financial leases	773	453	–	–

The Company has entered into interest rate and currency swaps and option contracts for hedging purposes.

Abbey National Treasury Services plc, a wholly-owned subsidiary of Abbey National plc, has a potential liability 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.

36. 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 £0.2 billion at 31 December 1992.

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.

Notes to the Accounts
continued

37. Retirement benefits

The Abbey National Amalgamated Pension Fund is the principal pension scheme within the Group, covering 72% 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 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 £17m (£14m) 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 1992 and a provision of £40m is 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 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 1990 which revealed a modest excess of assets over liabilities.

Non-executive directors of long service may receive an ex-gratia pension. These pensions are unfunded and a capital cost of £0.1m (£0.9m) has been charged to the profit and loss account in respect of those granted in the year. The capital cost was assessed in accordance with the advice of an independent professionally qualified actuary. The Board has determined that it will no longer award such pensions to the non-executive directors who joined the Board after 31 December 1988.

Notes to the Accounts
continued

38. 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:

	Number of persons	Total £000
Directors		
Loans	11	738
Quasi loans	–	–
Credit transactions	–	–
Officers		
Loans	33	2,927
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 1992		Options granted during the year (or since appointment if later)		At 1 January 1992 (or date of appointment if later)	
	Shares	Options	Executive	Sharesave	Shares	Options
M Barnes	1,000	–	–	–	1,000	–
J Bayliss	1,408	143,667	–	1,569	1,373	142,098
PG Birch	111,790	290,189	83,612	1,882	109,549	204,695
PA Davis	11,750	–	–	–	11,750	–
JA Denholm	1,500	–	–	–	1,000	–
JM Fry	3,324	203,375	108,561	1,569	3,324	93,245
Sir Terry Heiser	1,500	–	–	–	1,500	–
ME Llowarch	1,750	–	–	–	1,750	–
S Morrison	5,000	–	–	–	5,000	–
FD Patrick	1,000	59,414	50,000	9,414	1,000	–
The Lord Rockley	5,000	–	–	–	5,000	–
CG Toner	1,743	119,452	–	–	1,743	119,452
J L Tuckey	2,000	–	–	–	2,000	–
Sir Christopher Tugendhat	10,000	7,845	–	7,845	6,000	–
JM Tyrrell	5,105	152,216	50,000	1,569	3,029	100,647
CN Villiers	17,777	158,878	50,000	1,569	15,701	107,309

The options refer to those granted under the Company's Executive and Sharesave schemes, as set out in note 30. The terms under which the options under the executive scheme were granted to directors are set out in note 6.

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 1 February 1993.

Group Financial Summary

	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Profit and loss accounts					
Interest receivable	5,963	5,851	5,915	4,459	3,113
Interest payable	(4,669)	(4,708)	(4,959)	(3,693)	(2,479)
Net interest receivable	1,294	1,143	956	766	634
Other income and charges	335	265	189	174	131
Operating expenses	(706)	(635)	(508)	(425)	(338)
Provisions for loans and advances	(322)	(155)	(55)	(14)	(13)
Exceptional items:					
Reorganisation of estate agency business	(138)	–	–	–	–
Sale of unclaimed shares	101	–	–	–	–
Profit on ordinary activities before tax	564	618	582	501	414
Tax on profit on ordinary activities	(247)	(204)	(205)	(178)	(144)
Profit on ordinary activities after tax	317	414	377	323	270
Transfer to non-distributable reserve	(7)	–	–	–	–
Dividends	(151)	(138)	(125)	(75)	–
Retained profit for the year	159	276	252	248	270
Profit on ordinary activities before tax includes as a result of acquisitions	30	–	4	1	(10)
Earnings per share	24.2p	31.6p	28.8p		
Pro forma earnings per share				27.3p	24.5p
Dividends per share (pence)					
Net	11.5p	10.5p	9.5p	5.7p	–
Gross equivalent	15.3p	14.0p	12.7p	7.6p	–
Dividend cover (times)	2.1	3.0	3.0	–	–

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 1988 and 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 1988. Assumed interest rates of 10% for 1988 and 13% for 1989, net of corporation tax were 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 net and 11.3p gross equivalent.

Group Financial Summary

continued

	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Balance sheets					
Assets					
Cash and short term funds	3,819	5,193	4,035	3,587	3,525
Securities and investments	17,186	9,995	6,113	3,237	2,303
Advances secured on residential property	40,399	37,867	34,044	29,126	25,111
Other advances secured on land	636	639	678	352	145
Net investment in finance leases	1,781	729	104	–	–
Other commercial assets	1,076	451	292	269	210
Long term assurance business	215	–	–	–	–
Long term investments	1,567	1,249	385	1	1
Tangible fixed assets	518	489	354	254	199
Other assets	1,799	793	491	375	43
Assets of long term assurance funds	2,816	–	–	–	–
Total assets	71,812	57,405	46,496	37,201	31,537
Liabilities and shareholders' funds					
Retail funds and deposits	33,616	32,711	29,735	26,943	25,316
Non-retail funds and deposits	29,330	19,642	12,440	6,732	4,320
Dividend proposed	101	92	83	75	–
Other liabilities	1,951	1,539	1,297	732	456
Provisions for liabilities and charges	166	61	5	20	12
Subordinated liabilities	648	388	233	245	120
Minority interests	–	1	4	3	1
Liabilities of long term assurance funds	2,816	–	–	–	–
Total liabilities	68,628	54,434	43,797	34,750	30,225
Share capital	131	131	131	131	–
Share premium	836	834	834	834	–
Reserves	2,217	2,006	1,734	1,486	1,312
Total shareholders' funds	3,184	2,971	2,699	2,451	1,312
Total liabilities and shareholders' funds	71,812	57,405	46,496	37,[illegible]1	31,537

ABBEY NATIONAL PLC

Company Profit and Loss Account

for the year ended 31 December 1992

	1992 £m	1991 £m
Interest receivable	4,651	4,910
Interest payable	(3,514)	(3,874)
Net interest receivable	1,137	1,036
Other income and charges	156	159
Operating expenses	(755)	(539)
Provisions for loans and advances	(265)	(127)
Exceptional item : sale of unclaimed shares	101	-
Profit on ordinary activities before tax	374	529
Tax on profit on ordinary activities	(164)	(179)
Profit on ordinary activities after tax	210	350
Dividends	(151)	(138)
Retained profit for the year	59	212

Statement of Recognised Gains and Losses

for the year ended 31 December 1992

	1992 £m	1991 £m
Profit for the financial year	210	350
Currency translation differences on foreign currency investments	(1)	-
Total recognised gains relating to the year	209	350

Sir Christopher Tugendhat
Chairman

Peter Birch
Group Chief Executive

James Tyrrell
Group Finance Director

2294747

Summary Financial Statement
year ended 31 December 1992

Summary Directors' Report

The Directors have pleasure in presenting this summary financial statement for Abbey National plc and its subsidiaries for the year ended 31 December 1992. The information provided is only a summary of that contained in the Directors' Report and Accounts 1992. The accounts for 1992 have been prepared in accordance with the new accounting standard, Financial Reporting Standard 3 (FRS3).

Results and dividends

The profit on ordinary activities before tax of the Group for the year ended 31 December 1992 was £564 million (1991: £618 million).

An interim dividend of 3.8 pence per share was paid on 12 October 1992 (1991: 3.5 pence per share). This equates to a total of 5.07 pence per share (1991: 4.67 pence per share) with the related tax credit.

The Directors propose a final dividend for the year of 7.7 pence per share (1991: 7.0 pence per share) to be paid on 10 May 1993. With the related tax credit this is equivalent to 10.27 pence per share (1991: 9.33 pence per share).

The dividends for the year absorb a total of £151 million, leaving profits of £159 million to be retained.

Business review and future activities

The Group's business review and prospects for 1993 are set out in the Chairman's and Group Chief Executive's statements on pages 2 to 11 of this document.

Names of Directors

Sir Christopher Tugendhat
Mair Barnes *(Appointed 1 July 1992)*
John Bayliss FCBSI
Peter Birch CBE FCBSI
Peter Davis FCA
Allan Denholm CBE CA *(Appointed 1 January 1992)*
John Fry FCIS FCBSI
Sir Terry Heiser GCB *(Appointed 1 October 1992)*
Martin Llowarch FCA
Sara Morrison
Douglas Patrick FFA *(Appointed 1 January 1992)*
The Lord Rockley
Charles Toner *(Appointed 1 October 1992)*
James Tuckey FRICS
James Tyrrell FCA
Charles Villiers FCA
Richard Baglin *(Retired on 31 December 1992)*
Sir John Garlick *(Retired on 22 April 1992)*
Michael Heap *(Retired on 22 April 1992)*

Auditors

The Auditors' Report on the annual accounts of the Group for the year ended 31 December 1992 was unqualified and did not contain a statement under either Section 237(2) or 237(3) of the Companies Act 1985.

IMPORTANT NOTE

This summary financial statement does not contain sufficient information to allow a full understanding of the results of the Group and state of affairs of the Company or of the Group. For further information, the full annual accounts, the Auditors' Report on those accounts and the Directors' Report should be consulted.

Summary Profit & Loss Account
for the year ended 31 December 1992

	1992 £m	1991 £m
Interest receivable	5,963	5,851
Interest payable	(4,669)	(4,708)
Net interest receivable	1,294	1,143
Other income and charges	335	265
Operating expenses	(706)	(635)
Provisions for loans and advances	(322)	(155)
Profit on ordinary activities before tax and exceptional items	601	618
Exceptional items:		
Reorganisation of estate agency business	(138)	–
Sale of unclaimed shares	101	–
Profit on ordinary activities before tax	564	618
Tax on profit on ordinary activities	(247)	(204)
Profit on ordinary activities after tax	317	414
Transfer to non-distributable reserve	(7)	–
Dividends	(151)	(138)
Retained profit for the year	159	276
Profit on ordinary activities before tax and exceptional items included as a result of acquisitions	30	–
Earnings per share	24.2p	31.6p

Directors' emoluments

The aggregate emoluments of the directors for the year ended 31 December 1992 were £1,608,000 (1991: £1,467,000).

Statement by the Auditors
to the Members of Abbey National plc

In our opinion the summary financial statement set out on pages 13 to 15 is consistent with the annual accounts and Directors' Report of Abbey National plc for the year ended 31 December 1992 and complies with the requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

Coopers & Lybrand.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London, 1 March 1993

Summary Consolidated Balance Sheet
at 31 December 1992

	1992 £m	1991 £m
Assets		
Cash and short term funds	3,819	5,193
Securities and investments	17,186	9,995
Advances secured on residential property	40,399	37,867
Other advances secured on land	636	639
Net investment in finance leases	1,781	729
Other commercial assets	1,076	451
Long term assurance business	215	–
Long term investments	1,567	1,249
Tangible fixed assets	518	489
Other assets	1,799	793
Assets of long term assurance funds	2,816	–
Total assets	71,812	57,405
Liabilities and shareholders' funds		
Retail funds and deposits	33,616	32,711
Non-retail funds and deposits	29,330	19,642
Dividend proposed	101	92
Other liabilities	1,951	1,539
Provisions for liabilities and charges	166	61
Subordinated liabilities	648	388
Minority interests	–	1
Liabilities of long term assurance funds	2,816	–
Total liabilities	68,628	54,434
Share capital	131	131
Share premium	836	834
Reserves	2,217	2,006
Total shareholders' funds	3,184	2,971
Total liabilities and shareholders' funds	71,812	57,405

The Summmary Financial Statement set out on pages 13 to 15 was approved by the Board on 1 March 1993 and signed on its behalf by:

Sir Christopher Tugendhat Chairman	Peter Birch Group Chief Executive	James Tyrrell Group Finance Director