

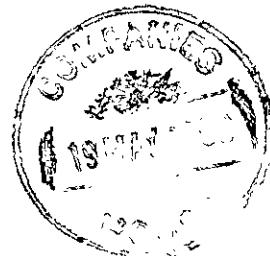
**ABBEY
NATIONAL**



Julie Munro, aged 21, one of our million current account customers.

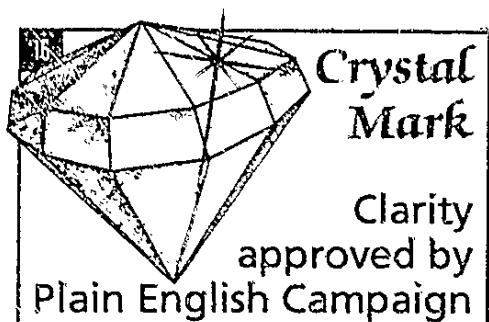
1989

ANNUAL REPORT AND ACCOUNTS 1989



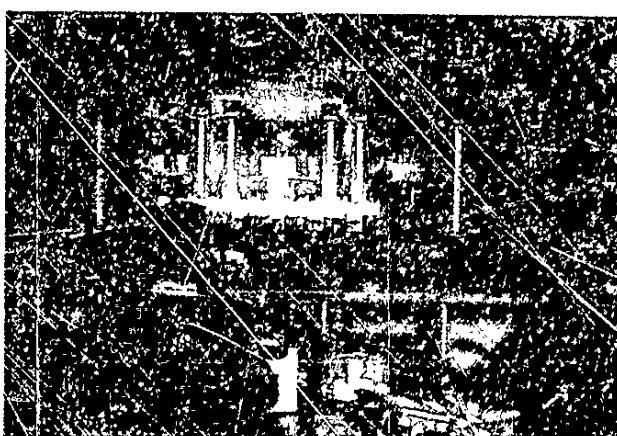


**Julie's family are
also Abbey National
customers. Her
mum, dad and
brother all have
savings accounts and
Julie's boyfriend has
just taken out an
Abbey National
mortgage on his first
home.**



This report has been awarded a Plain English Campaign Crystal Mark. This means that, although it has a few complicated financial expressions, we have tried to write it in clear, straightforward language with you, the reader, in mind. The Crystal Mark does not cover the accounts at the end of the report.

A massive three and a half million voted on the issue - and 90% were in favour. We thank you for your support.



Wembley 11th April 1989 - Our Special General Meeting

"We thank you for your support"

On 12th July 1989 Abbes National Building Society became Abbes National plc - with shares traded on The Stock Exchange. Public limited company status has given us greater freedom in an increasingly competitive financial world, including the ability to raise capital for future expansion. Indeed, the capital raised from our share offer has meant that we are able to invest heavily in improving the service which we offer customers. During 1989 we spent £35m on our branch network, modernising existing branches, opening new ones, installing more cash machines and investing in new computer systems in branches - all making the customer's life easier. But there is a lot more to do, and the investment will continue.

I am delighted that so many of our original shareholders have chosen to hold onto their shares, and I am pleased to announce that your Board is recommending a net dividend of 5.7p per share - this is your share of our success.



Chairman, Sir Campbell Adamson with Investments Clerk, Beryl Harden.

"...5.7p per share"

The dividend will be paid on 30th April 1990, and covers the period from 12th July 1989 to 31st December 1989. In future years, we plan to pay an interim dividend in October - starting this year - and a final dividend in the following April.

Converting to a plc has taken up much of our time in 1989; it was a two-stage process, with first the vote on conversion, and then our flotation. Both were massive operations: the vote was the largest private ballot ever held and our flotation was one of the largest ever undertaken in the UK, both in terms of the amount of money raised and the number of shareholders created.

However, being the first building society to go down the conversion route has not been easy. Those who had problems with the issue of their share certificates may hardly believe it, but the great majority of our shareholders – some 4 million – received their certificates on time. However, there were difficulties and frustrations for the rest with the issue of our share certificates, an operation undertaken by Lloyds Bank, which had been appointed our Registrar and Receiving Bank. No-one could have been more sorry and disappointed than I that this situation arose and I offer my sincere apologies to all shareholders whose certificates or refund cheques were delayed.

"... profits before tax have risen to £501m."

The conversion process has been time-consuming and complex. But we have continued to develop our business and I am pleased to announce that profits before tax have risen to £501m. This is particularly pleasing during a year when housing market activity has been depressed, when interest rates have been high and when the general economic climate in the UK has been one of uncertainty.

In spite of these conditions, we have lent more this year than in the so-called boom year of 1988. And our savings products have continued to be popular, despite increased competition from the clearing banks. For instance, our current account, which pays interest on all credit balances, continues to take around

8% of all new current accounts opened. During 1989 we welcomed our millionth current account customer.

But the depressed housing market has affected us in other ways. Our estate agency subsidiary, Cornerstone, made a loss of £16m.

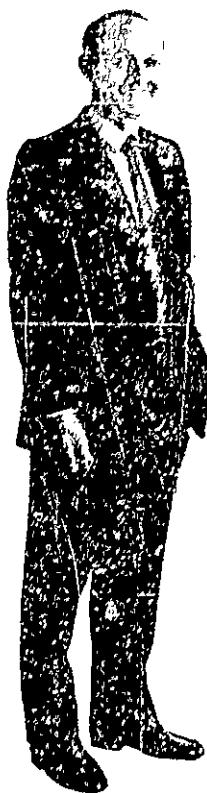
We have taken steps to improve our Cornerstone operation, to adapt it to the present climate and to reduce losses. Although Cornerstone has had to start its life in a very difficult market, I am confident that the Board's decision to go into estate agency was the right one and that shareholders will reap the benefits in due course.

The economic outlook for 1990 remains uncertain. But we believe in investing for the longer term. We will continue, in 1990, to embark upon cautious diversification into other financial areas. We are now free to offer our customers a wider range of personal financial services. But our main activities will remain, as they have always been, the provision of savings accounts and mortgages. And, in order to improve the service we offer, we are making considerable investment in our branch network and in our staff.

Finally, I want to thank all our staff most sincerely for their hard work, loyalty and resilience. I believe it is a great step forward that, under the terms of our conversion, our staff became shareholders and were therefore given a direct interest in our business. They have had a tough year, and have had to deal with the many queries and worries that have arisen during the conversion process. Now, as we go forward into 1990, I am glad that they will once again be able to devote themselves completely to giving the best possible service to all our customers. We believe that the way ahead for Abbey National in an increasingly competitive market lies with customer service.

Our competitors can imitate our products, they may even be able to keep as up-to-date with technology as we do; but it is in the field of excellent customer service that we can really distinguish ourselves. And that, quite simply, is our aim.

Campbell Adamson
Chairman



**Group Chief Executive,
Peter Birch.**

I am pleased to report that Abbey National has had a successful year, in spite of difficult market conditions. As you will see from these financial highlights, profits have risen to £501m. and our net lending for 1989 stands at £4 billion, an increase of 24% on 1988.

In the following pages you will find a review of our year. I hope you will find this information interesting and that it will show you that Abbey National is making good progress in its first year as a public company.

Financial Highlights for 1989

- ◆ In 1988 we made £414m. profit before tax.
In 1989 we made £501m. profit before tax, an increase of 21%.
- ◆ In 1988 the amount of money deposited with us, together with loans raised by us totalled £29.6bn.
In 1989 deposits and loans totalled £33.7bn., an increase of 14%.
- ◆ In 1988 the amount of money we lent less the amount of money repaid was £3.4bn.
In 1989 this rose to £4.2bn., an increase of 24%.
- ◆ In 1988 our assets (buildings, cash, mortgage money owed to us) totalled £31.5bn.
In 1989 our assets totalled £37.2 bn., an increase of 18%.
- ◆ In 1988 our liquidity (easily accessible funds) stood at 18% of our total assets.
In 1989 our liquidity remains strong at 18%.
- ◆ In 1988 our capital expenditure was £70m.
In 1989 we spent £85m., an increase of 21%.

What were our aims in 1989?

We had three key tasks for 1989:

1. To continue to grow our business profitably and prudently;
2. to continue to provide excellence and value in meeting our customers' personal financial needs and
3. to achieve conversion to a plc.

Did we achieve these objectives?

Yes

As you will see from the facts and figures in this report, Abbey National has continued to grow and expand.

It is important to stress that, although we are one of the UK's largest providers of personal financial services, and although we now have a banking licence, we are different from our banking competitors. Our key objective is to provide a range of personal

financial services, geared towards meeting the needs of the individual customer. And now we are free to offer our customers more services, at competitive rates. Indeed, one of the main reasons why we recommended conversion was that it enables us to build a stronger Abbey National, and gives us the freedom to compete with the whole of the market — challenges which we welcome.



The Johnson Family, Abbey National borrowers, at home in Nottingham.

“Freedom to compete”



Helping buy homes

But Abbey National has actually lent *more* money in 1989 than last year - some 24% (net) more in fact - in spite of the decline in the total UK net mortgage market of 13%. We have increased our share of the mortgage market, from an 8.4% share of total net lending in 1988 to an estimated 11.9% market share in 1989.

How have we done it?

It's not been easy. The market has shrunk. Interest rates have risen. And there's been a lot of competition. But we've managed to increase our share of the market. We've done it by concentrating on what we do best - helping people buy homes. We've got the right products, the right service, the right experience. And we've got the right attitude. We're here to help you buy your home.

Adrian and Barbara Ince have been Abbey National borrowers for 11 years

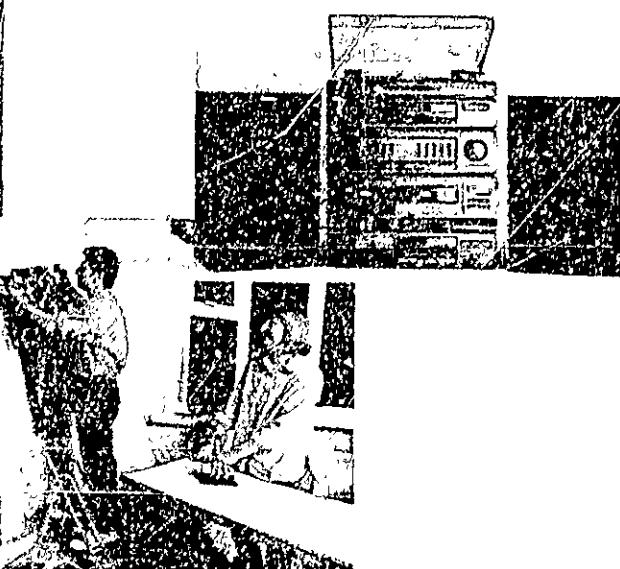


Another mortgage success story in 1989 was the fixed rate package. We made two such offers in September 1989, offering customers a fixed rate of interest for two and three years. In just 4 days we had "sold out" and received £280 million's worth of mortgage applications.

Mortgage Arrears: A doubling of interest rates has meant that the number of people having difficulties meeting their mortgage payments has increased. But the increase at Abbey National has been moderate. We try to ensure, before we lend, that the customer can afford the payments. And, if they get into difficulties later, we urge them to come and talk to us straightaway. There are numerous ways in which we can help people with problems and our message continues to be – talk to us, we will do all we can to help – the last thing we want to do is take possession of anyone's home.

How do we see the mortgage market in 1990?

We think that overall mortgage lending will be at about the same level in 1990 as in 1989. We expect interest rates to go down later in 1990, but probably not until the second half of the year. The mortgage market is going to be a tough one for all lenders – but we will continue to be competitive and innovative.



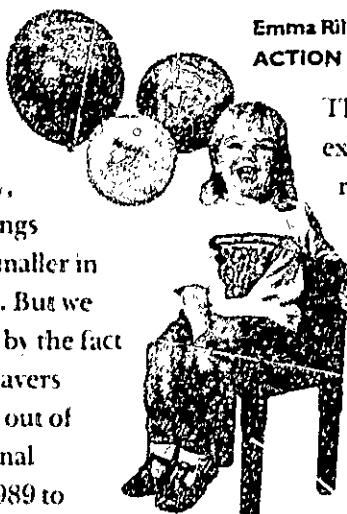
We are also making more personal loans, as people take advantage of our competitive rates to finance new kitchens, bathrooms, cars or holidays. Again, we lend responsibly and sensibly.

And what about our other major business – savings?

People still like to put their savings with a name they can trust, and the Abbey National name is as strong on the high street as it ever was. One and a half million new Abbey National accounts were opened during 1989.

However our savings receipts have gone down. Why is this? Firstly, the UK liquid savings market was 15% smaller in 1989 than in 1988. But we were also affected by the fact that many of our savers transferred funds out of their Abbey National accounts in mid 1989 to buy shares in Abbey National plc.

Some money also flowed out from the accounts of people who disagreed on principle with our plan to convert. They were a small minority and we are sorry that they chose to leave us, as a change in our legal status does not mean that we will stop offering quality service to our customers. Abbey National will continue to do what it has always done best – it will continue to provide a safe home for customers' savings, safer still now that we have the greater financial strength provided by our conversion. And, of course, receipts from savers are not our only source of funds: we have continued, during 1989, to raise money on the money markets and therefore to maintain ample easily accessible funds, giving us liquidity of £6.8 billion or 18% of our total assets.



Emma Riley, age 2 – one of our ACTION SAVERS.

The savings market is expected to show some recovery in 1990, and we believe that our savings products will continue to be popular. Indeed, the Abbey National Current Account, which pays interest on all credit balances and gives all the facilities associated with an ordinary cheque account, has had an excellent year. Only 18 months after the launch of this account we welcomed our millionth customer. This has happened in spite of significant competition from the major clearing banks, the traditional providers of current accounts. Our cheque account takes around 8% of all current account openings and is particularly popular with our younger customers. Not just interest on credit balances, customers also get a cheque guarantee card for either £50 or £100, standing order and direct debit facilities, authorised overdrafts and cash dispenser facilities – all without charge.

And, as you will read under the heading "Serving the Customer", we are increasing the number of cash machines our customers can use.



In November of 1989 we launched our Optimum Bond – a top-interest product which offers savers a higher return on their larger sums of money. £500m. was taken in the first month.

It all
adds up
to a
better
service.

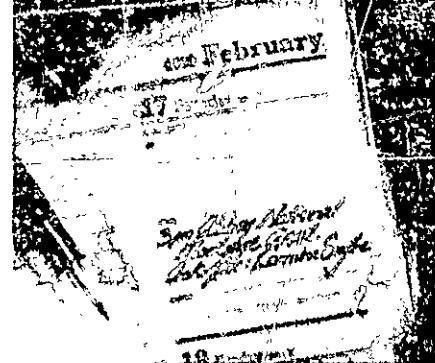
We believe that caring for customers will help Abbey National to grow in the future.

We offer good value products but we want to make ourselves leaders in the field of customer service. We want customers to keep coming back to buy from Abbey National because they like our service, because they like the surroundings and because they like our staff.

When we converted to a plc we promised to do something about queues. There was too much administration in branches and paperwork was slowing service down. To reduce the burden on branches, we decided to set up separate Administration Centres in key areas. By the end of 1989 we had established 10 such centres, and 25 more will be open by the end of 1990. Customers will, however, continue to carry out their business face-to-face with staff in our branches. But specialist administration staff

will deal with all the paperwork at a separate site, leaving more room in our branches for the customers. Improving service, reducing queues.

This programme of extending and improving our branch network will continue throughout the next few years. Our aim is to provide customers with the best possible surroundings in which to do their business.



Often customers want to do business with us on Saturday afternoons. From early in 1990, 154 branches will be open all day on Saturdays - providing a full service.

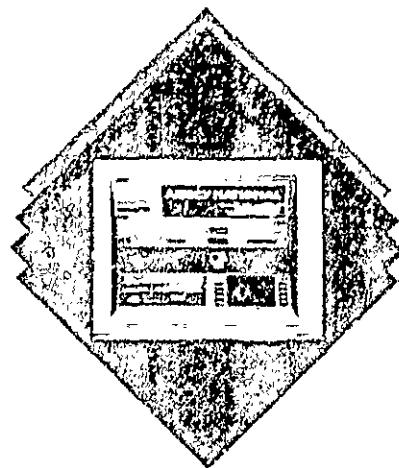


Many of our branches are being modernised. Customers need more space. They need interview areas so that they can discuss their financial affairs in privacy.

We have always believed in the prime importance of our branch network, and this year we have invested more than ever before - £35 million. In 1990 and beyond, the investment will continue at an even higher level.



... easier
access
to all the
information
customers
require.



Cash machines are very important to the customer. Our Abbeylink machines offer customers a wide range of services (ALL FREE), including

- ◆ fast cash
- ◆ balance checks
- ◆ bill-payment (up to 13 bills)
- ◆ cash or cheque deposit

and more, all at the flick of a switch . . .

Customers want more cash machines. And so, by the end of 1989, we had increased the number of Abbeylink machines to 730, from 413 at the end of 1988. By the end of 1990 there will be 900 Abbeylink cash machines in the network.

And did you know that your Abbeylink card also gives you access to approximately 4,500 LINK machines throughout the country?

In the Branches, our new Personal Financial Advisers offer customers advice and assistance on all of our products and services. And, during 1990, we will continue to appoint Personal Financial Advisers, so that eventually all branches will provide the service. Again, better

"We have built our reputation on giving customers value for money and a high standard of service."

service and shorter queues - as customers needing more detailed advice are dealt with individually. And, of course, the new advisers can spend more time discussing customers' needs and finding out which product suits them.

These are just some of the practical ways in which we are improving our customer service. All our staff know that they must treat customer service as a key objective. Not just a smile here and there - but constant, excellent service. We ask them to give customers a little bit more than they expect. We have built our reputation on giving customers value for money and a high standard of service - we are working hard to better that reputation.

23-05-90



Our new Personal Financial Advisers - trained to give customers advice and assistance on a range of our products and services

**Improving service
and increasing profits.**

Helping you to sell your home

The housing market has been difficult in 1989. We have therefore carried out only limited expansion of Cornerstone.

However, we remain committed to our estate agency subsidiary and have refurbished 250 of our Cornerstone branches - ensuring that the facilities for customers are up to the Abbey National standard.

For the reason given above, we, like many of our competitors, have made a loss on estate agency this year. We have actually lost £16m.

But we have always known that the housing business is one which has its downs as well as its ups. We remain committed to estate agency - to improving our service and at the same time eliminating losses by reducing



Abbey National Estate Agency Ltd., - called Cornerstone - 434 offices in 1988, 427 across the country by the end of 1989.

costs. We have also made sure that the responsibility for decision-making lies with the managers in the field, the expert estate agents who will ensure that the customers' needs are best served.

We entered 1990 with a strong team, with costs rigorously controlled and with the confidence that the year ahead will be a better one for us than was 1989. Our reasons for entering the estate agency business were sound, we wanted to provide our customers with an all round home buying service, and we wanted to increase the number and range of outlets through which customers can buy our products. These reasons still hold good, and we continue to have confidence in Cornerstone.

For instance, £350 million's worth of mortgage lending was generated by Cornerstone branches in 1989 - and we are also selling many insurance policies through this network, as well as through our main branch network.

Branches are a valuable part of our business, a valuable point of contact with new and existing customers. We help customers to buy their homes with Abbey National mortgages and we will continue to help them to find or to sell their home.

"... a valuable point of contact with new and existing customers".

And our commercial estate agency business, trading under the name of J. Trevor and Sons, provides a full retail, industrial and commercial service throughout the UK. This operation has continued to be profitable.

Building homes

Our subsidiary company, Abbey National Homes Ltd, has continued to develop housing for people to rent or buy. At the moment, Abbey National Homes is involved in the construction of houses and flats on 32 sites, totalling about 1,800 units.

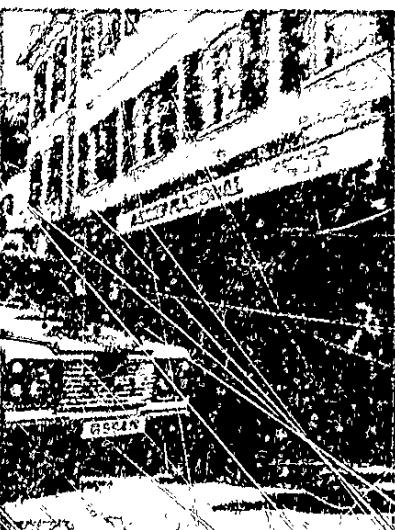


"... moving into Europe since 1987."

Everyone's talking about Europe nowadays. Just say "1992" and the single European market" and everyone will nod wisely and pretend to know what you're talking about!

But at Abbey National we are not just talking about 1992 - we have actually been moving into Europe since 1987.

The single European market will, quite simply, be created by the removal of the final barriers between European countries, so that each country can consider the whole of Europe as its customer base.



In Gibraltar, we offer a competitive mortgage package to UK expatriates buying property in Spain.



Our company in Jersey offers savings accounts at high rates of interest to UK expatriates who wish to take advantage of offshore tax arrangements.

We already have companies in Jersey, Gibraltar, Spain and Italy. And there will be more to come.

In January of this year, we announced our decision to acquire EuroFinance SA, a well known and respected French mortgage company.

Our strategy in Europe is to develop modestly and prudently; these are still early days but progress so far is encouraging. We are building a knowledge of European markets, a knowledge of their way of doing business and of their cultures. We will continue to invest in Europe and build up our experience and expertise.

Our Spanish company - Abbeycor Nacional Hipotecario S.C.H. - has continued to perform well in an expanding economy, lending money to the growing number of Spanish nationals who want to buy their own homes. Since its establishment in 1988, Abbeycor has lent a total of £70 million and has now opened up a second office in Barcelona. And, in November, we set up Cornerstone Espana SA, to provide an estate agency service which will work alongside our Spanish mortgage company.

Expanding further into Europe, on 8th May 1989 we set up a mortgage company in Italy called Abbey National Mutual SpA. Early results from this company are ahead of projections.



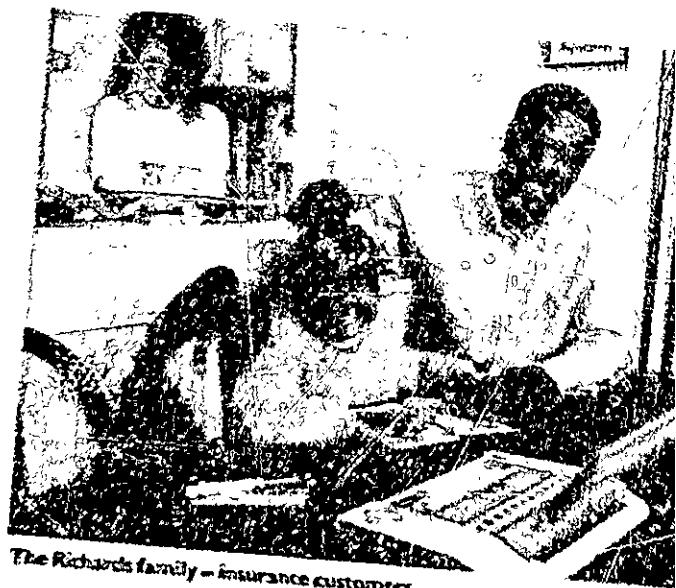
Providing insurance and pensions

Abbey National has continued to provide its million plus borrowers with buildings insurance products.

And in 1988 we completed a transfer of those million accounts to a special insurance computer system. After our introduction, in 1988, of a direct debit facility for all our insurance customers, we are pleased to report that almost 50% of customers are now paying their premiums in this way, saving them time and effort.

Changes in the law meant that we were free to provide customers with more new services - for instance, pensions. Our own Abbey National Retirement Investment Account and the Unit-Linked Pension managed by Friends Provident, launched in the second half of 1988, have proved popular.

Abbey National is an appointed representative of Friends Provident. Our partnership with Friends Provident continues to



The Richards family - insurance customers.

be successful, with several new products currently being developed.

We have taken steps towards a major new programme of promoting financial products through our Cornerstone branches, as well as through our main branch network. Up until now, Friends Provident products have been offered only to customers taking out a mortgage in our branches; we can now offer customers a full range of products through our estate agency chain too.

Abbey National and Friends Provident working together to provide value products for the customer. More and more customers are saving for their future and protecting their families with our products.



Pension customers - Clara Turner and Jason Payne.

Abbey National Financial Services Ltd. was set up in 1988 as an independent intermediary, and is a wholly-owned subsidiary of Abbey National plc. It offers a professional and independent consultancy service – advising clients, either at work or in their homes, on a wide range of financial products and services.

Advice on –

- ♦ **Unit Trusts**
- ♦ **Pensions**
- ♦ **Retirement Planning**
- ♦ **Savings Planning**



An Abbey National Financial Services investment seminar.

Abbey National Financial Services Ltd. has developed rapidly into one of the leading independent intermediaries in the country, with commission and fee income in 1989 of more than £8 million.

The company has more than 100 consultants, operating from eight Area Offices – it does not operate from Abbey National or Cornerstone branches, since staff there advise only on Friends Provident products. All of its staff are fully trained to provide financial planning advice to individuals and companies.

The Employee Benefits Division provides advice to large companies on pension schemes, share schemes, pay packages and retirement services. Although it is still early days for this division, it already numbers amongst its clients some major household names.



Abbey National in the Community

As the second largest provider of mortgage finance in the UK, Abbey National has a keen sense of its social responsibility. During the year we have made direct donations of £194,000 to charities. In addition, we have joined the Workaid scheme. This means that staff can make contributions to charities through the payroll deduction scheme, and Abbey National will match their donations, pound for pound, (up to a given limit).



The Open University

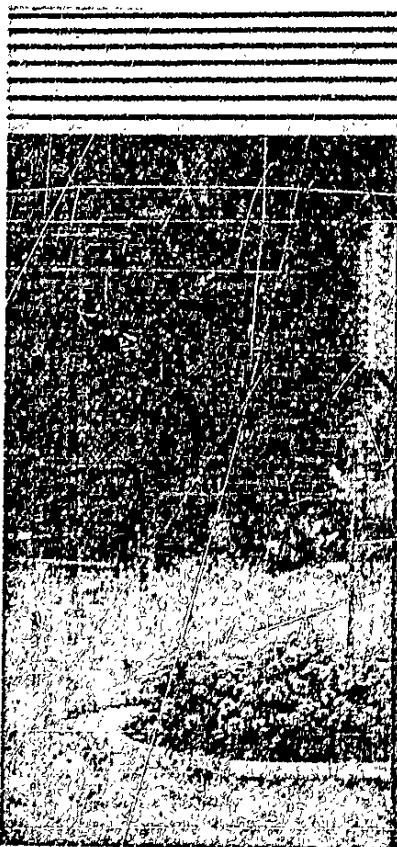
Charitable donations are only a part of the story – it is not just about donating money. We look at our responsibilities in a wider context. Abbey National funds the Open University Chair in Financial Management, therefore contributing to the development of the nation's financial knowledge.



Abbey National supports "Business in the Community" and "Business in the Cities" with donations and by seconding a senior manager. These organisations work to increase the quality and extent of business activity and involvement in the community. HRH the Prince of Wales is president of "Business in the Community".



During our conversion to a plc, we felt it very important that people who wanted to give their shares to charity could do so quickly and simply. We therefore designed our share certificate so that shareholders could make a gift of their shares without extra paperwork. In this way, over one third of a million pounds was raised for various charities.



We provide mortgage finance and management expertise to Abbey Housing Association. It works frequently alongside local authorities on projects such as:

— Sheltered housing for the elderly



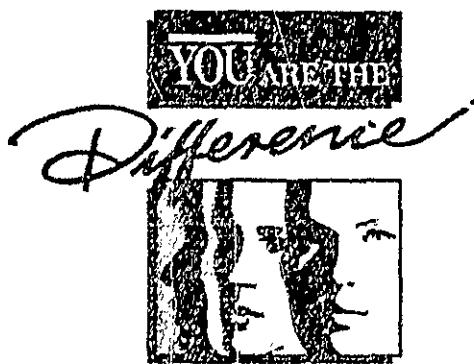
— Reasonably priced rented accommodation in boom areas such as Milton Keynes.



Abbey National has played a large part in "Fullemploy". Part of this non profit-making organisation's work is to give minority ethnic people the chance to be trained within organisations, to be given interviews and possibly then to get permanent work.

We have helped out by printing publicity material such as posters and leaflets for them, and we have also recruited trainees in Birmingham and London — all of whom were later taken on as permanent members of staff. One such member of staff — Joan Lloyd — is shown here.

We continue to invest in our 14,903 staff.



The "You are the Difference" course – training staff to give excellent customer service.

It is they who can make excellent customer service a reality. This year we completed a programme of Customer Care training called "You are the Difference". Staff attended a two-day course to learn about the practical benefits of giving excellent customer service.

We also have a programme of computer based training; we are a leader in this field, training staff to use our ever more sophisticated technology via computer training programmes.

But it is not just about training. When we converted to a plc we gave free shares to eligible members of staff. That was important. Employees were made part-owners of the company for which they work.

Most of our staff participate in a performance-related pay scheme. This means that there are no automatic pay increases based on inflation – all pay rises are based on merit. We never forget that part of every member of staff's objective is to give excellent service to the customer. If customers like the service we offer they will continue to buy our products – and that will reflect itself in our profits.

And we have had, for some years, a profit-share scheme so that staff enjoy a share of the profits which they have helped to make.

Excellent service. Competitive products.



Our Executive Directors are (from left to right) John Bayliss aged 56, Managing Director, Retail Operations; Richard Biglin aged 47, Managing Director, New Business Operations; John Fry aged 53, Group Services Director; Peter Birch aged 52, Group Chief Executive; James Tyrrell aged 48, Finance Director and Charles Voller aged 49, Managing Director, Corporate Development.

“We believe in
excellence and value in
meeting customers’
personal financial needs.”

Shareholders' Information

Calendar of key dates for 1990

12th March - "Ex dividend" date. If your shares are sold after this date, you remain entitled to the first dividend and it does not pass to the new owner.

10th April - Annual General Meeting at Westminster Central Hall, London.

30th April - Payment of 1989 dividend.

August - Announcement of 1990 half-yearly results in national press.

October - Payment of 1990 interim dividend.

Shareholder Enquiries

Shareholders with general questions should write to the Shareholder Relations Office, Abbey House, Baker Street, London NW1 6XL.

The Company's share register is kept by Abbey National Registrar Services, PO Box 1100, Yeoman Road, Worthing, West Sussex BN13 3RA. Shareholders with questions about their shareholding should write to Abbey National Registrar Services at the address above.

A special enquiry service for shareholders has been set up -- just ring 021 633 6033.

Abbey National Sharelink

The Abbey National Sharelink service ended on 30th November 1989. Share certificates should not therefore be sent to the address shown in the old "Introducing Abbey National Sharelink" booklet, nor should the envelope provided with the share certificate be used.

Abbey National Share Dealing Service

Shareholders can use this new service to buy and sell Abbey National shares over the telephone or through the post.

The service is provided by Sharelink Limited, a member of The International Stock Exchange and The Securities Association.

Features of the new service include:

- * Selling by phone - ring 021 233 9620
- * Buying by phone - ring 021 233 9620
- * Selling by post
- * Direct credit to an Abbey National account
- * Family sales
- * Seven day a week service
- * and competitive commission rates.

For full details, pick up a leaflet in your local branch, or write to Share Dealing Service, Abbey National plc, Abbey House, Baker Street, London NW1 6XL.

You can check the price of Abbey National shares, 24 hours a day, on 0898 222 333 (calls are charged at 38p per minute at peak rate and 25p per min, at off-peak rate).

Annual General Meeting

The AGM will be held this year at Westminster Central Hall, London on Tuesday, 10th April at 11.00 am. The Notice of Meeting, showing the business to be dealt with, and explanatory notes, are on pages 47 to 51 of this Report.

Report and Accounts on tape

Highlights of this report are available on audio tape for blind and visually handicapped shareholders. Please contact Erica Harper, Corporate Affairs, Abbey House, Baker Street, London NW1 6XL.

Unsolicited Mail

The Abbey National share register is a public document and we are required by law to make all or part of it available when requested. Unfortunately, this may mean that our shareholders receive unsolicited mail from organisations that have no link with Abbey National. Shareholders may wish to register with the Mailing Preference Service. This provides a free service to individuals wishing to limit the receipt of unsolicited mail. However, shareholders may still receive unsolicited mail from companies which do not subscribe to this service. To obtain an application form, contact: The Mailing Preference Service, Freepost 22, London W1E 7EZ.

Further Copies

Further copies of this report can be obtained from the Shareholder Relations Office, Abbey National plc, Abbey House, Baker Street, London NW1 6XL..

Group

- ♦ Raised £975 million capital (before costs) from our share offer.
- ♦ Credit rating upgraded by Standard and Poor's from AA minus to AA.
- ♦ Operating Expenses 45.2% of total operating income.

Retail Operations

- ♦ 24% more money was lent than in 1988 despite the 13% fall in total UK lending.
- ♦ Mortgage market share increased from 8.4% in 1988 to an estimated 11.9% in 1989.
- ♦ Gained around 8% of current account openings during 1989 and welcomed millionth current account customer.
- ♦ Remained to the forefront of technology; "imaging" being developed at our Cheque Clearing Centre for storage and retrieval of cheques. System will be operative from mid-1991.
- ♦ New X25 data network introduced. 200 branch offices migrated to new network. Software development on next generation of branch terminals completed.
- ♦ Mass reorganisation of branch structure to place a greater emphasis on sales and service; a new role introduced to branches – Personal Financial Advisers, dedicated sales staff, now operative in branches. Branch expansion/modernisation programme well under way.

New Businesses

- ♦ Abbey National Mutual SpA opened in Italy, May 1989.
- ♦ Abbey National Financial Services recruitment of life and pension consultants reaches 125.
- ♦ Abbeycor Nacional Hipotecario SCH opened a second office in Spain.
- ♦ Cornerstone introduced £350 million of mortgage business to Retail Operations.
- ♦ Conditional agreement to acquire Ficofrance SA, a mortgage lending company based in France.

Treasury Operations

- ♦ Awarded listed money market institution (market maker) status by the Bank of England.
- ♦ Increased commercial paper programme from \$750 million to \$2 billion.
- ♦ A significant increase in the use of Euromarkets to raise in excess of £1 billion.
- ♦ Largest Yen issue ever for a UK borrower in the Euromarkets – Yen 40 billion (approx £175 million) at 6½%.

Directors

Chairman
Sir Campbell Adamson

Deputy Chairman
P A Davis FCA

Chief Executive
*P G Birch FCBSI

Directors
*R J Baglin
*J Bayliss
*J M Fry FCIS FCBSI
Sir John Garlick KCB
M A Heap FCBSI
Sir Myles Humphreys JP DL FCIT CBIM
Dame Jennifer Jenkins DBE
M E Llowarch FCA
Sara Morrison
J F Hugh-Rees FRICS FRVA
*J M Tyrrell FCA
*C N Villiers FCA
***Executive Directors.**

Chairman
Sir Campbell Adamson, aged 67, joined the Board of Abbey National Building Society in 1976 and was appointed Chairman in 1978. He was Director-General of the CBI from 1969 to 1976, has been a Chairman or Director of various public companies, and is currently a Director of Tarmac PLC.

Deputy Chairman
Peter Davis, aged 48, joined the Board of Abbey National Building Society in 1982 and was appointed non-executive Deputy Chairman in 1988. He is a member of the Council of the Institute of Chartered Accountants in England and Wales and was a partner of Price Waterhouse from 1974 to 1980. He is currently Group Finance Director of Sturge Holdings PLC.

Executive Directors
Peter Birch, aged 52, is Group Chief Executive, having joined the Board of Abbey National Building Society in 1981. He was with Gillette from 1965 to 1981 and was Managing Director of their UK operations from 1981 to 1984. He is a non-executive Director of Moskyns Group plc.

John Bayliss, aged 56, is Managing Director, Retail Operations, having joined the Board of Abbey National Building Society in 1984. He joined the Group in 1957 and was appointed a General Manager in 1976. He was appointed to his present position in April 1988.

Richard Baglin, aged 47, is Managing Director, New Business Operations, having joined the Board of Abbey National Building Society in 1988. He joined the Group in 1964 and was appointed a General Manager in 1981.

Charles Villiers, aged 49, is Managing Director, Corporate Development, having joined the Board of Abbey National Building Society in 1989. He is a Chartered Accountant and joined the Group in December 1988. He was formerly

the Chairman of County NatWest Ltd, part of the National Westminster Bank Group. He is a non-executive Director of Conder Group PLC.

John Fry, aged 53, is Group Services Director, having joined the Board of Abbey National Building Society in 1984. He joined the Group in 1961 and was appointed a General Manager in 1979. He was appointed to his present position in April 1988.

James Tyrrell, aged 48, is Finance Director, having joined the Board of Abbey National Building Society in 1989. He is a Chartered Accountant and joined the Group in 1982. He was formerly Finance Director of EMI Records Limited and Managing Director of HMV Shops Limited.

Non-executive Directors

Sir John Garlick, KCB, aged 68, joined the Board of Abbey National Building Society in 1981. He was Permanent Secretary at the Department of the Environment from 1978 to 1981 and is currently a member of the London Docklands Development Corporation.

Michael Heap, aged 55, joined the Board of Abbey National Building Society in 1986. He is a Fellow of the Chartered Building Societies Institute and was a branch manager with Abbey National from 1963 to 1985.

Sir Myles Humphreys, aged 64, is the Chairman of the Abbey National Northern Ireland Advisory Board, having joined the Board of Abbey National Building Society in 1981. He is a Fellow of the Chartered Institute of Transport and is currently Chairman of Northern Ireland Transport Holding Company and Northern Ireland Railways Co. Limited. He is also a Director of Walter Alexander (Belfast) Limited.

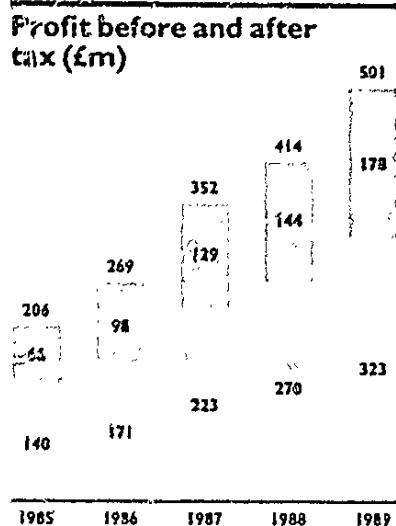
Dame Jennifer Jenkins DBE, aged 69, joined the Board of Abbey National Building Society in 1984. She is Chairman of The National Trust and was Chairman of the Consumers' Association from 1965 to 1976 and a Director of J Sainsbury plc from 1981 to 1986.

Martin Llowarch, aged 54, joined the Board of Abbey National Building Society in January 1989. He is a Chartered Accountant and is a Director and Chief Executive of British Steel plc and a Director of TWIL Limited and United Engineering Steels Limited.

Sara Morrison, aged 55, rejoined the Board of Abbey National Building Society in 1987, having formerly been a Director from 1979 to 1986. She is a Director of The General Electric Company plc with responsibility for, amongst other matters, Employee Relations.

Hugh Rees, aged 62, is the Chairman of the Abbey National Welsh Advisory Board and of Abbey Housing Association Limited, having joined the Board of Abbey National Building Society in 1976. He is the Principal of Hugh Rees & Co., Chartered Surveyors and was on the Board of the Welsh Development Agency from 1980 to 1985.

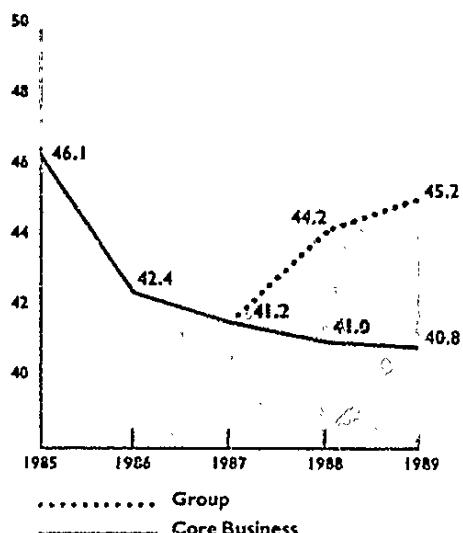
All the Directors of Abbey National plc were appointed to the Board on 28 February 1989.



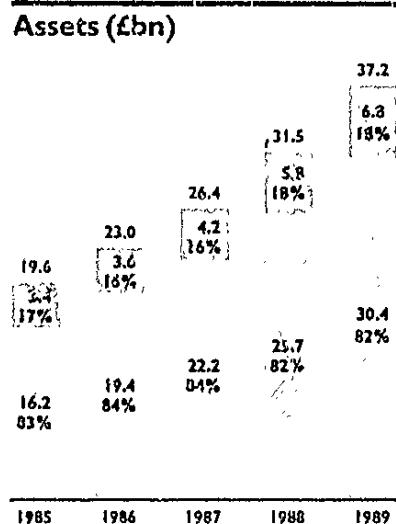
□ Tax charge
Profit after tax

Profit before tax of £501m increased by 21% over the previous year. Profit after tax rose 20% to £323m.

Cost: income ratio (%)

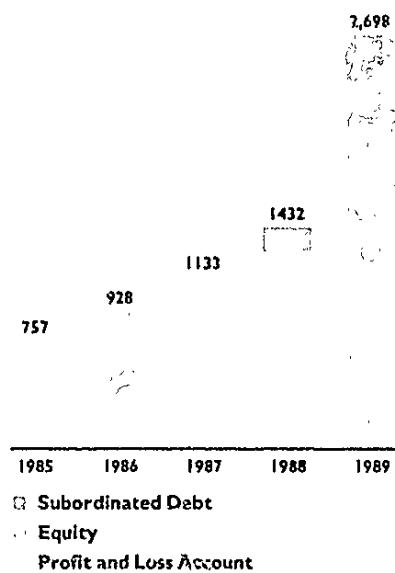


The cost to income ratio is the ratio of operating expenses to net income and reflects the efficiency of the Core Business and the Group.



□ Liquid Assets
Mortgage & Other Assets

Capital Resources (£m)



□ Subordinated Debt
Equity
Profit and Loss Account

Directors' Report

Introduction

Abbey National plc was formed in September 1988 in anticipation of the transfer of the business of Abbey National Building Society to the Company. The first statutory accounts for Abbey National plc were drawn up to cover the period from its incorporation, on 12 September 1988, to 31 March 1989, during which time the Company did not trade. On Vesting Day, 12 July 1989, the business of Abbey National Building Society was transferred to the Company which is the Holding Company for the Group.

The Directors have pleasure in presenting their report for Abbey National plc for the nine months to 31 December 1989, which covers the Company's first period of trading and reflects the transfer of business on 12 July 1989.

For shareholders' information and for comparative purposes, pro forma accounts have been produced for the years to 31 December 1989 and 1988, reflecting the results of the business for the whole of those years. The pro forma accounts do not form part of the statutory accounts.

Conversion

The Building Societies Commission, at the time of their confirmation of conversion, made a number of criticisms of Abbey National, particularly in relation to the Transfer Document. It is worth stating that the Board of Abbey National was surprised by, and totally rejects these criticisms.

Given the close involvement of the Commission at every stage and the Board's very careful approach to the whole conversion process and to the Transfer Document specifically, these criticisms were unexpected; not only did the Commission comment upon the numerous drafts of the Transfer Document which were submitted to them, they also made some important contributions to the actual wording of the document.

Principal activities

The principal activity of the Group is the provision of personal financial services. A list of the principal subsidiaries is detailed in note 16 to the accounts on page 38.

Business review

Abbey National continued to develop and improve the range of personal financial services offered to its customers during the year. The majority of the Group's income derives from its mortgage lending business and this will continue for the foreseeable future.

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

The turnover of the non-banking businesses derives principally from estate agency operations, on which there was a turnover of £45m and a pre-tax loss for the year which amounted to £16m, and from Abbey National Homes Ltd on which there was a turnover of £25m and a pre-tax loss for the year which amounted to £1m.

Results and dividends

The pro forma profit on ordinary activities before tax of the Group for the year ended 31 December 1989 was £501m (1988 £414 m).

The Directors propose a final dividend for the period since Vesting Day of 5.7p per share to be paid on 30 April 1990. With the related tax credit, this is equivalent to a total of 7.6p per share. The dividend for 1989 will absorb a total of £75 million leaving a profit since Vesting Day of £106 million to be transferred to reserves.

Events since the end of the year

On 22 January 1990 Abbey National plc signed a conditional agreement to acquire Ficofrance SA, a mortgage lending company based in Cambrai, North-West France. The consideration for the acquisition is approximately 400 million French francs. Ficofrance accounted for 1% of new lending in the French mortgage market in 1988, and enjoys a strong reputation for product innovation.

An agreement was also reached with Groupe Monceau, a leading mutual insurance group, to launch an endowment mortgage; at present endowment mortgages are not generally available in France.

Since the year end the Group has completed its divestment of ghs, which is to gain post conversion, and has invested further in US and UK mortgage-backed securities.

Future activities

The Group intends to strengthen its position in the United Kingdom savings market and the home loans market and expand the range of personal financial services offered. It will also continue its cautious diversification into the European personal financial services markets.

The Group is investing heavily to develop a larger and more closely integrated distribution system and will continue to place high priority on the customer, with a strong emphasis on providing a friendly and professional service. New technology will play a key role in improving productivity and the quality of services provided.

Share capital and Articles of Association

Details of the authorised and issued share capital of the Company are covered under note 21 on page 42.

New Articles of Association were adopted on 14 June 1989.

Tangible fixed assets

The movements in tangible fixed assets for the year are detailed in note 17 to the accounts on page 39.

Market value of land and buildings

The Directors are of the opinion that the open market value of the Group's land and premises is approximately £140m greater than the net book value of £769m disclosed in note 17 to the accounts.

Directors and Directors' interests

All the Directors named on page 22 served for the whole of the period 1 April to 31 December 1989.

Mr Jeremy Rowe, Deputy Chairman, retired on 30 October 1989.

The Directors' interests in the shares of the Company are set out in note 30 on page 44.

There have been no changes in the Directors' interests up until 27 January 1990.

The Directors retiring by rotation at the Annual General Meeting are Sir John Garlick, Sir Myles Humphreys, Mr. Martin Llowarch, Mr. James Tyrrell and Mr. Charles Villiers. All, being eligible, offer themselves for re-election.

Specific reference should be made to one of the Directors put forward for re-appointment, Mr. Charles Villiers. Mr. Villiers, who was Chairman of County NatWest Ltd. (a subsidiary of National Westminster Bank Plc) up to February 1988, has been charged (with a number of others) with certain offences concerning the Blue Arrow share issue in the Autumn of 1987.

The Board has considered most carefully whether Mr. Villiers should remain a Director while awaiting the determination of this affair and has concluded that, as at the time of this note, it should not revise its own view of his position. The Board has been influenced both by his own qualities, which led to his appointment in December 1988, the valuable contribution to Abbey National that he has already made and views taken elsewhere of his position.

When considering the case, the Board was aware that the report on the affair by inspectors appointed by the Secretary of State for Trade and Industry did not attach blame to Mr. Villiers. Further, The Bank of England (our supervisory body) has not indicated any change in its view of him as a 'fit and proper' person to be a Director in his particular position as head of strategic planning for the Group.

Directors' Report

Mr. Charles Villiers has a service agreement with Abbey National which is terminable on twelve months' notice until 1 December 1993 and on three months' notice thereafter. None of the other Directors seeking re-election has a service contract with the Company or any of its subsidiaries which is terminable at more than 12 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.

Charitable and political contributions

During the year, the Group made contributions totalling £194,000 to UK charitable organisations. No contributions were made for political purposes.

Employees

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

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

Wide use is made of video material to provide information on business performance, market developments and significant events in the life of the organisation.

A quarterly magazine provides for a more detailed analysis of the business scene, whilst a programme of visits to branches and departments ensures that every member of staff has the opportunity to express their views directly to a Director or General Manager.

Regular meetings are held between the senior management and representatives of the Abbey National Staff Association to discuss matters of mutual interest. In addition, local consultative committees for each region and for head office provide a forum for discussion of local business performance, and of changes and developments planned for each area.

The Group continues to make substantial investments in training, including the continuing development of computer based training.

Details of employees and their remuneration are set out in note 7 to the accounts on page 35.

Close company provisions

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

Substantial shareholdings

The Company's Articles of Association restrict the maximum proportion of ordinary shares in which any person may be interested to 15%. There have been no notifications received that any person has an interest in 5% or more of the issued share capital.

Auditors

Our auditors Deloitte Haskins & Sells, will be merging their practice with Coopers & Lybrand on 29th April 1990. In the meantime, they have adopted Coopers & Lybrand Deloitte as their business name and have so signed their audit report. A resolution to reappoint Coopers & Lybrand Deloitte as the Company's auditors will be proposed at the Annual General Meeting.

Annual General Meeting

The Notice of the AGM and explanatory notes regarding the Notice are set out on pages 47 to 51.

By order of the Board

B. John Ellis, General Manager & Secretary
27 February 1990

Auditors' Report

Abbey National plc

Auditors' Report to the Members of Abbey National plc

We have audited the accounts on pages 28 to 44 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 1989 and of the profit and source and application of funds of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand Deloitte

Chartered Accountants

London

27 February 1990

Consolidated Profit and Loss Account

For the year ended 31 December 1994

			Pro forma Accounts for the year ended 31 December **
	1989*	1989	20xx
	£m	£m	£m
Interest receivable	3	2,256	4,459
Interest payable	4	(1,845)	(3,693)
Net interest receivable		411	766
Other income and charges	5	89	174
Operating expenses	6	(215)	(425)
Provisions for loans and advances	8	(7)	(14)
Profit on ordinary activities before tax		278	501
Tax on profit on ordinary activities	9	(97)	(178)
Profit on ordinary activities after tax	10	181	323
Dividend	11	75	75
Retained profit for the period	26	106	248
Earnings per share	12	13.8p	
Pro forma earnings per share	12		27.3p
			24.5p

* See note 1 to the Accounts

** See note 2 to the Accounts.

Consolidated Balance Sheet

As at 31 December 1989

Abbey National plc

	1989*	1988
	£m	£m
Liquid Assets		
Cash and short term funds	13	3,587
Securities and investments	14	3,237
	6,824	6,828
Commercial assets		
Advances secured on residential property		29,126
Other advances secured on land		352
Other commercial assets	15	269
	29,747	25,466
Tangible fixed assets	17	254
Trade investments	18	1
Other assets		375
Total assets	37,201	31,537
Deposits and loans		
Retail funds and deposits	19	26,943
Non-retail funds and deposits	20	6,732
	33,675	29,636
Dividend		75
Other liabilities	21	730
Provisions for liabilities and charges	22	20
Subordinated liabilities	23	247
Minority interests		3
Total liabilities	34,750	30,225
Share capital	24	131
Share premium	25	834
Profit and loss account	26	1,486
Shareholders' funds		2,451
Total liabilities and shareholders' funds	37,201	31,537

* See note 1 to the Accounts.

** See note 2 to the Accounts.

Approved by the Board on 27 February 1990 and signed on their behalf by:

Sir CAMPBELL ADAMSON Chairman

PETER BIRCH Group Chief Executive

JAMES TYRRELL Finance Director

Company Balance Sheet

At 31 December 1990

	Notes	1989*	1990**
		£m	£m
Liquid Assets			
Cash and short term funds	13	105	3,513
Securities and investments	14	67	2,303
		172	5,816
Commercial assets			
Advances secured on residential property		29,040	25,091
Other advances secured on land		352	145
Other commercial assets	15	8	3
		29,400	25,239
Investments in subsidiaries	16	1,947	332
Tangible fixed assets	17	225	183
Trade investments	18	1	1
Other assets		157	37
Total assets		31,902	31,608
Deposits and loans			
Retail funds and deposits	19	26,613	25,077
Non-retail funds and deposits	20	354	4,308
		26,967	29,385
Dividend		75	—
Other liabilities	21	2,158	666
Provisions for liabilities and charges	22	—	12
Subordinated liabilities	23	164	120
Total liabilities		29,364	30,183
Share capital	24	131	—
Share premium	25	834	—
Profit and loss account	26	1,573	1,425
Shareholders' funds		2,538	1,425
Total liabilities and shareholders' funds		31,902	31,608

* See note 1 to the Accounts.

** See note 2 to the Accounts.

Approved by the Board on 27 February 1990 and signed on their behalf by:

Sir CAMPBELL ADAMSON Chairman

PETER BIRCH Group Chief Executive

JAMES TYRRELL Finance Director

Consolidated Statement of Source and Application of Funds

For the nine months ended 31 December 1989

Abbey National plc

	For the Account for the year ended 31 December 1989		
	1989* £m	1989 £m	1988 £m
Source of funds			
Increase in free capital (see below)	1,127	1,216	271
Advances and loans repaid by borrowers	1,569	3,147	4,182
Net receipts of deposits and loans	2,746	4,039	4,777
Other items	168	362	29
Total source of funds	5,610	8,764	9,259
Application of funds			
Increase in liquid assets	954	996	1,583
Advances and loans made to borrowers	4,385	7,384	7,562
Increase in other assets	271	384	94
Total application of funds	5,610	8,764	9,259
Increase in free capital			
Source of funds			
Profit on ordinary activities after tax	181	323	270
Adjustments for items not involving the movement of funds:			
Depreciation of tangible fixed assets	16	29	36
Increase in general provisions for loans and advances	1	3	4
Funds generated from operations	198	355	310
Funds from other sources			
Issue of share capital	965	965	—
Disposal of tangible fixed assets	—	1	1
Issue of subordinated loan capital	84	127	120
Increase in minority interests	—	2	1
	1,247	1,450	432
Application of funds			
Purchase of tangible fixed assets	(44)	(85)	(70)
Goodwill	(1)	(28)	(91)
Cost of free shares and cash distribution	—	(46)	—
Dividend	(75)	(75)	—
Increase in free capital	1,127	1,216	271

The above statement includes in respect of the acquisition
of estate agency subsidiaries during the year:

	£m	£m	£m
Fixed assets	—	1	1
Goodwill	—	19	7
Net current assets	—	(1)	—
Net assets acquired	—	19	8
Discharged by:			
Cash	—	4	8
Debentures in subsidiaries	—	15	—

There was no material difference between the book value and the fair value of the assets and liabilities acquired by the Group during the year ended 31 December 1989.

* See note 1 to the Accounts

** See note 2 to the Accounts

Accounting Policies

Format

The consolidated accounts are prepared in accordance with sections 257 to 260 and Schedule 9 to the Companies Act 1985. No profit and loss account is shown for the Company.

Accounting convention

The Group prepares its accounts under the historical cost convention.

Basis of consolidation

The Group accounts comprise the accounts of the Company and its subsidiaries, all of which are made up to 31 December.

Goodwill

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

Deferred taxation

Deferred tax is provided only where it is probable that a taxation liability will arise. Provision is made at rates expected to be applicable when the liabilities crystallise.

Depreciation

Fixed assets are depreciated by equal annual instalments at the following rates:

Premises

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

Equipment

Office fixtures, equipment and furniture	12½%
Computer equipment:	
mainframe	25%
peripheral	20%
Motor vehicles	25%

No depreciation is provided on freehold land.

Securities and Investments

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

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

Investments held for dealing purposes are included at market value.

Provisions for loans and advances

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

Development properties

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

Foreign currency translation

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

Pensions

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

Other assets and other liabilities

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

Notes to the Accounts

1. 1989 Accounts

The statutory accounts of Abbey National plc were last drawn up for the period from incorporation, on 12 September 1988, to 31 March 1989 during which period it did not trade. This continued to be the situation until conversion, which took place on 12 July 1989. These accounts cover the period 1 April to 31 December 1989, during which the Company traded from 12 July 1989 to 31 December 1989.

The comparative balance sheet figures at 31 March 1989, before the transfer of business on 12 July 1989, were an amount due from Abbey National Building Society of £56m and issued share capital of £56m.

2. Pro forma 1989 and 1988 Accounts

For shareholders' information and for comparative purposes pro forma accounts have been produced for the years to 31 December 1989 and 1988 reflecting the results of the business for the whole of those years. The pro forma accounts do not form part of the statutory accounts.

3. Interest receivable

	<i>Pro forma Accounts for the year ended 31 December</i>		
	<i>1989 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>
On secured advances	1,814	3,619	2,602
On other lending	69	87	27
Interest and other income on:			
Fixed interest liquid assets	302	686	469
Other liquid assets	74	79	1
Net profits/(losses) on liquid assets	(3)	(12)	14
	2,256	4,459	3,113

Including:

Income from listed investments	140	214	253
Income from unlisted investments	233	539	231

4. Interest payable

	<i>1989 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>
On non-retail funds and deposits	405	736	392
On retail funds and deposits	1,145	2,335	1,618
Income tax on retail funds and deposits	295	622	469
	1,845	3,693	2,479

Including payable on borrowings with a maturity greater than five years

35 60 16

5. Other income and charges

	<i>1989 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>
Commissions receivable	48	95	77
Commissions payable	(5)	(10)	(11)
Other financial income	18	31	28
Rent receivable	4	9	6
Other	24	49	31
	89	174	131

6. Operating expenses

	<i>Profit and Loss Account for the year ended 31 December</i>		
	<i>1989</i> <i>£m</i>	<i>1989</i> <i>£m</i>	<i>1988</i> <i>£m</i>
Staff costs:			
Salaries and wages	80	162	135
Social security costs	6	12	10
Other pension costs	7	16	—
Other staff costs	12	21	14
Depreciation of tangible fixed assets	16	29	36
Hire of equipment	7	18	13
Rent and rates payable	15	31	19
Other expenses	72	136	111
	215	425	338

The figure for other expenses for the nine months includes auditors' remuneration of £0.6m for the Group.

7. Directors and employees

	<i>1989</i>	<i>1988</i>
The aggregate emoluments of Directors were:		
In respect of services as Directors	302	240
Other	862	437
	1,164	677

On an annual basis the emoluments, excluding pension contributions, of the Chairman were £81,626 (£64,785) and of the highest paid Director were £189,229 (£173,502).

The charge in the statutory accounts can be derived by adjusting the annualised aggregate emoluments for the trading period from Vesting Day, 12 July 1989, to 31 December 1989.

The following table shows the number of other Directors receiving emoluments on an annual basis, before pension contributions, within the undermentioned ranges and the number of employees of the Company receiving emoluments on an annual basis in excess of £30,000.

	<i>Directors</i>		<i>Employees</i>	
	<i>1989</i>	<i>1988</i>	<i>1989</i>	<i>1988</i>
£10,001 – £15,000	3	4	—	—
£15,001 – £20,000	4	5	—	—
£20,001 – £25,000	2	1	—	—
£30,001 – £35,000	—	—	171	60
£35,001 – £40,000	—	—	43	28
£40,001 – £45,000	—	—	30	19
£45,001 – £50,000	—	—	26	11
£50,001 – £55,000	—	—	13	9
£55,001 – £60,000	—	—	10	3
£60,001 – £65,000	—	—	9	—
£65,001 – £70,000	—	—	1	—
£70,001 – £75,000	—	—	4	1
£75,001 – £80,000	—	—	—	1
£80,001 – £85,000	—	—	1	—
£85,001 – £90,000	—	—	2	2
£90,001 – £95,000	—	—	1	1
£95,001 – £100,000	—	1	2	1
£100,001 – £105,000	—	—	2	—
£105,001 – £120,000	2	1	—	—
£120,001 – £125,000	1	—	—	—
£125,001 – £130,000	1	—	—	—
£130,001 – £135,000	1	—	—	—

Notes to the Accounts

7. Directors and employees (contd.)

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

	1989	1988
Full time		
Chief administrative offices	2,786	2,114
Branch offices	8,751	7,671
	11,537	9,785
Male	3,347	2,699
Female	8,190	7,086
	11,537	9,785

Part time

	1989	1988
Chief administrative offices	284	150
Branch offices	3,082	2,402
	3,366	2,552
Male	115	55
Female	3,251	2,497
	3,366	2,552

8. Provisions for loans and advances

	On advances secured on residential property £m	On other advances secured on land £m	On unsecured loans £m	Total £m
Group				
At 1 January 1989				
General	7	—	3	10
Specific	10	4	4	18
Transfer from profit and loss account	2	1	4	7
Irrecoverable amounts written off	(2)	—	(1)	(3)
At 12 July 1989	17	5	10	32
Being:				
General	7	1	4	12
Specific	10	4	6	20
Transfer from profit and loss account	1	1	5	7
Irrecoverable amounts written off	(1)	—	(2)	(3)
At 31 December 1989	17	6	13	36
Being for the Group:				
General	7	2	4	13
Specific	10	4	9	23
Including for the Company:				
General	7	2	1	10
Specific	10	4	3	17

9. Tax on profit on ordinary activities

	<i>Pro forma for the year ended 31 December</i>		
	<i>1989 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>
UK Corporation tax at 35%			
Current	77	169	156
Deferred	19	8	(12)
Overseas taxation	1	1	—
	97	178	144

10. Profit on ordinary activities after tax

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

11. Dividend

The final dividend proposed is 5.7 pence per share.

12. Earnings per share

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

Pro forma earnings per share have been calculated by adjusting the pro forma consolidated profit after tax, of £323m (1988—£270m) assuming the benefit from the new share capital raised, net of the flotation expenses, cash distribution and interest free deposit with The Bank of England, had been derived from 1 January 1988, and dividing these adjusted earnings by the 1,310m ordinary shares in issue. Assumed rates of interest of 13% for 1989 to Vesting Day and 10% for 1988, net of corporation tax, have been used.

13. Cash and short term funds

	Group		Company		Society	
	<i>1989 £m</i>	<i>1988 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>
Cash in hand and with central banks	245	83	105	83		
Money at call and short notice	236	862	—	850		
Treasury and other bills discounted	1,634	128	—	128		
Certificates of deposit	1,417	2,331	—	2,331		
Other deposits and loans	55	121	—	121		
	3,587	3,525	105	3,513		

14. Securities and investments

	Group		Company		Society	
	<i>1989 £m</i>	<i>1988 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>	<i>1989 £m</i>	<i>1988 £m</i>
Remaining maturity of:						
Not more than one year	435	458	37	458		
More than one year but not more than five years	645	1,511	30	1,511		
More than five years	2,157	334	—	334		
	3,237	2,303	67	2,303		
Being:						
UK Government Securities	1,021	2,303	—	2,303		
Securities issued or guaranteed by the US Federal Government	971	—	—	—		
Other	1,245	—	67	—		
Including listed investments of	2,266	2,303	—	2,303		
Aggregate market value of these listed investments	2,201	2,248	—	2,248		

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

Abbey National Treasury Services plc holds £52m of floating rate notes of Abbey National plc.

Notes to the Accounts

15. Other commercial assets

	<u>Group</u>	<u>Company</u>	<u>Society</u>
	<u>1989</u> £m	<u>1988</u> £m	<u>1989</u> £m
Unsecured loans	183	159	8
Secured loans	3	1	—
Residential development properties	83	50	—
	269	210	8
			3

The figure for residential development properties comprises the following:

Completed £11m (£5m), work in progress £72m (£45m).

16. Investments in subsidiaries

	<u>Company</u>	<u>Society</u>
	<u>1989</u> £m	<u>1988</u> £m
Shares	17	8
Loans	1,930	324
	1,947	332

Major subsidiary companies directly held:

	Nature of business	Country of incorporation
Abbey National Treasury Services plc	Treasury Operations	United Kingdom
Abbey National Estate Agency Ltd	Estate Agency	United Kingdom
Abbey National Homes Ltd	Housing Development	United Kingdom
Abbey National (Overseas) Ltd	Personal Finance	United Kingdom
Abbey National Personal Finance Ltd	Personal Finance	United Kingdom
Abbey National Financial Services Ltd	Personal Finance	United Kingdom
Abbey National (Gibraltar) Ltd	Personal Finance	United Kingdom
Abbeycor Nacional Hipotecario SCH	Personal Finance	Spain
Abbey National Mutui SpA	Personal Finance	Italy

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

The principal country of operation of the subsidiaries is the UK, apart from Abbey National (Overseas) Ltd, which operates in Jersey, Abbey National (Gibraltar) Ltd and Abbeycor Nacional Hipotecario SCH, both of which operate in Spain, and Abbey National Mutui SpA, which operates in Italy.

Notes to the Accounts.

Abbey National plc

17. Tangible fixed assets

	Group			Company/Society		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
<i>Cost</i>						
At 1 January 1989	149	145	294	144	131	275
Additions	23	18	41	22	13	35
Disposals	(1)	(1)	(2)	(1)	(1)	(2)
Transferred on vesting	171	162	333	165	143	308
<i>Depreciation</i>						
At 1 January 1989	19	76	95	18	74	92
Charge for the period	2	11	13	2	9	11
Disposals	—	(1)	(1)	—	(1)	(1)
Transferred on vesting	21	86	107	20	82	102
<i>Net book value</i>						
Transferred on vesting (12 July 1989)	150	76	226	145	61	206
<i>Cost</i>						
Transferred on vesting	171	162	333	165	143	308
Additions	21	23	44	13	19	32
Disposals	—	—	—	—	—	—
At 31 December 1989	192	185	377	178	162	340
<i>Depreciation</i>						
Transferred on vesting	21	86	107	20	82	102
Charge for the period	2	14	16	2	11	13
Disposals	—	—	—	—	—	—
At 31 December 1989	23	100	123	22	93	115
<i>Net Book Value</i>						
At 31 December 1989	169	85	254	156	69	225

The net book value of premises comprises:

	Group		Company		Society
	1989 £m	1988 £m	1989 £m	1988 £m	1988 £m
Freeholds	137	111	129	110	
Long leaseholds	4	3	4	3	
Short leasesholds	28	16	23	13	

Notes to the Accounts

17. Tangible fixed assets (contd.)

	Group		Company		Society
	1989 £m	1988 £m	1989 £m	1988 £m	
Capital expenditure which has been contracted, but has not been provided in the accounts.	35	15	34	15	
Capital expenditure which has been authorised by the Directors, but has not yet been contracted.	11	1	9	1	

Abbey National plc at 31 March 1989 before the transfer of business from Abbey National Building Society had no outstanding capital commitments either contracted or authorised.

18. Trade investments

Trade investments are all unlisted investments and are stated at Directors' valuation.

19. Retail funds and deposits

	Group		Company		Society
	1989 £m	1988 £m	1989 £m	1988 £m	
Repayable on demand	26,741	23,765	26,597	23,629	
Repayable:					
In not more than three months	186	1,502	—	1,399	
In more than three months but not more than one year	—	33	—	33	
In more than one year but not more than five years	16	16	16	16	
	26,943	25,316	26,613	25,077	

20. Non-retail funds and deposits

	Group		Company		Society
	1989 £m	1988 £m	1989 £m	1988 £m	
Amounts owed to other banks	97	469	—	459	
Time deposits	1,894	948	—	948	
Certificates of deposit	1,429	748	—	748	
Fixed and floating rate notes	2,307	1,556	101	1,556	
Other deposits and loans	1,005	599	253	597	
	6,732	4,320	354	4,308	
Repayable on demand	346	370	253	370	
Repayable:					
In not more than three months	3,275	1,560	—	1,560	
In more than three months but not more than one year	814	469	—	469	
Between one and two years	139	378	—	378	
Between two and five years	1,729	1,381	—	1,381	
In more than five years	429*	162	101	150	
	6,732	4,320	354	4,308	

* These loans represent bond issues at wholly at market rates redeemable in 1995-2000.

21. Other liabilities

	Group		Company		Society
	1989 £m	1988 £m	1989 £m	1988 £m	1988 £m
Income tax	278	218	278	217	
Corporation tax	99	152	93	150	
Other taxation and social security costs	4	3	4	3	
Amounts due to subsidiaries	—	—	1,675	224	
Other creditors	349	83	108	72	
	730	456	2,158	666	

22. Provisions for liabilities and charges

Deferred taxation

	Group		Company/Society	
	£m	£m	£m	£m
At 1 January 1989	12		12	
Transfer for the year		8		(12)
At 31 December 1989		20		—

The amounts provided and total potential liabilities are:

	Amount provided		Total potential liability	
	Group £m	Company £m	Group £m	Company £m
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	1	2	1	2
Other	19	(2)	19	(2)
	20	—	20	—

23. Subordinated liabilities

	Group		Company		Society
	1989 £m	1988 £m	1989 £m	1988 £m	1988 £m
Subordinated floating rate note 1995	120	120	120	120	120
Subordinated floating rate note 1997	44	—	44	—	—
Subordinated floating rate note 2004 (US\$137m)	83	—	—	—	—
	247	120	164	120	

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

Notes to the Accounts

24. Share capital

On 14 June 1989 the authorised share capital of the Company was increased to £175m by the creation of 1,190m additional ordinary shares of 10p each. The Directors were authorised to allot these shares, and during the period 750m shares were issued under the terms of the offer for sale of 15 June 1989.

The issued and fully paid share capital at 31 December 1989 was £131m and as of 16 February 1990 there were 4,141,223 shareholders. The following table shows an analysis of their holdings:

Size of Shareholding	Shareholders	Shares
1 - 100	2,916,062	290,852,458
101 - 1000	1,202,244	575,665,390
1,001+	22,917	443,482,152
Total	4,141,223	1,310,000,000

25. Share premium

The share premium account comprises the excess of the nominal value of the 750m new ordinary shares issued at a premium of 120p per share less the costs of conversion and flotation of £66m.

26. Movement on reserves

	Profit and loss account	
	Group £m	Company/Society £m
At 1 January 1989	1,312	1,425
Retained profit for the period to Vesting Day	142	129
Goodwill written off	(27)	—
Cash distribution	(6)	(6)
Net cost of free shares	(40)	(40)
At 12 July 1989	1,381	1,508
Retained profit for the period from Vesting Day	106	65
Goodwill written off	(1)	—
At 31 December 1989	1,486	1,573

27. Contingent liabilities

Under Section 22 of the Building Societies Act 1986, Abbey National Building Society was obliged to discharge the liabilities of its associated bodies (including subsidiaries) in so far as they were unable to discharge them out of their own assets. Under the Act, the obligations of the Society at Vesting Day in respect of its associated bodies were transferred to the Company.

In addition, the Company has unconditionally and irrevocably guaranteed all the obligations of Abbey National Treasury Services plc.

'Total guarantees given by Abbey National plc in respect of subsidiaries' liabilities	<i>£m</i>
	<u>7,335</u>

The Company has entered into certain financial futures contracts and forward interest rate agreements for hedging purposes. Whilst a contingent liability arises therefrom the total net effect is expected to be beneficial.

27. Contingent liabilities (contd.)

In addition, 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.

28. 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 £1 billion at 31 December 1989.

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.

29. Retirement benefits

The Abbey National Amalgamated Pension Fund is the principal pension scheme within the Group, covering 68% of the Group's UK employees, and is a funded defined benefit scheme.

The latest actuarial valuation was made at 31 March 1988 at which date the market value of the scheme assets was £281m. The valuation was prepared by using the projected unit funding method and disclosed an actuarial surplus of £64.4m and a regular Company contribution rate of 22.5% of pensionable salaries in respect of benefits accruing after the valuation date. On the basis of actuarial advice the Company's regular contribution for 1989 was reduced by £7m. This is estimated to remove the surplus by 31 December 2002 on the financial assumptions adopted.

The main financial assumptions used in the valuation were:

	Percentage per annum
Long-term investment return differential over general salary increases	2.0
Equity dividend increases	5.0
Long-term investment return differential over post retirement pension increases	4.5

The pension costs of £14m (1988 nil) reflect the regular contribution rate less £7m per annum in respect of the surplus being recognised over the expected average remaining service life of members of the scheme in accordance with SSAP 24 on accounting for pension costs. No contributions were made to the scheme in 1988.

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 scheme. The next valuation will be made not later than 31 March 1991.

The Associated Bodies Pension Fund which covers 1% of the Group's UK employees is similarly constituted and is estimated to be fully funded.

Notes to the Accounts

30. Directors' interests

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

	Number of persons	Total £000
Directors		
Loans	8	484
Quasi loans	—	—
Credit transactions	—	—
Officers		
Loans	10	814
Quasi loans	—	—
Credit transactions	—	—

The beneficial interests of Directors and their immediate families in the ordinary shares of 10p each in the Company at 31 December 1989 are shown below:

	Shares
Sir Campbell Adamson	20,875
R J Baglin	4,282
J Bayliss	1,300
P G Birch	56,843
P A Davis	11,750
J M Fry	1,400
Sir John Garlick	1,900
M A Heap	1,875
Sir Myles Humphreys	1,125
Dame Jennifer Jenkins	1,000
M E Llowarch	1,750
Sara Morrison	1,000
J E Hugh-Rees	1,075
J M Tyrrell	1,000
C N Villiers	13,492

No Director had a beneficial interest in the shares of the Company at 1 April 1989.

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.

Building Societies Commission requirements in respect of certain minors' accounts

The Building Societies Commission, in its confirmation of conversion, expressed its concern in relation to the method of recording accounts which had been opened on behalf of children in the period prior to the introduction of the present branch computer system in 1981-1984.

Abbey National plc undertook to conduct a series of investigations, to write to each account holder affected and to make the appropriate adjustments to the computer records for each account which was found to have been recorded in a manner contrary to the investor's wishes.

A total of 274,988 accounts were examined and in the 109,567 cases where the order of names on the account could have been material the account holder was informed of the provisional decision on their account.

The records for each of these cases were reviewed and the central computer records were amended, where necessary, to allow the appropriate distributions to be made. 99,089 such amendments were made.

As a result the requirements in respect of the statutory cash distribution have been met in full and the records for the priority liquidation distribution have been amended to reflect accurately the alterations made to these accounts.

By order of the Board

B. John Ellis, General Manager & Secretary
27 February 1990

Report of the auditors to Abbey National plc under sub-clause 5 (E) of the Transfer Agreement

In our opinion

- (i) Abbey National plc completed, so far as reasonably practicable, the steps set out in paragraphs (ii) to (vi) in sub-clause 5 (E) of the Transfer Agreement dated 1 March 1989, between Abbey National Building Society ("the Society") and Abbey National plc as amended in accordance with the Direction of the Building Societies Commission dated 5 June 1989; and
- (ii) the report of Abbey National plc dated 27 February 1990 accurately represents the position as to the number of cases reviewed by the Company and the extent of the changes made to the central computer records thereof.

Coopers & Lybrand Deloitte
Chartered Accountants
London
27 February 1990

GROUP FINANCIAL SUMMARY

	1989 £m	1988 £m	1987 £m	1986 £m	1985 £m
<i>Profit and loss accounts</i>					
Interest receivable	4,459	3,113	2,792	2,448	2,311
Interest payable	(3,693)	(2,479)	(2,269)	(2,042)	(1,971)
Net interest receivable	766	634	523	406	340
Other income and charges	174	131	94	78	46
Operating expenses	(425)	(338)	(254)	(205)	(178)
Provisions for loans and advances	(14)	(13)	(11)	(10)	(2)
Profit on ordinary activities before tax	501	414	352	269	206
Tax on profit on ordinary activities	(178)	(144)	(129)	(98)	(66)
Profit for the year	323	270	223	171	140
Dividend	75	—	—	—	—
Retained profit for the year	248	270	223	171	140
<i>Balance sheets</i>					
Liquid assets	6,824	5,828	4,245	3,566	3,418
Commercial assets	29,747	25,466	21,993	19,309	15,975
Tangible fixed assets	254	199	166	157	154
Trade investments	1	1	—	—	—
Other assets	375	43	7	9	6
Total assets	37,201	31,537	26,411	23,041	19,553
Retail funds and deposits	26,943	25,316	21,572	19,151	17,304
Non-retail funds and deposits	6,732	4,320	3,287	2,588	945
	33,675	29,636	24,859	21,739	18,249
Dividend	75	—	—	—	—
Other liabilities	730	456	395	350	515
Provisions for liabilities and charges	20	12	24	24	32
Subordinated liabilities	247	120	—	—	—
Minority interests	3	1	—	—	—
Total liabilities	34,750	30,225	25,278	22,113	18,796
Share capital	131	—	—	—	—
Share premium	834	—	—	—	—
Profit and loss account	1,486	1,312	1,133	928	757
Shareholders' funds	2,451	1,312	1,133	928	757
Total liabilities and shareholders' funds	37,201	31,537	26,411	23,041	19,553
Pro forma earnings per share	27.3p	24.5p			

Pro forma earnings per share are calculated on the basis set out in Note 12 to the Accounts.

Notice of Annual General Meeting

Abbey National plc

Notice is hereby given that the Annual General Meeting of Abbey National plc will be held at Westminster Central Hall, Storey's Gate, London, SW1H 9NU on Tuesday, 10th April 1990 at 11.00 am for the following purposes:

As ordinary business:

1. To receive the Directors' Report and Accounts for the period from 1st April 1989 to 31st December 1989.
2. To declare a final dividend.
3. To re-elect the following as Directors, namely Sir John Garlick KCB; Sir Myles Humphreys JP, DL, FCIT, CBIM; Martin Llownach FCA; James Tyrrell FCA; and Charles Villiers FCA.
4. To re-appoint Coopers & Lybrand Deloitte as auditors and authorise the Directors to fix their remuneration

As special business to consider, and if thought fit to pass the following Resolutions:

Special Resolution

5. THAT the Directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94 of the said Act) pursuant to the authority conferred by paragraph (2)(a) of the special resolution passed at the Extraordinary General Meeting of the Company held on 14th June 1989 for cash, as if Section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited to:-

- (a) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (but subject to such exclusions, variations or other arrangements on such allotment as the Directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory);
- (b) the allotment of equity securities pursuant to the terms of any employees' share scheme (as defined in Section 743 of the said Act) approved by members in general meeting; and
- (c) the allotment (otherwise than pursuant to subparagraph (a) or (b) hereof) of equity securities up to an aggregate nominal amount of £6,550,000 and that provided further that this authority shall expire

on the date of the next Annual General Meeting of the Company after the passing of this Resolution, save that the Directors may prior to such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offers or agreements notwithstanding the expiry of any power conferred by this Resolution.

Ordinary Resolution

6. THAT:-

- (i) the Abbey National Sharesave Scheme ("the Sharesave Scheme"), in the form of the draft produced to the meeting and initialled by the Chairman for the purposes of identification, be and it is hereby approved and adopted (subject to any amendments required by the Inland Revenue in order to obtain approval thereof under the Income and Corporation Taxes Act 1988); and
- (ii) the Directors be and they are hereby authorised to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

Ordinary Resolution

7. THAT:-

- (i) the Abbey National Share Participation Scheme ("the Share Participation Scheme"), to be constituted by a trust deed and rules in the form of the draft produced to the meeting and initialled by the Chairman for the purposes of identification, be and it is hereby approved and adopted (subject to any amendments required by the Inland Revenue in order to obtain approval thereof under the Income and Corporation Taxes Act 1988); and
- (ii) the Directors be and they are hereby authorised to cause the trust deed to be executed in or substantially in the form of the draft produced to the meeting and to do all acts and things which they may consider necessary or expedient for implementing and giving effect to the same.

Registered Office:

Abbey House
Baker Street
LONDON
NW1 6XL

By Order of the Board

B. John Ellis
General Manager & Secretary
27 February 1990

Notes

- (a) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and投 a poll to vote instead of him or her. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice for use in connection with the meeting. To be valid a form of proxy must reach the Scrutineer's Office, Winterhill, Milton Keynes, Bucks MK6 1HH or the Registered Office, Abbey House, Baker Street, London NW1 6XL not later than 48 hours before the time of the meeting.
- (b) Members who return completed proxy forms are not precluded, if they subsequently wish to attend the meeting instead of their proxies and voting in person. In the event of a poll, their proxy votes lodged with the Company will be excluded.
- (c) The meeting will be held at Westminster Central Hall which will be the principal place for the purposes of Article 57 of the Articles of Association of the Company. Article 57 authorises the Directors to make special arrangements to accommodate high levels of attendance at general meetings. Although the space available is expected to be sufficient, the Directors shall be entitled to direct some of those wishing to attend the meeting to other places linked to the principal place by means which will allow simultaneous participation in the meeting in the manner required by Article 57 should it prove necessary.
- (d) The following information is available for inspection during normal business hours at the registered office of the Company (and, in the case of items (iv) and (v), at the offices of Allen & Overy, 9 Cheapside, London, EC2V 6AD) on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting, and it will also be available at Westminster Central Hall from 10.00 am on the day of the meeting and at the meeting:
 - (i) the register of the interests of Directors in the share capital of the Company;
 - (ii) a statement containing particulars of loans and quasi-loans in favour of Directors and connected persons;
 - (iii) copies of Directors' service contracts;
 - (iv) the draft Rules of the Sharesave Scheme; and
 - (v) the draft Standard Rules of the Share Participation Scheme.

Explanatory notes to the Notice of Annual General Meeting

The Notice on page 47, is the formal notification to shareholders of the meeting, its date, time and place, and the matters to be considered (numbered 1 to 7 on the Notice).

Separate notes on the proxy voting form explain the arrangements for shareholders to attend the meeting and to exercise their voting rights.

Item 1: Report & Accounts

The Directors are required to present to the meeting the Report of the Directors and the Accounts for the Company for each financial period, in this case, from 1 April 1989 to 31 December 1989. The report and accounts, and the report of the Company's auditors on the accounts, are contained in this document.

Item 2: Declaration of final dividend

The Directors are empowered to declare and pay interim dividends but this authority was not exercised in relation to the financial period, ended on 31 December 1989. In contrast, the declaration of a final dividend must be approved by the shareholders and the Resolution in item 2 seeks approval to the declaration of a final dividend as recommended by the Directors. The amount of the recommended final dividend is shown in the Directors' Report on page 24.

Item 3: Re-election of Directors

The Company's Articles of Association (the rules which regulate the Company's internal management and administrative structure) require one third of the Directors to retire and be re-elected each year.

Brief details of the Directors, including those seeking re-election at the meeting, are to be found on pages 25 and 26 of this document.

Item 4: Re-appointment of auditors

The auditors of a company may not continue in office unless re-appointed at each meeting at which accounts are presented. The Resolution in item 4 proposes the re-appointment of the Company's existing auditors, Coopers & Lybrand Deloitte. The Resolution also follows common practice in giving authority to the Directors to approve the remuneration to be paid to the auditors.

Item 5: Share Capital

At an Extraordinary General Meeting held on 14 June 1989, the Directors were:

- (1) given authority until 31 May 1994 to allot shares in respect of the authorised but unissued share capital of the Company, and
- (2) empowered until the conclusion of the next Annual General Meeting to make limited allotments of shares for cash other than according to the statutory pre-emption rights, which require all shares issued for cash to be offered first to all existing shareholders.

The Resolution in item 5 renews with variations such power of the Directors and would continue to provide the Directors with flexibility to act in the best interests of shareholders when opportunities arise, so that:

- (a) the Company can follow normal practices in the event of a rights issue,
- (b) shares may be allotted pursuant to the terms of an employees' share scheme already approved by members, and
- (c) shares may be issued to persons other than existing ordinary shareholders to a maximum of 5% of the Company's issued share capital.

Item 6: Sharesave Scheme

Details of the Sharesave Scheme referred to in the Resolution in item 6 are to be found on pages 49 and 50 of this document.

In putting forward this Resolution, the Directors consider that staff should be offered the opportunity to have a stake in their Company through share ownership.

Save as you earn share option schemes of the type being proposed are available to the staff of most large public limited companies. A savings related scheme would be entirely appropriate and would also enhance the ability of the Company to remain flexible and competitive as an employer.

Item 7: Share Participation Scheme

Details of the Share Participation Scheme referred to in the Resolution in item 7 are to be found on pages 50 and 51 of this document.

The Directors believe it essential that the Group's pay structure remains sufficiently flexible and competitive to enable it to recruit and retain staff of the highest quality in all areas of its operations. The majority of staff are already eligible for an annual bonus based on the achievement of preset net profit targets.

In proposing this Resolution, the Directors believe that it is essential, in order to retain this flexibility and competitiveness, that staff are offered the opportunity to acquire shares in their Company through this scheme.

A. THE ABBEY NATIONAL SHARESAVE SCHEME

Summary

1. Constitution

The Abbey National Sharesave Scheme ("the Scheme") is constituted by rules and will be administered by the Directors. The Scheme has been submitted to the Inland Revenue for approval under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988.

2. Eligibility

All employees of the Company and such of its participating subsidiaries as determined by the Directors from time to time who work not less than 16 hours per week, who were employed at 31 December in the preceding calendar year and are assessable to United Kingdom income tax under Case I of Schedule E are eligible to participate in the Scheme. The Directors may offer participation to other employees and may alter the length of service required to qualify to a different period, not exceeding five years.

3. Contractual Savings Scheme

Employees who wish to participate in the Scheme will enter into a Save-As-You-Earn Contract ("SAYE contract") with a savings body designated by the Directors for the purposes of the Scheme to make 60 monthly contributions by deduction from their pay of not less than £10 nor more than £150 each. Under current SAYE regulations, a tax-free bonus of twelve monthly contributions will be paid on completion of 60 monthly savings contributions and another tax-free bonus of equal amount will be paid after a further two years if the savings plus the initial bonus are not withdrawn prior to that date.

4. Option Price

Each eligible employee is entitled to apply for an option at a price per ordinary share ("option price") which is determined by the Directors but which is not less than the greater of (a) the nominal value of an ordinary share and (b) 80% of the middle market quotation of an ordinary share on the three dealing days prior to the date of the invitation as ascertained from The Stock Exchange Daily Official List.

5. Grant of Options

Each option is granted over the number of ordinary shares for which the aggregate option price does not exceed the total monthly contributions plus the five or seven year bonus payable on the maturity of the SAYE contract. Applications for options must be made within 42 days of the publication by the Company of its interim or final results each year or the issue of listing particulars or approval of the Scheme by the Inland Revenue. No options may be granted more than ten years after the date of the adoption of the Scheme.

6. Exercise of Options

In normal circumstances, a participant may exercise his option at any time within six months of the fifth or seventh anniversary of the starting date of the SAYE contract ("bonus date") and while the participant remains an employee.

Options may, however, be exercised early in the circumstances described below

(i) Leaving employment in special circumstances

In the event of:

- (a) the participant leaving employment by reason of injury, disability, redundancy or retirement at state or normal retirement date or;
- (b) the participant's employing company ceasing to be a subsidiary of the Company or;
- (c) the transfer of the business in which the participant is employed.

The option may be exercised within six months from the date of leaving. The participant will only be able to exercise his option over shares having an aggregate option price equal to the contributions made and interest, if any, received under his SAYE contract up to the date of exercise. On the expiry of the six month period, the option will lapse unless the provisions of sub-paragraph (iii) apply by reason of death of the participant within the six month period. The participant may also exercise his option with the proceeds of his SAYE contract on attaining state retirement age even if he continues in employment.

(ii) Leaving employment in other circumstances

If a participant is dismissed or leaves in circumstances other than those described in sub-paragraph (i) above before his option becomes exercisable, the option will lapse on his leaving employment. If, however, he retires early more than three years after the grant of his option, his option will be exercisable as described in sub-paragraph (i) above.

(iii) Death of a participant

If a participant dies before the bonus date his personal representative will be entitled to exercise his option at any time within the twelve months following his death in respect of the number of ordinary shares which can be subscribed for with the proceeds of his SAYE contract. If he dies within six months after the bonus date the option may be exercised within twelve months of the bonus date.

(iv) Winding-up

In the event of a members' voluntary winding-up of the Company, except for the purpose of reconstruction or amalgamation, a participant may exercise his option during the three months after the commencement of a winding-up of the Company.

(v) Takeover

If, following a general offer to acquire the whole of the ordinary share capital of the Company, an offeror obtains control of the Company, participants will be entitled to use the proceeds of their SAYE contracts to exercise outstanding options during the following six months. If an offeror becomes entitled to give notice to acquire shares under section 429 of the Companies Act 1985, options will lapse one month later. Participants may be able to exchange outstanding options for new options over shares in the acquiring company or a company associated with the acquiring company.

Employee Share Schemes continued

7. Terms of Options and Issue of Ordinary Shares

Options granted under the Scheme will be neither transferable nor assignable. As soon as practicable after the exercise of an option the appropriate ordinary shares will be allotted and issued to the option holder and the Company will apply to the Council of The Stock Exchange for a listing for such ordinary shares. The ordinary shares allotted will rank pari passu with all other issued ordinary shares of the Company save that if the option is exercised after the record date for a dividend, rights issue or other distribution, the ordinary shares will not be entitled to participate in the relevant dividend, rights or other distribution.

8. Repayment of Savings

When repayment is due under the SAYE contract, the participant may either exercise his option in whole or in part or simply take the cash payment. A participant may withdraw the proceeds of his SAYE contract at any time but, because an option cannot normally be exercised until repayment is due under the SAYE contract, earlier withdrawal, except in certain special circumstances, will mean that the option will lapse.

9. Issues and Reorganisation

In the event of any capitalisation issue or rights issue or any consolidation, sub-division or reduction of capital of the Company, the number, class and option prices of ordinary shares subject to options and the total number of shares available to the Scheme will be subject to adjustment in such manner as the Directors may determine provided that the auditors of the Company confirm in writing that the proposed adjustment is in their opinion fair and reasonable.

10. Amendment

The Scheme may be amended by the Directors in any way, provided that:

- (i) no amendment may be made which prejudices materially the rights of participants or which would prejudice approval of the Scheme by the Inland Revenue;
- (ii) amendments to the provisions of the Scheme relating to the following matters may be made only by or with the prior approval of an ordinary resolution of the Company in general meeting:
 - (a) the basis of calculation of the option price;
 - (b) the maximum number of ordinary shares available to the Scheme (unless adjusted pursuant to paragraph 9 above) and the provisions for adjusting such maximum number;
 - (c) the maximum rate at which a participant may be entitled to contribute to SAYE contracts;
 - (d) the conditions governing persons who are eligible to participate;
 - (e) the rules governing the times when options may be granted, the transferability and adjustment of options, the periods for exercise of options, the terms on which ordinary shares are allotted, the provisions relating to the winding-up or takeover of the Company and the amendment of the Scheme, unless any such amendment is not to the advantage of participants.

Notwithstanding (i) above, the Directors may amend the Scheme to secure or maintain Inland Revenue approval.

11. Termination

The Directors may at any time terminate the Scheme and in such event no further offers of participation will be made, but the subsisting rights of participants will not thereby be affected.

B. THE ABBEY NATIONAL SHARE PARTICIPATION SCHEME

Summary

1. Constitution

The Abbey National Share Participation Scheme ("the Scheme") is constituted by a trust deed and rules and will be administered by the Directors. The Scheme has been submitted to the Inland Revenue for approval under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988.

2. Eligibility

All employees of the Company and such of its participating subsidiaries as determined by the Directors from time to time who work not less than 16 hours per week, who were employed at 31 December in the preceding calendar year and on the date of appropriation of shares to the Trustees and are assessable to United Kingdom income tax under Case 1 of Schedule E are eligible to participate in the Scheme. The Directors may offer participation to other employees and may alter the length of service required to qualify to a different period, not exceeding five years.

3. Operation of the Scheme

The Directors will decide whether in any year ordinary shares are to be acquired under the Scheme and also the proportion of the Group's profits of the relevant financial year to be allocated to the Scheme, which may not exceed 5% of the profits of the Group (before tax and extraordinary items). If the Scheme is operated in a particular year the Company and each participating subsidiary will make payments out of the profits of the Group to the trustee of the Scheme ("the Trustees") who will use the funds to buy ordinary shares or to subscribe for them.

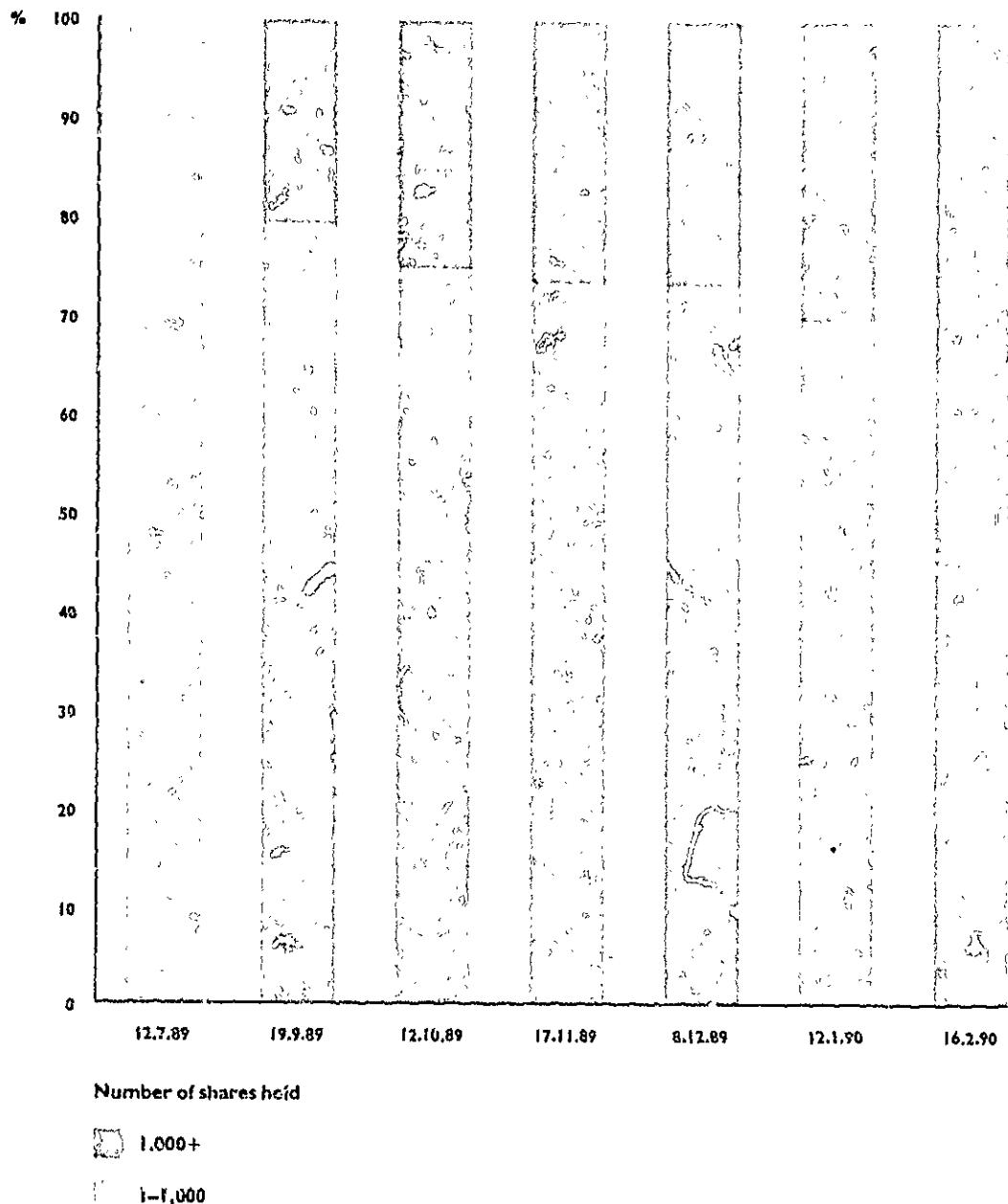
4. Appropriation Price

The price per ordinary share ("appropriation price") at which shares are allocated to employees is determined by the Directors and will be not less than the greater of (a) the nominal value of an ordinary share and (b) the middle market quotation of an ordinary share as ascertained from The Stock Exchange Daily Official List on the last dealing day preceding the date of subscription by the Trustees (or the average of the middle market quotations over a number of dealing days, not exceeding five, if the Directors so determine).

- 5. Appropriation**
The maximum value of ordinary shares which may be appropriated to any participant under the Scheme in any year is limited by the provisions of the Income and Corporation Taxes Act 1988 and currently may not exceed the greater of £2,000 and 10% of salary (subject to a maximum of £6,000).
- 6. Disposal of Shares**
The Income and Corporation Taxes Act 1988 requires that ordinary shares appropriated under the Scheme must be held by the Trustees for a minimum period of two years after appropriation during which time they may not be dealt with in any way except in certain circumstances such as the death of the participant, his reaching state pensionable age or ceasing to be employed by reason of injury, disability or redundancy. For the following three years, the Trustees must retain the ordinary shares unless a participant instructs them otherwise. After this time, the ordinary shares may be transferred to the participant. The shares may be transferred to the participant before the expiry of two years from the date of appropriation where the participant leaves employment by reason of injury, disability or reaches state pensionable age or dies.
- 7. Ordinary Shares held in the Scheme**
All ordinary shares acquired by the Trustees will rank pari passu with all other issued ordinary shares of the Company but they will not participate in any dividend, rights issue or other distribution attaching to ordinary shares by reference to a record date preceding the date of acquisition. While a participant's shares remain held by the Trustees a participant will be the beneficial owner of his shares and be entitled to receive dividends paid in respect of those shares and, through the Trustees, to vote and to participate in rights and capitalisation issues in substantially the same way as other shareholders.
- 8. Amendment**
The Scheme may be amended by the Directors in any way, provided that:
- (i) no amendment may be made which prejudices materially the rights of participants or which would prejudice approval of the Scheme by the Inland Revenue;
 - (ii) amendments to the provisions of the Scheme relating to the following matters may be made only by or with the prior approval of an ordinary resolution of the Company in general meeting:
 - (a) the basis of calculation of the appropriation price;
 - (b) the maximum number of ordinary shares available to the Scheme and the provisions for adjusting such maximum number;
 - (c) the limits on participation by an individual in the Scheme;
 - (d) the conditions governing persons who are eligible to participate;
 - (e) the conditions relating to the period which the shares must be held by the Trustees and the rights attaching to shares held under the terms of the trust deed.
- Notwithstanding (ii) above, the Directors may amend the Scheme to secure or maintain Inland Revenue approval.
- 9. Termination**
The Directors may at any time terminate the Scheme and in such event no further allocations of ordinary shares will be made, but the rights of participants in the shares held by the Trustees will not thereby be affected.
- C. SHARESAVE SCHEME AND SHARE PARTICIPATION SCHEME LIMITS**
The Sharesave Scheme and the Share Participation Scheme are subject to the following limits on the number of ordinary shares that may be subscribed for under the Schemes:
- (a) in any ten year period, not more than 10% of the issued ordinary share capital of the Company may in aggregate be subscribed for by the Trustees of the Share Participation Scheme and/or issued under options granted under the Sharesave Scheme;
 - (b) in any one year, not more than 1% of the issued ordinary share capital of the Company may be subscribed for by the Trustees of the Share Participation Scheme using the funds provided by the Company and its participating subsidiaries;
 - (c) in any five year period, not more than 5% of the issued ordinary share capital of the Company may in aggregate be subscribed for by the Trustees of the Share Participation Scheme and/or issued under options granted under the Sharesave Scheme, and
 - (d) not more than 65,500,000 ordinary shares, representing 5% of the issued ordinary share capital of the Company may be subscribed for by the Trustees under the Share Participation Scheme using funds provided by the Company and its participating subsidiaries and no more than a total number of 65,500,000 ordinary shares may be issued under options granted under the Sharesave Scheme.
- The numerical limits referred to in (d) above may be adjusted in the event of certain variations of capital.

Analysis of Share Register

Percentage of shares held in identified share bands



On flotation, 100% of shares were held by former members of Abbey National Building Society. Since that time, the proportion of shares in the 1,001+ band has increased to 34%. The high proportion of shares remaining in the band below 1,000 reflects the loyalty of our former members.