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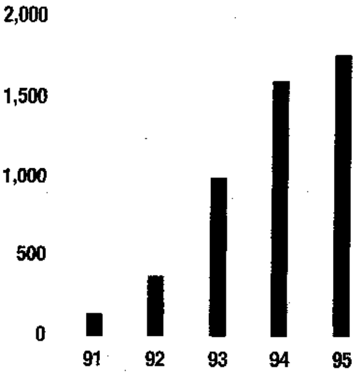
NatWest Group

Annual Report and Accounts 1995

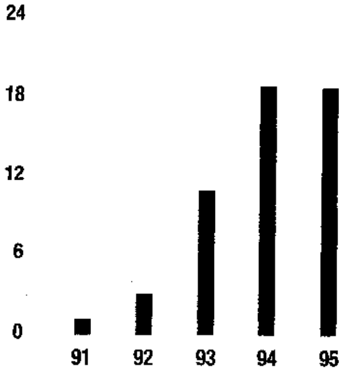
NatWest Group – Annual Report and Accounts 1995

Contents

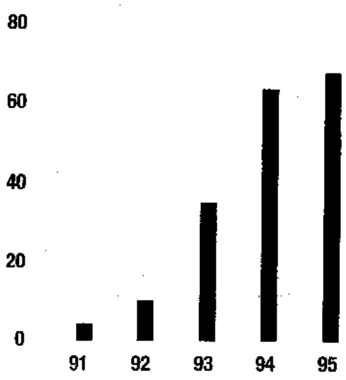
Financial highlights



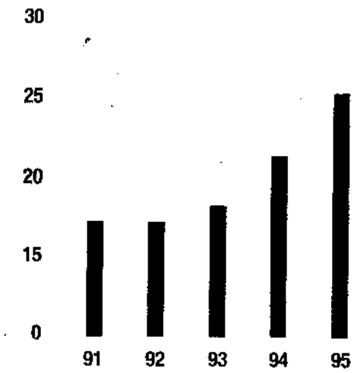
Profit before tax (£m)



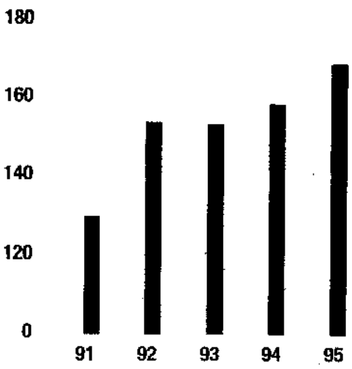
Post-tax return on average equity (%)



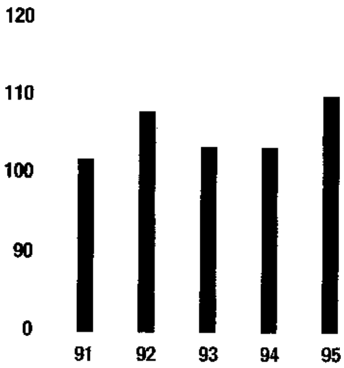
Earnings per ordinary share (pence)



Dividends per ordinary share (pence)



Total assets (£bn)



Weighted risk assets (£bn)

Financial highlights

	Year ended 31 December				
	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Consolidated profit and loss account					
Operating income	**7,262**	6,936	6,995	6,693	6,134
Operating expenses	**4,929**	4,798	4,588	4,491	4,245
Trading surplus	**2,333**	2,138	2,407	2,202	1,889
Provisions for bad and doubtful debts	**639**	616	1,262	1,799	1,826
Operating profit	**1,670**	1,503	1,123	363	63
Profit before tax	**1,753**	1,592	989	367	134
Profit attributable to ordinary shareholders	**1,177**	1,055	583	164	65
Retention for the year	**731**	684	276	(124)	(220)
	£m	£m	£m	£m	£m
Profit/(loss) before tax by sector					
NatWest UK	**671**	591	180	(137)	(42)
NatWest Markets	**297**	359	453	232	315
International Businesses	**429**	403	172	183	43
Bancorp	**356**	239	184	89	(182)
	1,753	1,592	989	367	134
	£bn	£bn	£bn	£bn	£bn
Consolidated balance sheet					
Shareholders' funds	**7.2**	6.4	5.7	5.5	5.5
Total assets	**168.3**	158.0	152.9	153.4	129.6
Weighted risk assets	**110.0**	103.4	103.4	107.9	101.7
Loans and advances to customers	**87.4**	80.3	80.4	86.3	81.1
Customer accounts	**88.4**	84.0	84.0	86.2	78.4
	pence	pence	pence	pence	pence
Per ordinary share					
Earnings	**67.6**	62.9	35.3	10.0	4.0
Dividends – net	**25.3**	21.6	18.5	17.5	17.5
Net asset value	**381**	347	315	317	324
	%	%	%	%	%
Ratios					
Post-tax return on average equity	**18.6**	18.7	10.8	3.0	1.1
Post-tax return on average total assets	**0.7**	0.7	0.4	0.1	–
Total capital	**10.7**	11.0	10.8	9.8	9.6
Tier 1 capital	**6.7**	6.4	5.7	5.2	5.5

Presentation of information

This document comprises National Westminster Bank Plc's 1995 Annual Report and Accounts and its 1995 Annual Report on Form 20-F to the Securities and Exchange Commission ('SEC') in the United States of America ('US'). In this report, the term 'Bank' means National Westminster Bank Plc and 'Group' means the Bank and its subsidiary undertakings.

Certain information relating to the Group's activities is presented separately for domestic and international operations. For this purpose, domestic activities consist of United Kingdom ('UK') domestic banking transactions, which include the transactions of a number of UK subsidiary undertakings (but exclude the Republic of Ireland transactions of Ulster Bank Limited), plus related banking and investment banking services provided through offices in the UK. International operations consist of international banking transactions, together with related banking and investment banking services provided through offices outside the UK, and the Republic of Ireland transactions of Ulster Bank Limited. International-United Kingdom includes the business of those offices in the UK specifically organised to service international banking transactions. NatWest Markets activities are divided between domestic and the appropriate international segment based on the location of the office which provides the service. US-based business recorded in the Bahamas is included in International Offices – US. Due to the integrated nature of the Group's businesses, certain allocations of centralised income, expenditure and funding costs between domestic and international operations are necessarily subjective and to an extent arbitrary.

Reporting currency

The Bank publishes its accounts in pounds sterling ('£' or 'sterling'). References to 'dollars' or '$' are to US dollars. The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, and the abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars respectively. Amounts in dollars, unless otherwise stated, for any financial (fiscal) year have been translated from sterling at the rate prevailing on 31 December used by the Bank, as shown below under Exchange Rates. This rate should not be construed as a representation that the sterling amounts actually denote such dollar amounts or have been, could have been, or could be converted into dollars at the rate indicated.

Exchange rates

Except as stated, the following table sets forth, for the dates or periods indicated, the Noon Buying Rate in New York for cable transfers in sterling as certified for customs purposes by the Federal Reserve Bank of New York (the 'Noon Buying Rate').

	1995	1994	1993 (dollars per £1)	1992	1991
31 December	**1.554**	1.567	1.478	1.513	1.866
Average (1)	**1.580**	1.539	1.497	1.764	1.776
High	**1.644**	1.637	1.590	2.004	1.999
Low	**1.530**	1.462	1.418	1.510	1.602
31 December rate used by the Bank (2)	**1.544**	1.564	1.479	1.520	1.871
Average rate used by the Bank (2)	**1.578**	1.532	1.502	1.767	–

(1) The average of the Noon Buying Rates on the last day of each month during the financial year.

(2) The rates used by the Bank in the preparation of its consolidated accounts. An average rate has not been given for 1991 because the accounts for that year have not been restated as it is considered that the effect of the change to translating the results of overseas subsidiary and associated undertakings at average exchange rates is not material.

On 16 February 1996, the Noon Buying Rate was $1.549 = £1.00.

Description of business

Introduction

The Bank was incorporated in England in 1968 and was formed from the merger of National Provincial Bank Limited and Westminster Bank Limited. These two banking groups had themselves grown through a series of mergers involving banks whose origins in some cases dated back to the seventeenth century.

The Group is engaged in a wide range of banking, financial and related activities in the UK and in 32 other countries. Operations are conducted directly through the Bank, which is one of the major London clearing banks, and banking and non-banking subsidiary undertakings. No country outside the UK, with the exception of the US, accounted for more than 10% of total assets or profit before tax of the Group at and for the year ended 31 December 1995. At that date, the Group employed approximately 81,800 full-time equivalent staff worldwide.

Organisation

The Group comprises four business sectors: NatWest UK, NatWest Markets, International Businesses and National Westminster Bancorp Inc. ('Bancorp').

NatWest UK

In 1995, NatWest UK, the Group's principal domestic financial services arm, was re-organised into six units.

- Retail Banking Services covers the personal and small business markets and is responsible for the branch network.
- Corporate Banking Services deals with large and mid-corporate customers with emphasis on identifying and servicing customers' increasingly sophisticated requirements.
- Life and Investment Services provides a full range of life, pension, investment and related products and services.
- Insurance Services undertakes insurance broking activities and offers independent financial advice on life products for customers.
- Card Services issues credit and charge cards and engages in acquisition and processing facilities for retail businesses.
- Mortgage Services originates and administers home mortgages to personal customers for the purchase of residential property.

At 31 December 1995, NatWest UK had the second largest retail banking network in the UK with 2,223 branches, compared with 2,416 branches at 31 December 1994. During 1995, NatWest UK continued its policy of extending relationship management by providing specialist services to high net-worth personal customers and to certain categories of business customers. Approximately 10,000 mid-corporate customers (generally companies which have revenues of between £1m and £130m per annum) are served by dedicated relationship managers.

Overdraft and loan facilities are offered, generally at variable interest rates, to borrowers in all segments of British industry and commerce and to personal customers. Fixed rate loans are also provided to small and mid-corporate businesses and for the purchase of consumer goods and property. In 1995, the Bank's market share of banking sector loans to UK residents, which is diversified across major sectors of the economy, averaged approximately 12%.

NatWest UK continued

At 31 December 1995, the Group had one of the largest deposit bases of the UK clearing banks. Retail sterling deposits are gathered through the branch network from both personal customers and businesses and consist of current accounts, demand, savings and time deposits.

The Bank is a member of both the VISA and MasterCard (branded in the UK as Access) card payment systems. A comprehensive range of credit cards is offered to both personal and corporate customers.

The Bank participates in the Switch electronic debit card scheme which enables customers to pay for goods and services at retail outlets through point-of-sale terminals that electronically charge the customers' accounts. The Bank's Switch payment card is the NatWest Servicecard, which also acts as a UK cheque guarantee card and enables customers to obtain cash through automated teller machines throughout the UK and abroad.

Through its 50% stake in Mondex UK Limited, the Bank has continued to develop a payment system based on the electronic storage of money on a smartcard. Mondex is currently being tested in Swindon, England where over 700 retailers and in excess of 10,000 card holders have subscribed to the scheme since its launch in July 1995.

NatWest Markets

NatWest Markets ('NWM') is the Group's worldwide corporate and investment banking arm. Its activities cover a range of wholesale financial services, including treasury operations, debt and equity issuance, investment products, specialist advice and risk management. NWM employs approximately 6,100 staff in 22 countries.

In the latter part of 1995, NWM's core businesses were regrouped into four main business units. Treasury and Capital Markets were combined to form Global Financial Markets to exploit the increasing convergence of the various markets. In recognition of the links between corporate finance activity and equity raising and the growing dependence of both areas on quality research to initiate new business, Equities and the Investment Banking Division were merged to form Global Investment Banking. Investment Management and Ventures now form Global Asset Management, and Banking and Specialised Finance has been renamed Global Financing.

In addition to organic growth, business developments include the acquisition of Gleacher & Co. Inc. ('Gleacher'), a mergers and acquisitions firm in the US in November 1995, and an investment in BOE NatWest, a joint venture with The Board of Executors, one of South Africa's leading financial institutions. On 19 February 1996, the Group announced the proposed acquisition of Gartmore plc ('Gartmore'), a UK based investment management company, for a cash consideration of approximately £472m.

Global Financial Markets

Treasury activities comprise foreign exchange, money market services, forward rate agreements and foreign currency options for corporate and institutional clients and the Group itself.

Capital Markets offers a full range of financing and investment products, from commercial paper, medium term notes, asset securitisation, bonds and syndicated loans, to interest and exchange rate risk management services and derivative products such as swaps and interest rate options. It also conducts financial futures business in both London and Chicago and deals in UK government securities.

NatWest Markets continued

Global Investment Banking

Equities provides comprehensive primary and secondary market services, both domestically and internationally, to leading companies and institutional investors and is a UK and European leader in equity research.

Investment Banking brings together client coverage, advisory and specialist research and consultancy services. The coverage teams work closely with other divisions, co-ordinating NWM's marketing approach to and originating new business with clients. The advisory group provides guidance on equity raising, acquisitions, disposals, restructurings and corporate strategy.

Global Asset Management

Investment Management supplies fund management services across most major investment asset classes. It currently has £33bn of funds under management or advice for a geographically diverse client base. Following completion of the proposed acquisition of Gartmore, funds under management will exceed £55bn. In terms of assets administered, it will become one of the top four UK pension fund managers.

NatWest Ventures makes available unquoted equity finance to the mid-corporate market, concentrating principally on management buy-outs/buy-ins, development and venture capital, restructurings and refinancings.

Global Financing

Banking covers lending to major corporates, and Specialised Finance uses financial structuring techniques to enhance traditional forms of credit and create proprietary products for corporate and institutional clients. In addition, Global Trade and Banking Services has responsibility for co-ordinating trade finance and banking services across all NatWest Group entities.

International Businesses

International Businesses ('IB') comprises a diverse portfolio of businesses engaged in retail and private banking and asset, motor and point-of-sale finance (in-store personal credit facilities) in various locations worldwide. Its principal operations are Lombard North Central ('Lombard'), Ulster Bank and Coutts & Co Group.

Lombard is the largest leasing finance, instalment credit, factoring and receivables financing group in the UK in terms of total assets, which were £11bn at 31 December 1995 (1994 £10bn). Lombard Business Finance offers asset-based finance, including leasing, contract hire, hire purchase and factoring; Lombard Motor Finance provides third party finance through motor retailers, and vehicle contract hire; and Lombard Personal Finance supplies retail store credit cards, secured and non-secured point-of-sale finance, direct personal loans and sterling and dollar deposit facilities.

Ulster Bank offers a wide range of retail and wholesale financial services in Northern Ireland and the Republic of Ireland.

Coutts & Co Group provides private banking services worldwide, covering money market deposits, portfolio management, estate planning, offshore trust administration and lending.

Isle of Man Bank gives in its home market similar services to those of NatWest UK as well as offshore personal and commercial banking services.

International Businesses continued

In Continental Europe, the Group's retail activities are largely concentrated in Banco NatWest España. IB also operates branches of the Bank in Greece and Gibraltar and a subsidiary undertaking in Germany.

Bancorp

Bancorp is the holding company for the Group's retail and commercial banking services in the US. On 19 December 1995, the Group announced that it had reached an agreement to sell to Fleet Financial Group, Inc. ('Fleet'), a US-based financial services company, the three main operating entities of Bancorp – NatWest Bank, N.A., NatWest Bank (Delaware) and NatWest Services Inc. – in a transaction valued at $3.56bn.

NatWest Bank, N.A., with its headquarters in Jersey City, New Jersey, was formed on 1 January 1995 following the completion of the merger of National Westminster Bank USA and National Westminster Bank NJ, both of which were subsidiaries of Bancorp. NatWest Bank, N.A. provides a wide range of banking services to personal customers, businesses and corporations and international banking services to multinational corporations and overseas customers. With Citizens First Bancorp Inc. ('Citizens First') and Central Jersey Bancorp ('Central Jersey'), acquired in October 1994 and January 1995 respectively, it has more than 300 branches in New York and New Jersey.

NatWest Bank (Delaware), headquartered in Wilmington, Delaware, was formed in February 1995. It engages principally in consumer lending on a nationwide basis and offers a full range of services including credit cards, lines of credit, instalment loans, student loans and home equity loans.

NatWest Services Inc. in Scranton, Pennsylvania provides the operations and servicing facility for NatWest Bank, N.A. and NatWest Bank (Delaware).

The sale to Fleet is subject to regulatory approval and is expected to be completed in the second quarter of 1996. The transaction value comprises an initial cash payment estimated at $2.60bn (dependent on the tangible net asset value, on completion, of the businesses sold), deferred consideration of up to $0.56bn and assets excluded from the sale of $0.40bn.

Fleet has the option to issue up to $175m of common stock and up to $300m of preferred stock to the Group, with the initial cash payment being correspondingly reduced. The deferred consideration will be based on the future earnings of the businesses as part of Fleet, which will make annual cash payments to the Group, up to a total of $560m over a maximum of eight years and will be included in profits when received. The sale excludes a loan portfolio of $315m, net of provisions, and 175 Water Street, a building in downtown Manhattan, currently occupied by NWM and Bancorp.

Group Services

Group Services provides support to the business sectors, including management of the Bank's property portfolio, meeting a number of business sectors' human resources management requirements and undertaking consultancy work across the Group. In January 1996, Group IT, which runs the Bank's mainframe systems and develops new applications, was transferred from Group Services to NatWest UK.

Group Risk

Independent from each of the business sectors and reporting to the Deputy Group Chief Executive, Group Risk is responsible for overseeing the implementation of the risk policy set by the board of directors and for the management of high-level credit and certain non-credit risk issues for the Group. It sets standards and monitors the Group's credit portfolio for geographic, product and market sector concentrations as well as exposures to the Group's major customers.

Group Audit and Group Compliance

Group Audit and Group Compliance are independent from each of the business sectors and report directly to the Audit & Compliance Committee of the board. Their directors report to the Deputy Group Chief Executive, with both having a right of direct access to the Group Chief Executive.

The audit function, with units located in all major business areas of the Group, has overall responsibility for advising local and Group executive management and the Audit & Compliance Committee on the quality of control over, and identification of, significant operating risks within the Group.

The role of Group Compliance is to ensure that business is conducted in accordance with local laws and regulations or the Group's minimum standards, whichever are the more strict. Each business sector has its own independent compliance function which is responsible for day-to-day compliance.

Competition

In the UK, the Bank competes in both the personal and corporate sectors with other clearing and international banks. Factors which influence the Bank's pricing include the Basle Committee's capital adequacy standards, risk, the economic environment and competitor activity. In the personal sector, banks and building societies (which are similar to savings and loan associations in the US) compete in the lending and home mortgage markets. Together with National Savings (saving schemes promoted and guaranteed by the UK government) they also participate in the market for retail deposits. The Bank is also engaged in the highly competitive UK credit card market.

NWM faces strong competition in corporate and institutional markets from UK and international commercial and investment banks across a wide range of products. In the US, the Group operates in the retail and corporate banking markets, contending with super-regional banks that conduct banking activities in many states as well as with money centre and international banks. Non-bank financial institutions also are competitors.

Effect of exchange rate fluctuations

As a significant proportion of the assets, liabilities, income and expenses of the Group is denominated in currencies other than sterling, fluctuations in exchange rates affect the balance sheet and profit and loss account. The principal foreign currency affecting the Group's accounts is the dollar. Over the year to 31 December 1995, it appreciated by 1% against sterling, compared with a depreciation of 5% in 1994 and an appreciation of 3% in 1993.

Monetary policy

The earnings of the Group are affected by the economic policies of the UK government and by regulatory and other monetary authorities, particularly the Bank of England. The latter influences conditions in the money and credit markets which can affect exchange rates, interest rates, the growth and distribution of lending among various industry sectors and the growth and mix of deposits. Similarly, the operations and profitability of the Group are also affected by the monetary policies of governments in other countries. The Group cannot predict the future effect of such policies on lending volumes or earnings.

Accounting developments

There has been no change to the Group's principal accounting policies during the year. Implementation of Financial Reporting Standard ('FRS') 6 'Acquisitions and Mergers', FRS 7 'Fair Values in Acquisition Accounting' and the adoption of Urgent Issues Task Force Abstract 13 'Accounting for ESOP trusts' have had no material effect on the Group's balance sheet or reported profits. The impact of the introduction of certain new US accounting standards is discussed in note 48 to the accounts on page 122.

Operating and financial review

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Operating income	**7,262**	6,936	6,995
Operating expenses	**(4,929)**	(4,798)	(4,588)
Trading surplus	**2,333**	2,138	2,407
Provisions for bad and doubtful debts	**(639)**	(616)	(1,262)
Other including income from associated undertakings	**59**	70	(156)
Profit before tax	**1,753**	1,592	989*
Cost:income ratio	**67.9%**	69.2%	65.6%
Weighted risk assets	**£110.0bn**	£103.4bn	£103.4bn
Earnings per ordinary share	**67.6p**	62.9p	35.3p
Dividends per ordinary share	**25.3p**	21.6p	18.5p
Post-tax return on average equity	**18.6%**	18.7%	10.8%

* After £159m provision for withdrawal from retail operations in France and Australia.

The Group's pre-tax profit for 1995 rose by 10% to £1,753m from £1,592m in 1994. Operating income was up 5%. The customer loan book expanded 9% despite intense competition in most key markets. Growth in operating expenses was held to 3%, notwithstanding substantially higher restructuring charges and continued investment in business development. Trading surplus improved by 9%. A specific provision in NWM, coupled with an increase in general provision, resulted in a marginally greater bad and doubtful debt charge. At NatWest UK, specific provisions were down £84m, 23%.

Profit before tax for 1994 was up 61% to £1,592m from £989m in 1993 largely as a result of a substantial reduction in bad and doubtful debt provisions.

Results by nature of income and expense

Operating income

	Year ended 31 December					
	1995		1994		1993	
	£m	**%**	£m	%	£m	%
Interest receivable	**11,096**		9,465		9,802	
Interest expense	**(7,215)**		(5,768)		(6,114)	
Net interest income	**3,881**	**53**	3,697	53	3,688	53
Non-interest income	**3,381**	**47**	3,239	47	3,307	47
Total operating income	**7,262**	**100**	6,936	100	6,995	100

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Operating income by sector			
NatWest UK	**3,475**	3,458	3,544
NatWest Markets	**1,231**	1,090	1,150
International Businesses	**1,577**	1,560	1,509
Bancorp	**979**	828	792
Total operating income	**7,262**	6,936	6,995

Operating income continued

Operating income rose by 5% with contributions from all sectors, most notably NWM, where there was significant growth in dealing profits and Bancorp, which benefited from a number of one-off asset sales and its two acquisitions. At NatWest UK, higher net interest income was largely offset by reduced fees and lower embedded value profit at NatWest Life. In IB, the healthy performances of Ulster Bank and Lombard were masked by the sale of F van Lanschot ('FvL') at the end of 1994. Against a background of subdued lending demand, 1994 Group operating income was broadly flat on 1993.

Net interest income

Net interest income increased by 5% from £3,697m in 1994 to £3,881m. Notwithstanding competitive pressures on asset pricing, the Group has maintained its overall net interest margin at 2.6% through active management of rates paid on deposits. In 1994, net interest income rose by £9m.

	Year ended 31 December		
	1995 %	1994 %	1993 %
Gross yields (i)			
Domestic	**8.1**	7.4	8.1
International	**6.8**	6.0	6.6
Group	**7.4**	6.7	7.3
Net interest margins (ii)			
Domestic	**3.6**	3.6	3.7
International	**1.6**	1.7	1.8
Group	**2.6**	2.6	2.8
Interest spreads (iii)			
Domestic	**2.6**	2.8	2.9
International	**1.0**	1.0	1.0
Group	**1.8**	1.9	2.0
	£bn	£bn	£bn
Average interest-earning assets			
Domestic	**73.1**	69.8	68.2
International	**76.4**	71.7	65.4
Group	**149.5**	141.5	133.6
Treasury assets (included within average interest-earning assets) (iv)			
Domestic	**18.6**	17.8	16.9
International	**42.4**	38.8	31.7
Group	**61.0**	56.6	48.6

(i) The interest rate earned on average interest-earning assets.

(ii) Net interest income expressed as a percentage of average interest-earning assets.

(iii) The difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities.

(iv) Treasury assets comprise loans to banks, treasury and other eligible bills, and debt and equity securities.

Lending in the domestic retail franchise (NatWest UK, Lombard, Ulster Bank, Coutts UK and Isle of Man Bank) rose by £3.6bn in 1995. In NatWest UK, growth was largely confined to the commercial and mortgage books. Margins on savings products were widened. Lombard experienced higher demand for personal point-of-sale and business finance. In buoyant economic conditions, customer loans at Ulster Bank grew significantly. At NWM, there was a reduction in net interest income from corporate lending, as Global Financing continued to manage down low

Net interest income continued

yielding assets, although this was more than offset by an increase in specialised finance products and money market activity. At Bancorp, margins declined due to competitive pressures on loan and deposit rates, a higher proportion of lower yielding liquid assets and greater reliance on wholesale funding. However, its net interest income was up, benefiting from a full year's contribution from the two acquisitions.

The Group's net interest margin was unchanged on 1994. Wider margins on savings products at NatWest UK were offset by competitive pressures on the margins on fixed and managed rate lending. During 1994, an increase in lower risk, finer margin treasury assets as a proportion of interest-earning assets was primarily responsible for a decline of 0.2% in net interest margin compared with 1993.

There was no change in the domestic net interest margin compared with 1994 as the increase in savings margins was negated by pressures on lending margins, primarily in NatWest UK and Lombard. Interest spread fell due to the decline in margin on fixed and managed rate lending and new fixed rate loans being written at lower yields more than offsetting the improvement in savings margins. In 1994, an increase in the proportion of treasury assets as a percentage of interest-earning assets, narrower margins at Lombard in the second half of the year and replacement of maturing loans at lower fixed rates combined to reduce the domestic interest margin by 0.1% on 1993.

The decline in the international net interest margin reflected the fall in the margin at Bancorp and a small increase in the proportion of lower risk, finer margin treasury assets. Interest spread was unchanged. The decrease in the international net interest margin in 1994 over 1993 was due to the increase in the proportion of treasury assets to 54% from 48%, partially offset by an improvement in Bancorp's net interest margin due to an increase in its consumer loan portfolio and a fall in the amount of interest lost on non-accruing loans.

Non-interest income

Non-interest income rose by 4% to £3,381m in 1995 compared with a fall of 2% in 1994. It was 47% of total operating income in 1995, as in 1994 and 1993.

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Dividend income	**23**	20	20
Fees and commissions			
Receivable	**2,661**	2,656	2,621
Payable	**(432)**	(388)	(328)
Net fees and commissions	**2,229**	2,268	2,293
Dealing profits			
Foreign exchange	**240**	187	239
Securities trading	**193**	121	131
Other dealing profits	**144**	143	138
Total dealing profits	**577**	451	508
Other operating income	**552**	500	486
Total non-interest income	**3,381**	3,239	3,307

Non-interest income continued

Net fees and commissions fell by 2%, following the sale in 1994 of FvL and NatWest Registrars. At NatWest UK, card income rose by 15% reflecting strong growth in credit and debit card usage and in acquiring transactions from retailers. The greater volume resulted in a 12% increase in card fees payable. Transmission income declined, however, as a result of lower volumes. NatWest UK's policy of discouraging personal unauthorised borrowing led to a further reduction in income for 1995, although it continues to provide positive benefits in terms of improved customer relations and better asset quality. Ulster Bank was aided by the acquisition of NCB Group ('NCB') in 1994 and Lombard profited from increased sales of credit insurance. At NWM, fees were down slightly reflecting lower levels of underwriting and corporate lending facilities.

Dealing profits, which derive largely from customer-driven transactions, rose 28%. High volatility boosted foreign exchange income. Equities, equity derivatives and, to a lesser extent, debt securities were the principal contributors to the rise in securities trading profits. Other dealing profits, primarily from rate risk management products, were flat. The growth in volumes was neutralised by the decline in spreads. 1994 dealing profits were down 11% on 1993 largely due to reduced volatility and narrower spreads in foreign exchange markets.

Other operating income rose by £52m, 10%. An increase in servicing and maintenance income at Lombard was more than offset by the effect of the partial disposal of one of its plant hire subsidiaries now accounted for as an associate. Investment securities gains, largely at Bancorp, were up £54m, and the sale of part of its mortgage and credit card portfolios added a further £24m. Ventures realisations were £15m higher. However, depressed market conditions led to a decline of £26m in embedded value profits from life assurance operations. Profit on divestments of £39m versus £3m last year, compensated for loss of income from businesses sold and reduced profits on sales of surplus property.

Operating expenses

Operating expenses were up by 3% to £4,929m compared with £4,798m in 1994 (1993 £4,588m). Roughly half of the increase in 1995 was attributable to higher restructuring costs as the Group reshaped its businesses to secure future profitability. Excluding these costs, operating expenses were up just over 1% in 1995, notwithstanding continuing investment to expand, mainly in NWM and Coutts International. Cost management and productivity initiatives contributed to the reduction in the cost:income ratio to 67.9% from 69.2%. Operating expenses in 1994 were 5% higher than 1993 as the Group continued to invest to make existing businesses more productive and generate future income.

Operating expenses by sector

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Core expenses			
NatWest UK	**2,414**	2,498	2,436
NatWest Markets	**788**	676	586
International Businesses	**1,021**	1,004	963
Bancorp	**541**	521	497
Total core expenses	**4,764**	4,699	4,482
Restructuring costs			
NatWest UK	**125**	70	84
International Businesses	**20**	16	15
Bancorp	**20**	13	7
Total restructuring costs	**165**	99	106

Operating expenses by sector continued

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Total operating expenses			
NatWest UK	**2,539**	2,568	2,520
NatWest Markets	**788**	676	586
International Businesses	**1,041**	1,020	978
Bancorp	**561**	534	504
Total operating expenses	**4,929**	4,798	4,588

In NatWest UK, although restructuring costs were up by £55m, total operating expenses declined, notably staff costs, partly due to job savings achieved through technological improvements and the streamlining of work processes. NWM's expenditure increased by 17% because of higher performance related bonuses and expansion. Costs in IB were marginally greater. Expenses associated with volume growth in Lombard and Ulster Bank and the development of Coutts International were partially offset by the disposal of FvL in December 1994. At Bancorp, as a result of the acquisitions, higher restructuring expenses and increased promotional expenditure, costs grew by 5%.

Operating expenses by type

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Core expenses			
Staff costs	**2,649**	2,676	2,521
Other administrative expenses	**1,112**	1,052	979
Depreciation and amortisation	**296**	290	292
Other operating charges	**707**	681	690
Total core expenses	**4,764**	4,699	4,482
Restructuring costs			
Staff costs	**150**	87	96
Other administrative expenses	**14**	10	10
Other operating charges	**1**	2	–
Total restructuring costs	**165**	99	106
Total operating expenses			
Staff costs	**2,799**	2,763	2,617
Other administrative expenses	**1,126**	1,062	989
Depreciation and amortisation	**296**	290	292
Other operating charges	**708**	683	690
Total operating expenses	**4,929**	4,798	4,588

Excluding higher restructuring costs, staff costs fell by £27m benefiting from reduced employee numbers in NatWest UK, lower pension costs following the triennial actuarial valuation, and divestments. These were, however, counter-balanced by recruitment to support expansion in NWM, Lombard and Ulster Bank, higher performance related rewards and an increase of £8m to £90m in the amount allocated under the Group's profit sharing scheme for staff. In 1994, staff costs rose 6% over 1993 due to the increase in the amount paid out under the profit sharing scheme, reshaping of the mix in the staff skill base to put more individuals in customer contact roles and expansion in NWM.

Operating expenses by type continued

Other administrative expenses rose by 6%. Higher professional and consultancy fees were incurred, mainly in NatWest UK, to improve productivity and customer service. In addition, investment in new technology, the enhancement of telephone banking and expansion of NWM and Lombard also contributed to the increase.

The growth in other operating charges of 4% relates to higher service and maintenance costs at Lombard, an increase in rents payable following the opening of new offices by Coutts International and Ulster Bank, and a rise in property related costs at NWM. A further provision of £30m was made for pension transfers, making a total of £62m.

Staff numbers

Staff numbers declined by 5,600, 6%. Staff positions have been eliminated from more mature operations which are benefiting from the investment in technology and productivity improvements. NatWest UK, Group Services and other group units shed in aggregate 6,100 staff. Bancorp achieved a net reduction of 200, despite the acquisition of Central Jersey. At the same time, resources are being added in expanding businesses notably NWM, Lombard and Ulster Bank. During 1995, the numbers employed in these increased by 700. In 1994, Group employees fell by a net 4,000 which included 1,000 following the sale of FvL.

	Year ended 31 December		
	1995	1994	1993
NatWest UK	**48,100**	52,500	55,900
NatWest Markets	**6,100**	5,900	5,350
International Businesses			
Lombard	**4,700**	4,300	4,000
Ulster	**3,800**	3,700	3,500
Coutts & Co Group	**3,200**	3,200	3,100
Other	**2,000**	2,200	3,800
Total International Businesses	**13,700**	13,400	14,400
Bancorp	**8,000**	8,200	7,400
Group Services	**5,700**	6,800	7,750
Head Office	**200**	600*	600*
Total staff (full-time equivalent)	**81,800**	87,400	91,400

* Includes Group Audit now devolved to sectors.

Bad and doubtful debt provisions

As more fully described on page 33, senior management and the board of directors determine the amount necessary to maintain an adequate allowance for bad and doubtful debts. The tables on pages 34 and 35 disclose details of the movements in the Group's provisions for bad and doubtful debts for the years 1991 through to 1995 and the closing provisions for bad and doubtful debts as a percentage of total loans and advances to customers in those periods.

	Year ended 31 December		
Bad and doubtful debts	**1995 £m**	1994 £m	1993 £m
Specific provisions			
NatWest UK	**288**	372	857
NatWest Markets	**114**	66	90
International Businesses	**125**	159	212
Bancorp	**62**	83	189
Total specific provisions	**589**	680	1,348

Bad and doubtful debt provisions continued

Bad and doubtful debts continued	Year ended 31 December **1995** **£m**	1994 £m	1993 £m
General provision			
NatWest UK	**55**	(1)	–
NatWest Markets	**–**	(31)	1
International Businesses	**(5)**	(4)	(2)
Bancorp	**–**	(28)	(85)
Total general provision	**50**	(64)	(86)
Total provisions			
NatWest UK	**343**	371	857
NatWest Markets	**114**	35	91
International Businesses	**120**	155	210
Bancorp	**62**	55	104
Total provisions	**639**	616	1,262

The total charge for bad and doubtful debts rose marginally to £639m from £616m in 1994 (1993 £1,262m) reflecting one specific provision in NWM and an increase in the general provision. Excluding these, underlying provisions in all business sectors fell substantially. Enhanced risk assessment techniques implemented in recent years and more stable economic conditions in the Group's main markets were the principal reasons for this improvement.

Specific provisions in NatWest UK declined 23%, with personal and small business sectors recording significant improvements. Debt under the control of recovery departments fell sharply especially in the mid-corporate sector, but the relatively static commercial and residential property markets have continued to constrain recovery levels on impaired debts. In 1994, there were significant reductions in provisions in the mid-corporate and small business sectors, with all industry categories contributing, most notably manufacturing and property.

NWM's 1995 charge for bad debts was dominated by one specific provision. 1994 reflected a significant improvement on 1993 as a result of recovering asset values and better trading conditions in the large corporate sector. In IB, lower provisions in Spain, Germany and at Coutts UK contributed to the 23% reduction in 1995. IB's provisions fell 26% in 1994. At Bancorp, provisions were up £7m in 1995 mainly relating to credit card debts; part of this portfolio has now been divested. Bancorp's provisions fell 47% in 1994 reflecting improved asset quality.

Asset quality, as measured by the Group's internal rating systems, continued to improve during 1995, although the pace of improvement has slowed as borrowers encounter less propitious economic and trading prospects. Accordingly, it was concluded that an increase of £55m in the general provision for NatWest UK was appropriate in 1995. There were general provision releases in 1994, reflecting improved asset quality in NWM and Bancorp.

Taxation

The Group's tax charge for 1995 was £513m compared with £459m for 1994 and £346m for 1993. The following table provides a reconciliation between the amount that would result from applying the standard UK corporation tax rate to profit before tax and the reported tax charge for the year.

Operating and financial review – Business sectors

Taxation continued

	Year ended 31 December 1995 £m	1994 £m	1993 £m
United Kingdom corporation tax expense at 33%	**578**	525	326
Adjustments for prior years	**(33)**	6	23
Overseas losses for which relief is currently not available	**14**	19	9
Overseas profits covered by losses brought forward	**(17)**	(77)	(54)
Loss of double taxation relief	**–**	7	25
Recognition of US deferred tax assets	**–**	1	(47)
Tax free gain on sale of shares in 3i Group plc and F van Lanschot Bankiers NV	**–**	(14)	–
Provisions for losses on termination and disposal of retail operations	**–**	–	52
Other items	**(29)**	(8)	12
Tax charge as disclosed in the profit and loss account	**513**	459	346
Effective tax rate	**29%**	29%	35%

Business sectors

NatWest UK

	Year ended 31 December 1995 £m	1994 £m	1993 £m
Operating income	**3,475**	3,458	3,544
Operating expenses	**(2,539)**	(2,568)	(2,520)
Trading surplus	**936**	890	1,024
Provisions for bad and doubtful debts	**(343)**	(371)	(857)
Other	**78**	72	13
Profit before tax	**671**	591	180
Cost:income ratio	**73.1%**	74.3%	71.1%
Weighted risk assets	**£41.5bn**	£39.5bn	£39.4bn

NatWest UK reported profit before tax of £671m for the year ended 31 December 1995 compared with £591m in 1994 (1993 £180m). Higher operating income, lower operating expenses and reduced provisions for bad and doubtful debts led to a 14% improvement in profit before tax, despite increases in restructuring charges (£55m) and the general provision (£55m). Profit before tax in 1994 was up £411m on 1993, as the substantial reduction in provisions for bad and doubtful debts more than offset the 13% reduction in trading surplus.

Competition in the UK financial services industry has intensified in the 1990s. NatWest UK has been reorganised to improve focus and accountability, with each of the six business units positioned to anticipate and respond to changes in its markets.

NatWest UK's strategy is aimed at deriving maximum advantage from the strength, size and diversity of its franchise encompassing 7.5 million personal and business customers, over 2,200 branches and one of the largest ATM networks. Almost one in three businesses in the UK banks with NatWest.

Retail and corporate banking units have maintained their profitable market shares. Mortgage services and life and investments have been affected by economic uncertainty and low customer demand. Initiatives to generate staff related savings have been implemented, and productivity, as measured by trading surplus per employee, has increased 15%.

NatWest UK continued

Operating income showed a modest increase. Net interest income rose 5% from wider margins on deposits, growth in the mortgage book and higher corporate lending. These benefits were partially eroded by competitive pressures on lending margins. Non-interest income fell by 5%. Despite a rise in commission income from increased credit and debit card usage, overall fees and commissions declined by 3%. In part, this was due to the sale of NatWest Registrars in 1994 and lower transmission income for both small businesses and mid-corporates. In addition, NatWest UK has continued to manage down personal unauthorised borrowings, resulting in a £25m reduction in fee income. Embedded value profits from life assurance were substantially lower in a difficult market.

Operating expenses declined by 1%, notwithstanding higher restructuring costs and investment to enhance customer service and achieve greater efficiencies through technology. Excluding restructuring costs, operating expenses fell 3% aided by lower pension contributions. A further provision of £30m for possible compensation relating to pension transfers was raised in 1995 making a total of £62m. Staff numbers fell by 4,400 (net), compared with 3,400 in 1994, mainly in retail banking, reflecting productivity improvements, reorganisation and streamlining of the branch network. Over the last year, the number of branches reduced by 193 to 2,223 (1994 137 to 2,416).

Retail Banking has maintained leading market shares of 19% and 28% in the personal and small business sectors respectively. Lending demand has remained subdued due to economic uncertainty and lack of investment by small businesses. Strategy is focused on strengthening its position through relationship management and improved customer service. In 1995, Area Managers were appointed to bring accountability and decision making closer to the customer. In a pilot exercise, staff were seconded to small businesses to foster closer ties and enhance understanding of their needs. The variety of distribution channels was extended to include two financial services stores, which are open 7 days a week in prominent shopping centres and through the installation of additional ATM machines at third party sites. NatWest UK's telephone banking service, PrimeLine, was redeveloped and enhanced for roll out nationally in 1996.

Corporate Banking has benefited in 1995 from its strong relationship management capabilities and extensive national network of offices. The introduction of several innovative products, notably BankLine, and growth in corporate lending (up 12%), have strengthened its position as a leading provider of services to the mid-corporate market.

Card Services has, in spite of increased competition, maintained its strong position as a major issuer of credit cards in the UK. Growth has been seen in the card acquiring market. Commission income rose by 15%.

Mortgage Services has been awarded 'Best Overall Lender' for the second successive year and 'Best High Street Bank' for the fourth consecutive year by Your Mortgage magazine. Despite continued growth in the mortgage book, up 4% to £12.4bn at 31 December 1995 (1994 £11.9bn; 1993 £10.8bn), pre-tax profit for NatWest Home Loans fell to £113m from £160m in 1994 (1993 £132m). The sluggish housing market has led to fierce competition resulting in declining margins.

Life and Investments' performance has been affected by the very depressed market for life assurance, pensions and investment products. Adverse publicity about the industry, a lengthening of the sales process resulting from regulatory changes introduced earlier in the year and low consumer confidence reduced new business income for life and unit trust products by 17%. Embedded value profit from the life assurance business fell by 43% to £34m from £60m in 1994 (1993 £60m). The number of new policies issued by NatWest Life was 94,000 compared with 135,000 in 1994. Vigorous action has been taken to control costs and staff numbers have declined by 19%.

NatWest UK continued

Insurance Services has a major presence in the general insurance market and also provides independent advice on life and pension products. Pre-tax profit remained flat at £54m (1994 £55m; 1993 £52m) with higher income mainly from credit protection policies being offset by investment in new systems. A direct telephone service for household insurance was launched in January 1995. Results are encouraging with conversion rates above the industry norm and policy sales increasing by 24% in a very competitive market. Retention levels of over 85% in both household and motor insurance remain higher than the industry average.

NatWest Markets

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Operating income	**1,231**	1,090	1,150
Operating expenses	**(788)**	(676)	(586)
Trading surplus	**443**	414	564
Provisions for bad and doubtful debts	**(114)**	(35)	(91)
Other	**(32)**	(20)	(20)
Profit before tax	**297**	359	453
Cost:income ratio	**64.0%**	62.0%	51.0%
Weighted risk assets	**£32.6bn**	£32.3bn	£32.9bn

NWM reported a profit before tax of £297m, down 17% from £359m in 1994 (1993 £453m). Trading surplus improved by 7% from £414m to £443m, but a substantial specific provision led to a decline in pre-tax profit. The policy of organic development has inevitably led to an increase in operating expenses in the UK and overseas. There has been continued investment in technology and control infrastructure as well as front office sales and trading personnel. Performance related bonuses are up reflecting higher operating income. 1994 profit before tax was down 21% on 1993, reflecting lower foreign exchange and money market income and increased operating expenses as NWM invested in staff and new offices. This was only partially offset by reduced provisions for bad and doubtful debts.

NWM is developing through organic growth, supplemented by infill acquisitions and strategic alliances. It has successfully built a diversified and stable income stream. As a major market maker, however, NWM will remain exposed to fluctuations in spite of the largely customer-driven nature of its activities. During 1995, the purchase of Gleacher considerably strengthened investment banking and corporate finance activities in the US. In addition, a joint venture was formed with The Board of Executors, one of South Africa's leading financial institutions. NatWest Investment Services, the global custody operation, was sold during the year in line with the strategy of concentrating on core businesses. On 19 February 1996, the Group announced the proposed acquisition of Gartmore, a UK based investment management company, for a cash consideration of approximately £472m.

Global Financial Markets increased income significantly in foreign exchange and related derivatives. Its strong position in the sterling money markets has provided a solid platform for expansion into other currency money markets, the revenue from which grew by over 30% compared with 1994.

NatWest Markets continued

Global Investment Banking reported an overall rise in revenues with growth in corporate finance transactions and higher dealing profits principally relating to derivatives, partially offset by reduced primary activity. Emphasis on cross-product, industry-focused teams, involving corporate financiers and highly regarded research analysts, was a key factor in this growth.

Global Asset Management income was ahead of 1994 in both investment management and ventures. During 1995, there was major expenditure on infrastructure and personnel to consolidate and co-ordinate fund management activities worldwide. The proposed acquisition of Gartmore will enable the Group to expand this operation.

Ventures achieved a record level of new investments of £130m (1994 £107m; 1993 £61m) and has continued its development in the European markets. Profits on realisations were £71m compared with £56m in 1994 (1993 £71m).

Global Financing has continued to focus on improving returns from the assets employed. Last year, it shed £1.5bn of low yielding loans and commitments (making a total of almost £8bn over the last five years) but increased more complex and profitable specialised transactions. These depress pre-tax profits but are designed to provide attractive post-tax returns.

International Businesses

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Operating income	**1,577**	1,560	1,509
Operating expenses	**(1,041)**	(1,020)	(978)
Trading surplus	**536**	540	531
Provisions for bad and doubtful debts	**(120)**	(155)	(210)
Other	**13**	18	(149)**
Profit before tax	**429**	403*	172*
Cost:income ratio	**66.0%**	65.4%	64.8%
Weighted risk assets	**£21.9bn**	£19.0bn	£19.5bn

* Including £42m in 1994 and £24m in 1993 relating to FvL.

** After a £159m provision for withdrawal from retail operations in France and Australia.

Continued growth in operating income and significantly lower provisions for bad debts led to a 6% increase in profit before tax from £403m in 1994 to £429m (1993 £172m). The improvement in pre-tax profit was 19% excluding £42m relating to FvL, a Dutch bank, in which the Group's 78% interest was sold in December 1994.

Lombard, with more than 3 million personal and commercial customers, is the UK's largest finance house. Its activities complement those of NatWest UK in the motor, commercial and personal sectors. Lombard recorded a pre-tax profit of £235m compared with £221m in 1994 (1993 £178m). New business volumes were up 19% on 1994, with strong gains in both Business and Personal sectors. However, margins remained under pressure due to competition. Operating expenses rose reflecting increased staff numbers to accommodate both substantial business growth and implementation of major new computer systems. The provision for bad debts, although up slightly, showed an improvement in relation to average customer balances due to benefits of enhanced credit assessment techniques, including automated credit scoring.

International Businesses continued

Ulster Bank produced a record pre-tax profit of £120m versus £103m in 1994 (1993 £93m). Operating income increased 17% due to higher loan volumes, in both corporate and retail sectors, coupled with the acquisition of NCB. The latter, together with the first phase of a voluntary severance programme, contributed to a rise in operating expenses of 19%. Ulster Bank continues to extend its retail franchise through branch openings in the Republic of Ireland. The corporate business, with a sharper focus brought about by the the creation of Ulster Bank Markets, is also being developed.

Coutts & Co Group offers private banking and investment management services in major countries worldwide. Costs of development led to a reduction in profit of £13m to £55m (1993 £79m). Coutts UK increased its pre-tax profit to £39m compared with £37m last year (1993 £27m), reflecting a rise in commission income and lower provisions for bad debts. Pre-tax profit at Coutts International declined to £16m from £31m in 1994 (1993 £52m) as investment to expand in key markets continued. New offices were opened in San Diego, Buenos Aires and Vienna; the operations in Switzerland were restructured.

Isle of Man Bank's pre-tax profit rose to £26m from £21m in 1994 (1993 £22m) reflecting the successful first year of operation for its offshore finance division and a strong contribution from its corporate and mortgage business.

Profit on sale of the investment in Banca Creditwest e dei Comuni Vesuviani SpA and lower bad debt provisions led to a better performance in the remaining business units with losses in aggregate declining to £7m against £52m in 1994 (1993 £224m, including a £159m provision for withdrawal from retail operations in France and Australia). This improvement was most pronounced in Europe, principally Spain, where, in addition to better asset quality, there were benefits from business growth and the successful restructuring of the cost base.

Bancorp

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Operating income	**979**	828	792
Operating expenses	**(561)**	(534)	(504)
Trading surplus	**418**	294	288
Provisions for bad and doubtful debts	**(62)**	(55)	(104)
Profit before tax	**356**	239	184
Cost:income ratio	**57.3%**	64.5%	63.6%
Weighted risk assets	**£14.0bn**	£12.6bn	£11.6bn

Bancorp's pre-tax profit of £356m was 49% higher than the £239m reported in 1994 (1993 £184m) due to securities gains and asset sales, combined with a full year's contribution from the acquisitions of Citizens First and Central Jersey. Excluding these, performance was flat. Net interest income improved, but the net interest margin declined due to narrower deposit and loan spreads, a higher proportion of lower yielding liquid assets and greater reliance on wholesale funds. Non-interest income was boosted by gains on the sales of (i) investment securities, £57m (1994 £5m; 1993 £42m), (ii) mortgage loan and credit card portfolios, £24m and (iii) Tilden Financial Corporation, an equipment leasing subsidiary, £9m. Operating expenses were up by 5% largely due to the cost of integrating the acquisitions, processing increased volumes and higher promotional expenditure which were partially offset by lower assessments by the Federal Deposit Insurance Corporation. 1994 pre-tax profit was up 30% to £239m with performance benefiting principally from lower bad and doubtful debt provisions and a 5% increase in operating income.

Operating and financial review – Looking forward

Return from shareholders' perspective

Shareholders' funds

The retention for the year of £731m was the main factor contributing to the £792m increase in shareholders' funds to £7,213m at 31 December 1995.

Dividend policy and earnings per ordinary share

The Group's objective is to deliver real growth in dividends over time. Absolute levels will be set with reference to current and prospective performance whilst ensuring an adequate level of retentions to fund business growth in attractive markets. Dividends in 1995 increased by 17% to 25.3p from 21.6p per ordinary share, compared with a rise in the annual average of the all-items retail price index ('RPI') for the year of 3.5%. 1994 dividends grew by 17% from 1993 (RPI 2.5%).

Earnings per ordinary share is calculated by dividing the Group profit attributable to ordinary shareholders of £1,177m (1994 £1,055m; 1993 £583m) by the weighted average number of ordinary shares in issue during the year of 1,741m (1994 1,676m; 1993 1,653m). Earnings per ordinary share was 67.6p, up 7% on 62.9p in 1994, which was itself 78% higher than 1993's 35.3p.

Total return to shareholders

Total return to shareholders encompasses both dividend payments and changes in share price. Cumulatively, the total return to shareholders of the Bank has outperformed the FT-SE 100 share index by 52% for the period 1991 to 1995.

Looking forward

A major strength of the Group is its portfolio of complementary businesses. This presents opportunities to enhance the linkages between them, increasing scope for cross-selling and achieving greater efficiencies.

Group strategy is to:

- develop commercial banking and retail financial services, concentrating operations in markets where it is currently strong and can remain so, notably in the UK and the Republic of Ireland;
- enhance the corporate and investment banking strengths of NWM, establishing it as a premier investment bank in Europe and the leading foreign owned firm in the US, with a significant presence in Asia-Pacific; and
- build a strong and profitable global private banking franchise with Coutts & Co Group, focusing on the key markets of Europe, the Americas and Asia-Pacific. Although recent performance has been affected by development costs, it is considered that this activity is attractive in the medium- to long-term.

The value of Bancorp, the Group's US retail and commercial banking business, has grown significantly over the last four years. However, following the spate of mergers and consolidation by US banks, it became clear that Bancorp could not sustain its competitive position without further continuous and substantial investment which would not have yielded an acceptable return. It was decided to divest and release resources for areas where greater value can be added. In December 1995, the Group announced the sale of the main operating units of Bancorp to Fleet, a major US financial services company. The transaction, with an estimated value of $3.56bn, is expected to be completed in the second quarter of 1996.

Looking forward continued

The Group remains strongly committed to the US market through NWM and Coutts & Co Group. At 31 December 1995, these operations together employed over 1,200 people there and had total assets of approximately £7bn.

Asset and liability management ('ALM')

The Group's ALM Committee determines overall ALM strategy. In addition, the major business units and banking subsidiary undertakings have their own ALM committees which operate within the framework of Group policies.

Liquidity

Effective liquidity management meets prudential needs and provides the means both to pursue profitable business opportunities and to comply with regulatory requirements. The Group's liquidity policy takes into account both sterling and currency activities. Expected cash flows out to one month are managed within prescribed limits and liquid assets are held to meet the Group's obligations when they fall due.

The Bank of England has recently completed a review of liquidity. With effect from 2 January 1996, a minimum liquidity standard was introduced, initially to encompass sterling operations only. Under the Bank of England rules, the Group is required to maintain at all times sufficient high-quality liquid assets to cover potential net sterling cash outflows from the Bank and its UK banking subsidiary undertakings for five business days.

Sterling and foreign currency retail deposits (principally current accounts and savings deposits payable on demand or at short notice) form an important part of the Group's liability base. The number and diversity of depositors represent a stable source of funding. Liquidity is actively managed through dealings in the major world money markets, in which the Group is a significant participant, thereby enabling ready access to wholesale funding. Time deposits obtained in inter-bank financial markets represented 25.5% of average total interest-bearing deposits in 1995 compared with 25.2% in 1994 and 24.8% in 1993.

Interest rate sensitivity gap

Exposure to interest rate movements arises where there is an imbalance between rate- and non-rate- sensitive assets, liabilities and off-balance sheet items. The following table is management's estimate of the interest rate sensitivity gap for the Group as at 31 December 1995 and is not necessarily indicative of the positions at other times. Such positions are adjusted in response to market conditions. Variations in interest rate sensitivity may exist within repricing periods and among the currencies in which the Group has positions. Assets and liabilities are included at the earliest date at which the applicable interest rate can change.

Interest rate sensitivity table at 31 December 1995

	Within 3 months £m	After 3 months but within 6 months £m	After 6 months but within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Non interest-bearing funds £m	Total £m
Assets							
Loans and advances to banks	19,534	5,353	3,088	293	41	466	28,775
Loans and advances to customers	52,796	5,476	4,816	13,408	8,884	2,038	87,418
Treasury and other eligible bills	7,695	1,660	192	46	56	–	9,649
Debt and equity securities	4,862	1,660	2,090	4,478	2,393	2,936	18,419
Other assets	203	117	226	589	–	22,876	24,011
Total assets	85,090	14,266	10,412	18,814	11,374	28,316	168,272
Liabilities							
Deposits by banks	28,580	1,636	860	219	40	776	32,111
Customer accounts	68,051	2,279	1,319	1,068	144	15,526	88,387
Debt securities in issue	12,713	1,024	321	469	100	–	14,627
Subordinated liabilities	2,738	296	–	160	1,598	–	4,792
Other liabilities	70	58	188	1,202	1,151	18,473	21,142
Shareholders' funds	–	–	–	–	–	7,213	7,213
Total liabilities	112,152	5,293	2,688	3,118	3,033	41,988	168,272
Off-balance sheet items	7,458	2,093	(1,625)	(4,636)	(2,753)	(537)	–
Interest rate sensitivity gap	(19,604)	11,066	6,099	11,060	5,588	(14,209)	–
Cumulative interest rate sensitivity gap	(19,604)	(8,538)	(2,439)	8,621	14,209	–	

The above table provides only an indication of the sensitivity of the Group's earnings to movements in interest rates and reflects the aggregation of both structural and trading account positions in all currencies. The actual effect on earnings will be determined by the currency and contractual or behavioural profile of assets and liabilities, in addition to the size and timing of interest rate movements. The table does not indicate the effect of interest rate options used by the Group to hedge its own positions (see Derivatives on page 26). A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment.

Risk management

Structural

The composition of the Group's balance sheet requires management of the effects of movements in interest rates and exchange rates on structural exposures.

Structural foreign currency translation exposure arises from the funding of investments in overseas subsidiary undertakings. The Group's policy is to match wherever possible the net foreign currency assets and borrowings in the same currency. The approach is subject to regular review by the Group's ALM Committee.

Risk management continued

As a result of the Group's international operations, potential exposure to exchange rates arises. Within the Group, offsets occur due to foreign currency earnings and interest expense relating to non-sterling denominated debt capital. The net exposure in each currency is managed to recognise these offsets and action is taken with the aim of ensuring that the Group's income is not materially exposed to movements in exchange rates.

Structural interest rate risk arises from the gap positions created by the assets and liabilities generated at differing maturities across the Group through normal commercial banking. The prime objective of structural interest rate risk management is to manage the sensitivity of the market value of the Bank's equity to future changes in interest rates and also to stabilise the Bank's short-term earnings against interest rate movements. The interest rate positions of the Group are regularly monitored and controlled within defined limits.

Trading

The Group maintains treasury, capital markets and equity portfolios to meet customer demand and to take advantage of market opportunities. The Group is an active participant in the foreign exchange and other derivative markets, described below, where earnings are generated through the spreads achievable on high volume trading, conducted principally by NWM. The Group has comprehensive policies on trading risk, managed through limit and other control procedures to restrict the effect of adverse movements in interest rates, foreign exchange rates, equity prices and other market variables, including liquidity, on the dealing portfolio. The Group's policy is not to take substantial proprietary trading positions, albeit trading risk arises as a consequence of the requirement to provide market liquidity to customers on a consistent basis.

Credit

Group Risk has specific responsibility for the implementation of Group credit policy for all activities (including securities transactions and derivatives) as established by the Group Risk Policy Committee and for monitoring geographic, product and market sector concentrations within the Group's portfolio of credit risks. Day-to-day credit management is conducted by dedicated teams in each business unit, where there are continual reviews of the effectiveness of credit control practices and procedures. Particular attention is paid to the manner in which new risks are assumed, on-going management and monitoring of credit risks within the book, and the structure and composition of the loan portfolio in relation to market opportunities, the competitive environment and economic projections.

Derivatives

The use of derivatives has expanded rapidly in recent years because they are important risk management tools for banks and their customers. The principal derivatives used by the Group are interest and exchange rate related contracts.

Interest rate related contracts include swaps, forward rate agreements and options. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Forward rate agreements are contracts for the payment of the difference between a specified interest rate and a reference rate on a notional deposit at a specific future settlement date; there is no exchange of principal.

Exchange rate related contracts include currency swaps, forwards and options. Currency swap transactions generally involve the exchange of interest payment obligations denominated in different currencies; the exchange of principal can be notional or actual. Forward foreign exchange contracts are contracts for delayed delivery of currency at a specified future date.

These contracts may be settled by actual delivery or by payment of the difference between the contractual exchange rate and the market exchange rate on the settlement date.

Interest rate and foreign exchange rate options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price and at, or within, a specified period of time. As a writer of options, the Group receives a premium and then bears the risk of an unfavourable change in the price of the financial instrument underlying the option.

The Group uses derivatives as an integral part of its trading activities (to meet the needs of customers and for proprietary trading) and to manage its own interest and exchange rate positions. The Group's policy is not to take substantial proprietary positions in derivatives. Most of the Group's derivative trading transactions have been entered into to meet customer demand and to hedge these and other trading positions.

The Group has established clear risk policies, including limits, reporting lines and control procedures, which are reviewed regularly by both executive and board committees. Risk control functions in NWM, where the Group's trading activities are focused, are independent of the trading units. Any change in limit size has to be advised to and approved by the independent risk functions. The introduction of new products is subject to review by representatives from the risk control, internal audit, compliance, finance and operational support functions.

Risks exist principally from the failure of counterparties to meet the terms of their contracts (credit risk) and from movements in interest rates, foreign exchange rates and values of securities (market risk).

Credit risk

Credit risk arises when market movements are such that the deal has a positive value to the Group so that it would incur a cost if the contract had to be replaced in the event of counterparty default. This exposure is dynamic; it will change with the reference rates that determine the contract value.

The following table provides an overview of the Group's exchange rate related and interest rate related derivative portfolios. It includes all trading and non-trading contracts with third parties. Notional principal amounts are the amounts of the underlying physical or financial commodity on which the contract is based and represent volumes of outstanding transactions. The gross replacement cost ('GRC') is the sum of the fair values of all contracts with positive value; this measure makes no allowance for netting arrangements. Risk-weighted amounts are calculated according to rules specified by the Bank of England, taking account of the GRC, the potential future exposure and the nature of the counterparty.

	At 31 December			
	1995		1994	
	Exchange* rate related £bn	**Interest rate related £bn**	Exchange* rate related £bn	Interest rate related £bn
Notional principal amount	**322.5**	**883.5**	297.9	572.8
Gross replacement cost	**4.1**	**7.9**	3.5	3.7
Risk-weighted amount	**2.1**	**2.3**	2.2	1.2

*Consistent with regulatory treatment, this includes equity and commodity related derivatives.

Credit risk continued

The GRC for derivatives is sensitive to both the volumes of business written and the differential between current market rates and those prevailing at the inception of the contract. The GRC for exchange rate related contracts is higher than at 31 December 1994 due to growth in notional amounts and increased exchange rate volatility in 1995. The significant increase in the GRC for interest rate contracts reflects greater volumes and the effect of lower interest rates in certain currencies, notably the Japanese Yen.

Credit exposure on derivatives is assessed as the sum of the current fair value (replacement cost) plus the potential increase in that value over the remaining life of the transaction (potential future exposure) should market conditions change. The potential future exposure is calculated using a statistical estimate of future values which could arise based on historical volatilities of the underlying market variables. Volatilities are updated on a quarterly basis and are reflected in exposure calculations for both new and existing trades.

The Group's derivatives portfolio is substantially of investment grade quality (classified by internal rating) across the maturity spectrum with over 90% of exposure falling in this category. Risk is concentrated primarily in the banking sector. Credit losses from derivatives have been minimal.

To reduce credit risk, the Group utilises a range of credit enhancement techniques, such as netting, interim cash settlement (where the current value is calculated and settled periodically during the life of the transaction) and collateralisation (where security is provided against exposure).

Market risk

NWM has a well diversified trading portfolio. In managing and quantifying market risk, derivative and non-derivative trading positions are dealt with in the same way. Similarly, no distinction is made between the market risk arising from client-driven as opposed to proprietary activity. NWM measures the market risk associated with its trading activities (irrespective of whether accounted for at fair value or on an accruals basis) by the use of value-at-risk ('VAR') models which estimate the potential loss that can occur in a 24 hour period with one tail 95% confidence i.e. on one trading day in twenty on average. Volatilities and correlations used in the VAR calculation are generally determined from data for two years and are formally reviewed each quarter. Management judgement is exercised where it is believed that historical data do not adequately reflect current conditions. A consolidated risk report, which includes market stress tests and summaries of key risk concentrations, is provided regularly to NWM executive management and to Group directors. Scenario analyses are undertaken using different market risk aggregations. Particular attention is placed on the management of option portfolios where the risk profile may be complex. Option risk is modelled using simulation and revaluation of the variables determining the option's value. Further analysis is undertaken on short-dated options and exotic products with discontinuous payoffs. During 1995, for all trading books carried at fair value, the average daily profit after charging funding costs was £1.4m; the maximum loss on any one day did not exceed £3.5m. The standard deviation of daily profits was less than £1.7m. Average daily VAR for these books (assuming zero correlation between product groups) was £3.2m for 1995. Maximum and minimum VAR were £5.2m and £1.7m respectively.

Additional disclosures on derivatives are included in note 42 to the accounts on pages 106 to 109.

Description of assets and liabilities

Loan portfolio

In the UK, the Group offers loans, including overdraft and leasing facilities, to all categories of personal and corporate customers. By virtue of its size and countrywide representation, the Group is a significant provider of credit to all major industries in the UK and, as a result, its domestic loan portfolio is broadly diversified.

The Group extends to customers overdrafts, instalment loans and loans repayable on a specified date or in specified circumstances. A substantial proportion of the Group's loans and advances to customers is by way of overdraft which is a line of credit established through the customer's current account. It is generally expected that the customer will make deposits into the account from time to time with the result that the balance can fluctuate between debit and credit positions. Interest rates on overdrafts are variable and are usually quoted in relation to the Bank's sterling base lending rate, which is a published rate that generally moves with market rates in the UK. Interest on an overdraft is normally debited directly to the customer's account, thereby increasing any debit balance or reducing any credit balance. Overdraft facilities are usually granted for a specific period of time, generally twelve months, although typically they are renewed for subsequent periods. The Group does not consider overdrafts suitable for medium or long-term financing, which it prefers to provide through loans with fixed repayment schedules.

An overdraft is not subject to a repayment schedule and, under English law, is repayable on demand unless the customer and the bank have agreed upon a different contractual basis. However, as a matter of normal banking practice, demand is made only if the customer fails to honour the conditions on which the overdraft was granted or if the customer's financial position has so deteriorated that it is necessary to take protective action. In respect of a significant portion of overdraft facilities granted to individuals and partnerships which are regulated by the UK Consumer Credit Act 1974, a bank can demand repayment only by giving seven days' prior notice.

The Group's international lending is principally to multinational and other large corporations with headquarters in the major industrialised countries which are members of the Organisation for Economic Co-operation and Development ('OECD') and to OECD governments and their agencies. In addition, Bancorp and other foreign subsidiary undertakings of the Bank participate in their local retail banking markets.

Loans and advances to customers

This section should be read in conjunction with (i) the tables of average balance sheets and interest rates on pages 48 to 50 and (ii) the discussion of the provisions for bad and doubtful debts beginning on page 33.

Loans and advances to customers continued

Net loans and advances to customers (1)(2)(3)

	At 31 December				
	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
By domestic offices					
Agriculture, forestry and fishing	**1,378**	1,331	1,366	1,636	1,755
Manufacturing and other production	**3,786**	3,822	4,557	5,245	5,625
Construction	**1,453**	1,420	1,609	2,066	2,386
Distribution, transport and hotels	**6,588**	6,168	6,088	7,614	7,750
Financial and other	**7,936**	6,352	5,545	8,234	7,777
Property companies	**2,714**	2,342	2,129	2,634	2,771
Personal – mortgage	**15,031**	14,388	13,897	12,939	11,608
– other (4)	**6,014**	5,930	6,083	6,153	7,021
Overseas	**154**	114	155	246	544
Instalment	**5,402**	4,550	3,647	2,939	3,018
Lease financing	**5,262**	4,881	4,736	4,874	4,653
Loans guaranteed by UK government agencies	**–**	195	148	226	299
Total domestic offices	**55,718**	51,493	49,960	54,806	55,207
By international offices					
United States					
Commercial and other	**6,799**	7,094	7,805	8,427	6,730
Financial and agricultural	**1,577**	1,033	1,660	1,697	1,155
Real estate – construction	**189**	189	155	320	311
– mortgage	**5,469**	3,112	1,986	1,425	1,313
Instalment	**1,207**	1,362	1,215	854	648
Lease financing	**114**	105	94	80	62
Total United States offices	**15,355**	12,895	12,915	12,803	10,219
United Kingdom international offices (5)					
Residents	**7,002**	6,684	7,014	7,004	4,756
Non-residents	**2,907**	3,296	3,159	3,470	3,996
	9,909	9,980	10,173	10,474	8,752
Other Western Europe	**5,703**	4,961	6,393	6,966	5,802
Rest of the World	**2,385**	2,725	2,990	3,471	3,020
Total international offices	**33,352**	30,561	32,471	33,714	27,793
Total gross loans and advances to customers	**89,070**	82,054	82,431	88,520	83,000
Provisions for bad and doubtful debts	**(1,652)**	(1,756)	(2,080)	(2,223)	(1,872)
Total net loans and advances to customers	**87,418**	80,298	80,351	86,297	81,128

(1) In the opinion of management, the Group was not exposed at 31 December 1995 to any significant loan concentrations that are not disclosed above.

(2) Unearned income of £4,602m (1994 £4,093m; 1993 £4,053m; 1992 £3,850m; 1991 £3,937m) is excluded from the above.

(3) The geographical analysis of lendings is based on the location of office from which the loans are made.

(4) 'Personal – other' comprises the Group's non-mortgage consumer credit portfolio, including credit cards, overdrafts and term loans but excluding leases and hire purchase agreements.

(5) Includes loans guaranteed by UK government agencies of £377m (1994 £205m; 1993 £274m; 1992 £156m; 1991 £255m).

Loans and advances to customers continued

The following table analyses lending by time remaining until maturity and interest rate sensitivity by maturity as at 31 December 1995.

	1 year or less £m	After 1 year but within 5 years £m	After 5 years £m	Total £m
By domestic offices				
Agriculture, forestry and fishing	928	199	251	1,378
Manufacturing and other production	2,848	541	397	3,786
Construction	1,020	220	213	1,453
Distribution, transport and hotels	4,084	1,390	1,114	6,588
Financial and other	5,313	1,303	1,320	7,936
Property companies	1,301	601	812	2,714
Personal – mortgage	397	675	13,959	15,031
– other	3,696	1,726	592	6,014
Overseas	84	20	50	154
Instalment	2,654	2,419	329	5,402
Lease financing	1,114	1,803	2,345	5,262
Total domestic offices	23,439	10,897	21,382	55,718
By international offices				
United States				
Commercial and other	4,942	1,614	243	6,799
Financial and agricultural	1,564	8	5	1,577
Real estate – construction	104	68	17	189
– mortgage	744	1592	3,133	5,469
Instalment	261	845	101	1,207
Lease financing	1	10	103	114
Total United States offices	7,616	4,137	3,602	15,355
United Kingdom international offices	3,937	3,546	2,426	9,909
Other Western Europe	3,337	1,823	543	5,703
Rest of the World	1,334	634	417	2,385
Total international offices	16,224	10,140	6,988	33,352
Total by maturity	39,663	21,037	28,370	89,070
Interest rate sensitivity of loans and advances to customers by maturity				
Variable interest rate	30,392	14,442	23,690	68,524
Fixed interest rate	9,271	6,595	4,680	20,546
Total by maturity	39,663	21,037	28,370	89,070

The portfolio of loans and advances to customers is diversified by borrower, industry and geographic region and totalled £89,070m at 31 December 1995 compared with £82,054m at the end of the previous year. Loans and advances to customers averaged £87,440m during the year (1994 £83,761m). All figures are before provisions for bad and doubtful debts.

The maturity composition of the loan portfolio has remained generally consistent with prior years. Some 45% of total loans mature within one year (mainly overdrafts which are typically renewed) and over two-thirds within five years. At 31 December 1995, over 90% of the loan portfolio was from UK and US offices, and more than 76% was subject to variable interest rates.

Distribution of outstandings and foreign country related assets

Outstandings comprise total loans and advances to customers and banks, amounts receivable under finance (capital) leases, acceptances and other monetary assets, primarily bills discounted and certificates of deposit. At 31 December 1995, outstandings were £167,612m (1994 £157,769m and 1993 £153,199m). Outstandings, based on the country of domicile of the ultimate obligor and after recognising any transfer of risk resulting from guarantees, are analysed below.

	At 31 December 1995 %	1994 %	1993 %
United Kingdom	**52**	53	55
Western Europe (other than United Kingdom)	**19**	19	18
North America	**17**	17	16
Rest of the World	**12**	11	11
Total	**100**	100	100

No country accounted for more than 5% of total Group outstandings other than the UK, the US (16%) and Japan (8%). The Group's international business has been concentrated in OECD countries. Provisionable exposure (outstandings less short-term exposures and secured lendings) to countries experiencing repayment difficulties was 0.05% of total outstandings.

The table below shows the Group's cross-border outstandings, by borrower category, to countries which individually represented in excess of 1% of Group total assets (including acceptances) at 31 December in each of the past three years. None has experienced repayment difficulties which have required refinancing of outstanding debt.

Countries with cross-border outstandings in excess of 1% of group total assets (including acceptances)

	Banks and other financial institutions £m	Governments and official institutions £m	Other (primarily commercial and industrial) £m	Total £m
		At 31 December 1995		
Japan	**10,011**	**10**	**525**	**10,546**
France	**3,181**	**407**	**291**	**3,879**
United States	**1,516**	**16**	**808**	**2,340**
Germany	**1,994**	**6**	**190**	**2,190**
Italy	**1,928**	**109**	**59**	**2,096**
		At 31 December 1994		
Japan	7,072	1	665	7,738
France	3,293	4	288	3,585
Italy	2,515	27	40	2,582
Germany	1,572	6	86	1,664
Canada	1,061	89	511	1,661
		At 31 December 1993		
Japan	6,809	–	917	7,726
France	2,632	12	359	3,003
Italy	2,037	55	74	2,166
Canada	1,503	122	466	2,091

At 31 December 1995, Canada (£1,542m) and the Netherlands (£1,415m) were the only countries that had cross-border outstandings of between 0.75% and 1% of Group total assets (including acceptances).

Countries with cross-border outstandings in excess of 1% of group total assets (including acceptances) continued

At 31 December 1994, the US (£1,386m) and Spain (£1,382m) were the only countries that had cross-border outstandings of between 0.75% and 1% of Group total assets (including acceptances). At 31 December 1993, the US (£1,429m) and Germany (£1,365m) were the only countries to which the Group had cross-border outstandings of between 0.75% and 1% of Group total assets (including acceptances).

At 31 December 1995, the Group's specific allowance against problem-country debt ('PCD') was £68m (1994 £80m; 1993 £93m) which represented 77% (1994 28%; 1993 25%) of the Group's £88m (1994 £284m; 1993 £366m) provisionable exposure (outstandings less short-term exposures and secured lendings) to 12 countries (1994 15; 1993 13) rescheduling or in payment difficulties. The Group's cross-border outstandings to those 12 countries were £324m, or 0.19% of the Group's total assets (including acceptances), at 31 December 1995.

Provisions for bad and doubtful debts

Management believes that the overall provisioning process has been enhanced in recent years by placing renewed emphasis upon early detection of deteriorating loan quality and prompt implementation of remedial action. Individual accounts are reviewed to identify those which are considered to be at risk of loss, even if current as to payment of principal and interest. Such accounts are placed on watch lists and are monitored by appropriate business unit and Group credit control authorities.

A specific provision is made against a problem loan when, in the judgement of management, the estimated repayment realisable from the obligor, including the value of any security available, is expected to fall short of the amount outstanding on the obligor's loan or overdraft account. In assessing the size of specific provision on individual accounts, management considers the amount outstanding, the extent of likely recoveries from the borrower and the value of the security held. The level of total Group provision is subject to evaluation by senior management and the board of directors, taking into account the general economic outlook.

In assessing the level of general provision, the overall quality of the loan portfolio is considered by the board of directors with the advice of senior management. The general provision is required in respect of the latent risk which can reasonably be expected to exist in any portfolio of bank customer loans. Considerations include quantitative factors (particularly related to the size of the portfolio) and qualitative factors which cover the scope and scale of specific provisioning procedures, local and international economic conditions and trading conditions in the various industry segments to which the Group lends.

The point in time at which the normal banking relationship with the customer has ceased and the debt becomes the subject of recovery procedures is a matter of judgement exercised by branch and regional management and departments specialising in recovering bad debts, dependent on the circumstances of the individual situation. Simultaneously, the principal amount of the obligation is written down to its estimated net realisable value and suspended interest written off. While this accords with UK practice, the Group generally writes off loans less quickly than US banks.

Management believes that the allowance for bad and doubtful debts adequately covers identified and latent losses. For further comments on bad and doubtful debts see page 16.

Operating and financial review – Description of assets and liabilities continued

Provisions for bad and doubtful debts continued

The following table and that on page 35 show details of the movements in the Group's provisions for bad and doubtful debts by location of office for each of the past five years.

	1995		1994		1993		1992		1991	
	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %
Provisions at 1 January										
Domestic	**885**		1,062		1,183		1,042		614	
International	**941**		1,080		1,077		868		972	
Total	**1,826**		2,142		2,260		1,910		1,586	
Specific new and additional provisions										
Domestic	**738**		802		1,328		1,753		1,515	
International	**332**		335		588		395		560	
Total	**1,070**		1,137		1,916		2,148		2,075	
Specific releases and recoveries										
Domestic	**(362)**		(322)		(378)		(226)		(113)	
International	**(119)**		(135)		(190)		(103)		(201)	
Total	**(481)**		(457)		(568)		(329)		(314)	
General provision										
Domestic	**48**		(1)		(1)		6		2	
International	**2**		(63)		(85)		(26)		63	
Total	**50**		(64)		(86)		(20)		65	
Charge against profit										
Domestic	**424**	**0.76**	479	0.93	949	1.90	1,533	2.80	1,404	2.54
International	**215**	**0.64**	137	0.45	313	0.96	266	0.79	422	1.52
Total	**639**	**0.72**	616	0.75	1,262	1.53	1,799	2.03	1,826	2.20
Exchange movements and other adjustments	**34**		(17)		2		140		51	
Amounts written off										
Domestic	**(696)**	**1.25**	(874)	1.70	(1,192)	2.39	(1,516)	2.77	(1,127)	2.04
International	**(334)**	**1.00**	(295)	0.97	(399)	1.23	(241)	0.71	(533)	1.92
Total	**(1,030)**	**1.16**	(1,169)	1.42	(1,591)	1.93	(1,757)	1.98	(1,660)	2.00
Recoveries										
Domestic	**191**	**0.34**	219	0.43	174	0.35	148	0.27	91	0.16
International	**52**	**0.16**	35	0.11	35	0.11	20	0.06	16	0.06
Total	**243**	**0.27**	254	0.31	209	0.25	168	0.19	107	0.13
Net write offs	**(787)**	**0.88**	(915)	1.12	(1,382)	1.68	(1,589)	1.79	(1,553)	1.87
Provisions at 31 December										
Domestic	**791**		885		1,062		1,183		1,042	
International	**921**		941		1,080		1,077		868	
Total	**1,712**		1,826		2,142		2,260		1,910	

Provisions for bad and doubtful debts continued

	1995		1994		1993		1992		1991	
	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %	Amount £m	% of gross loans & advances to customers 31 Dec. %
Average loans and advances to customers (net of unearned income)	**87,440**		83,761		84,035		82,643		79,999	
Ratio of net write offs to average loans and advances to customers (net of unearned income)	**0.90%**		1.09%		1.64%		1.92%		1.94%	
Specific provisions at 31 December										
Domestic	**580**	**1.04**	722	1.40	897	1.80	1,017	1.86	883	1.60
International	**729**	**2.19**	764	2.50	853	2.63	768	2.28	581	2.09
Total	**1,309**	**1.47**	1,486	1.81	1,750	2.12	1,785	2.01	1,464	1.76
General provision at 31 December										
Domestic	**211**	**0.38**	163	0.32	165	0.33	166	0.30	159	0.29
International	**192**	**0.58**	177	0.58	227	0.70	309	0.92	287	1.03
Total	**403**	**0.45**	340	0.42	392	0.48	475	0.54	446	0.54
Total provisions	**1,712**	**1.92**	1,826	2.23	2,142	2.60	2,260	2.55	1,910	2.30
Closing provisions										
Banks	**60**		70		62		37		38	
Customers	**1,652**		1,756		2,080		2,223		1,872	
Total provisions	**1,712**		1,826		2,142		2,260		1,910	
Customers closing provisions as a % of gross lending to customers										
Domestic	**1.42%**		1.72%		2.13%		2.16%		1.89%	
International	**2.58%**		2.85%		3.14%		3.08%		2.99%	
Total	**1.85%**		2.14%		2.52%		2.51%		2.26%	
Customers charge against profit as a % of gross lending to customers										
Domestic	**0.75%**		0.93%		1.90%		2.80%		2.54%	
International	**0.67%**		0.33%		0.90%		0.80%		1.50%	
Total	**0.72%**		0.71%		1.50%		2.03%		2.20%	

Provisions for bad and doubtful debts continued

The breakdown of the Group's write offs, recoveries and specific bad and doubtful debt provisions by each category of customer is set out in the following tables. Percentages are expressed in relation to total gross loans and advances to customers at each year end. These tables should be read in conjunction with the analysis of net loans and advances to customers shown on page 30.

Loans written off

	1995		1994		1993		1992		1991	
	£m	%	£m	%	£m	%	£m	%	£m	%
By domestic offices										
Agriculture, forestry and fishing	**8**		14		15		19		10	
Manufacturing and other production	**65**		74		82		119		103	
Construction	**64**		55		83		116		85	
Distribution, transport and hotels	**118**		170		225		266		168	
Financial and other	**91**		124		182		227		176	
Property companies	**31**		48		97		130		87	
Personal – mortgage	**19**		19		31		11		2	
– other	**166**		242		341		419		321	
Overseas	**–**		–		1		–		–	
Instalment	**117**		101		114		173		155	
Lease financing	**12**		27		21		36		20	
Total domestic offices	**691**	**1.24**	874	1.70	1,192	2.39	1,516	2.77	1,127	2.04
By international offices										
United States										
Commercial and other	**84**		80		128		72		142	
Financial and agricultural	**1**		13		13		1		12	
Real estate – construction	**10**		41		121		48		76	
– mortgage	**1**		6		3		2		–	
Instalment	**75**		46		38		28		25	
Total United States offices	**171**		186		303		151		255	
United Kingdom international offices	**25**		18		21		19		131	
Other Western Europe	**81**		33		49		35		81	
Rest of the World	**55**		33		24		30		55	
Total international offices	**332**	**1.00**	270	0.88	397	1.22	235	0.70	522	1.88
Total	**1,023**	**1.15**	1,144	1.39	1,589	1.93	1,751	1.98	1,649	1.99

Provisions for bad and doubtful debts continued

Recoveries

	1995		1994		1993		1992		1991	
	£m	%	£m	%	£m	%	£m	%	£m	%
By domestic offices										
Agriculture, forestry and fishing	**5**		5		4		2		1	
Manufacturing and other production	**17**		34		19		18		11	
Construction	**14**		16		15		10		6	
Distribution, transport and hotels	**32**		34		31		21		15	
Financial and other	**30**		34		31		27		14	
Property companies	**15**		18		17		7		4	
Personal – mortgage	**1**		1		1		1		–	
– other	**40**		40		23		24		17	
Instalment	**33**		33		31		37		19	
Lease financing	**4**		4		2		1		4	
Total domestic offices	**191**	**0.34**	219	0.43	174	0.35	148	0.27	91	0.16
By international offices										
United States										
Commercial and other	**15**		12		15		6		5	
Financial and agricultural	**–**		–		–		–		1	
Real estate – construction	**7**		8		4		3		–	
Instalment	**8**		9		7		5		4	
Total United States offices	**30**		29		26		14		10	
United Kingdom international offices	**7**		1		1		2		1	
Other Western Europe	**14**		5		4		4		5	
Rest of the World	**1**		–		–		–		–	
Total international offices	**52**	**0.16**	35	0.11	31	0.10	20	0.06	16	0.06
Total	**243**	**0.27**	254	0.31	205	0.25	168	0.19	107	0.13

Provisions for bad and doubtful debts continued

Specific bad and doubtful debt provisions

	1995		1994		1993		1992		1991	
	£m	%[1]	£m	%[1]	£m	%[1]	£m	%[1]	£m	%[1]
By domestic offices										
Agriculture, forestry and fishing	**12**	**1.5**	10	1.6	15	1.7	11	1.8	9	2.1
Manufacturing and other production	**48**	**4.3**	87	4.7	111	5.5	91	5.9	100	6.8
Construction	**38**	**1.6**	39	1.7	55	2.0	58	2.3	40	2.9
Distribution, transport and hotels	**87**	**7.4**	110	7.5	147	7.4	159	8.6	114	9.3
Financial and other	**108**	**8.9**	113	7.7	155	6.7	178	9.3	169	9.4
Property companies	**40**	**3.0**	52	2.9	69	2.6	130	3.0	81	3.3
Personal – mortgage	**34**	**16.9**	35	17.6	38	16.9	39	14.6	26	14.0
– other	**78**	**6.8**	132	7.2	150	7.3	192	7.0	181	8.4
Overseas	**–**	**0.2**	–	0.1	–	0.2	8	0.3	1	0.7
Instalment	**99**	**6.1**	102	5.6	95	4.4	92	3.3	110	3.6
Lease financing	**36**	**5.9**	42	6.0	62	5.7	59	5.5	52	5.6
Loans guaranteed by UK government agencies	**–**	**–**	–	0.2	–	0.2	–	0.3	–	0.4
Total domestic offices	**580**	**62.6**	722	62.8	897	60.6	1,017	61.9	883	66.5
Percentage of gross loans and advances to customers	**1.04%**		1.40%		1.80%		1.86%		1.60%	
By international offices										
United States										
Commercial and other	**45**	**7.6**	83	8.6	94	9.5	174	9.5	139	8.1
Financial and agricultural	**11**	**1.8**	17	1.3	36	2.0	–	1.9	11	1.4
Real estate – construction	**7**	**0.2**	8	0.2	31	0.2	49	0.4	63	0.4
– mortgage	**–**	**6.1**	–	3.8	–	2.4	1	1.6	–	1.5
Instalment	**11**	**1.4**	28	1.7	38	1.5	21	1.0	13	0.8
Lease financing	**–**	**0.1**	–	0.1	–	0.1	–	0.1	–	0.1
Total United States offices	**74**	**17.2**	136	15.7	199	15.7	245	14.5	226	12.3
United Kingdom international offices	**405**	**11.1**	298	12.2	308	12.3	220	11.8	137	10.6
Other Western Europe	**176**	**6.4**	194	6.0	216	7.8	196	7.9	97	7.0
Rest of the World	**14**	**2.7**	66	3.3	68	3.6	70	3.9	83	3.6
Total international offices	**669**	**37.4**	694	37.2	791	39.4	731	38.1	543	33.5
Percentage of gross loans and advances to customers	**2.01%**		2.27%		2.44%		2.17%		1.95%	
Total	**1,249**	**100.0**	1,416	100.0	1,688	100.0	1,748	100.0	1,426	100.0
Percentage of gross loans and advances to customers	**1.40%**		1.73%		2.05%		1.97%		1.72%	

(1) These percentages represent the loans in each category as a percentage of the total gross loans and advances to customers and have been based on the 'Net loans and advances to customers' table on page 30.

Risk elements

Non-accrual, past due 90 days and troubled debt restructuring loans

The following table presents details of risk elements (non-accrual loans, loans past due 90 days and troubled debt restructurings) in lendings, based on guidelines established by the SEC. It should be noted that the Group makes provisions for bad and doubtful debts in accordance with the method described on page 33 under Provisions for Bad and Doubtful Debts. The Group's loan control and review procedures generally do not include the classification of loans as non-accrual, past due 90 days, troubled debt restructurings and potential problem loans ('PPLs'), as defined by the SEC.

Moreover, because overdrafts are not subject to a repayment schedule, the Group cannot, in respect of much of its loan portfolio, produce statistics on loans contractually past due 90 days or more. However, management has estimated, without giving effect to available security or related provisions, the amount of the loans which would have been so reported had the SEC's classification been employed.

	At 31 December				
	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Non-accrual loans					
Loans accounted for on a non-accrual basis (1)					
Domestic (2)	**2,022**	2,258	2,692	2,810	2,008
International	**1,349**	1,293	1,677	1,945	1,348
Total	**3,371**	3,551	4,369	4,755	3,356
Past due 90 days					
Accruing loans which are contractually past due 90 days or more as to principal or interest payments (3)					
Domestic	**361**	363	321	400	513
International	**107**	69	127	190	135
Total	**468**	432	448	590	648
Troubled debt restructurings					
Loans not included above which are 'troubled debt restructurings'					
Domestic	**76**	74	95	81	49
International	**246**	189	200	122	98
Total	**322**	263	295	203	147
Total risk elements	**4,161**	4,246	5,112	5,548	4,151
Total risk elements as a % of gross loans and advances to customers	**4.67%**	5.17%	6.20%	6.27%	5.00%
Allowances for bad and doubtful debts as a % of total risk elements	**41.14%**	43.01%	41.90%	40.74%	46.01%

(1) The Bank and its UK banking subsidiary undertakings account for loans on a non-accrual basis only from the point in time at which the collectibility of interest is in significant doubt. Bancorp and certain other subsidiary undertakings of the Bank generally account for loans on a non-accrual basis when interest or principal is past due 90 days.

(2) National Westminster Home Loans includes in this category the total value of loans which are subject to claims under Mortgage Guarantee Insurance policies in force.

(3) Overdraft loans generally have no fixed repayment schedule and consequently are not included in this category

Risk elements continued

Non-accrual loans declined by £180m. Improvements in NatWest UK and Bancorp were partially masked by the placing on non-accrual status of a substantial loan in NWM.

Interest income which would have been recognised in 1995 under the original terms of the non-accrual and restructured loans amounted to an estimated £400m (1994 £410m) from domestic loans and an estimated £140m (1994 £120m) from international loans; interest income of approximately £52m (1994 £43m) from such domestic loans and approximately £31m (1994 £11m) from such international loans was recognised in 1995 after deduction of provisions.

Potential problem loans

At 31 December 1995, the Group had loans (including overdrafts) amounting to £1.05bn (1994 £1.55bn) not included in non-accrual, past due 90 days and restructured loans but where information about the possible credit problems of borrowers caused management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. Of this amount, some £0.72bn (1994 £0.69bn) related to domestic loans and £0.33bn (1994 £0.86bn) to international loans. The Bank holds substantial security in respect of PPLs and appropriate provisions have been made for shortfalls between the face value of loans and their estimated realisable value.

The Group writes down loans at the commencement of recovery procedures. The cumulative amounts already written off but being actively pursued by specialist recovery departments, amounting to £1.86bn (1994 £2.52bn), are not included in provisions for bad and doubtful debts.

Investment debt and equity securities

Information on the Group's investment debt and equity securities is shown in note 48(e) to the accounts on pages 120 to 122.

Deposits

The aggregate average balance of all the Group's interest-bearing (demand, savings and time) deposits rose by 4.1% to £109.4bn (1994 £105.0bn, an increase of 4.8% on 1993). Rates paid reflect market conditions. The effect on net interest income depends upon competitive pricing and the level of interest receivable which can be generated through the use of the funds.

In the UK, approximately 75% of the Group's domestic customer accounts were derived from the branch network (1994 75%). Significant retail funds were also obtained from the branch networks in the US and Western Europe. These provide a stable deposit base, reducing reliance upon generally more expensive and potentially volatile wholesale funding. Time deposits are the principal source of funds in international offices, representing 60% of customer account deposits in 1995 (1994 57%). Deposits by banks are primarily time deposits, the majority of which are raised by the Bank's UK based money market operations in the world's major financial markets. Securities and bills sold under agreements to repurchase are included within deposits by banks and customer accounts (see Short-term Borrowings on page 43).

Certificates of deposit are 83% of debt securities in issue (1994 88%). These instruments are issued as a part of liquidity management with maturities generally of three months or less (see also table on page 42).

Deposits continued

The following table shows details of the Group's average customer accounts, deposits by banks and debt securities in issue together with the average interest rates paid thereon for each of the past three years.

	1995		1994		1993	
	Average balance £m	Average rate paid %	Average balance £m	Average rate paid %	Average balance £m	Average rate paid %
Customer accounts						
Domestic offices						
Demand – interest free	11,333		11,057		11,310	
– interest bearing	18,980	3.6	18,570	3.1	18,422	3.8
Savings	12,534	5.2	12,636	4.6	10,581	5.4
Time	14,215	6.5	14,410	5.3	14,870	5.7
Total domestic offices	57,062		56,673		55,183	
International offices – United States						
Demand – interest free	2,777		2,754		2,586	
– interest bearing	1,202	1.5	955	1.3	893	1.6
Savings	4,419	2.6	4,195	2.3	4,083	2.4
Time	5,767	5.3	4,957	4.8	3,851	4.0
	14,165		12,861		11,413	
International offices – other						
Demand – interest free	1,087		1,129		1,572	
– interest bearing	2,752	3.8	3,613	3.8	3,205	4.8
Savings	279	4.9	473	4.8	529	5.9
Time	13,350	6.6	12,141	5.7	12,537	6.2
Total international offices	31,633		30,217		29,256	
Total customer accounts	88,695		86,890		84,439	
Deposits by banks						
Domestic offices						
Interest free	256		287		267	
Interest bearing	4,415	6.8	5,122	5.5	6,916	6.3
International offices						
Interest free	481		233		378	
Interest bearing	31,452	6.0	27,942	5.3	24,341	6.3
Total deposits by banks	36,604		33,584		31,902	
Debt securities in issue						
Domestic offices						
Certificates of deposit	5,645	6.8	4,032	5.8	3,766	7.1
Other	1,174	7.1	36	9.6	58	9.4
Total domestic offices	6,819		4,068		3,824	
International offices – United States						
Certificates of deposit	3,290	6.7	1,927	4.4	1,562	3.2
Commercial paper	353	6.5	287	5.0	149	3.1
Other	–	–	3	5.7	24	11.0
	3,643		2,217		1,735	
International offices – other						
Certificates of deposit	2,755	6.4	2,672	4.8	2,222	4.4
Commercial paper	276	6.9	250	7.3	547	4.0
Other	638	5.6	548	6.0	549	8.2
Total international offices	7,312		5,687		5,053	
Total debt securities in issue	14,131		9,755		8,877	

Deposits continued

The following table shows details of the Group's certificates of deposits and other large deposits by time remaining until maturity; domestic sterling deposits shown are generally those of £50,000 and over; international deposits are those of $100,000 and over or the equivalent in other currencies.

	At 31 December 1995			
	3 months or less £m	After 3 months but within 6 months £m	After 6 months but within 12 months £m	After 12 months £m
Domestic offices				
Certificates of deposit	5,003	643	96	25
Other time deposits – banks	3,724	37	4	5
– customers	12,483	250	199	401
Total domestic office deposits	21,210	930	299	431
International offices – UK				
Certificates of deposit	1,503	154	97	–
Other time deposits – banks	9,617	794	522	7
– customers	4,987	270	119	10
	16,107	1,218	738	17
International offices – United States				
Certificates of deposit	4,239	89	17	35
Other time deposits – banks	2,302	96	69	–
– customers	1,167	136	24	26
	7,708	321	110	61
International offices – other				
Certificates of deposit	321	–	3	–
Other time deposits – banks	2,227	178	123	1
– customers	3,598	402	101	298
	6,146	580	227	299
Total international office deposits	29,961	2,119	1,075	377
Total	51,171	3,049	1,374	808

The following table shows the distribution of all deposits and debt securities in issue by sterling and other currencies at 31 December for the past three years.

Analysis by currency

	At 31 December		
	1995 £m	1994 £m	1993 £m
Deposits by banks			
Sterling	5,098	5,626	7,137
Other currencies	27,013	27,475	26,260
Customer accounts			
Sterling	59,082	55,860	56,092
Other currencies	29,305	28,141	27,881
Debt securities in issue			
Sterling	6,961	4,405	2,991
Other currencies	7,666	6,768	4,824
Total	135,125	128.275	125.185

Short-term borrowings

Short-term borrowings are included within the balance sheet captions 'Deposits by banks', 'Customer accounts' and 'Debt securities in issue'.

The short-term borrowings of the Group consist of federal funds purchased, securities and bills sold under agreements to repurchase, commercial paper issued in the US, Canada and Australia, and other, primarily bank borrowings of subsidiary undertakings. Generally, original maturities of federal funds purchased and securities and bills sold under repurchase agreements are less than six months, commercial paper less than nine months and other short-term borrowings one year or less.

The following table shows details of the Group's short-term borrowings for each of the past three years.

	1995 £m	1994 £m	1993 £m
Federal funds purchased			
Outstanding at 31 December	**881**	583	511
Maximum amount outstanding at any month end during the year	**1,970**	1,587	1,286
Approximate average amount outstanding during the year	**1,246**	785	936
Approximate weighted average interest rate during the year	**5.5%**	4.1%	3.1%
Approximate weighted average interest rate at year end	**5.2%**	5.1%	3.0%
Securities and bills sold under agreements to repurchase			
Outstanding at 31 December	**4,506**	6,907	5,592
Maximum amount outstanding at any month end during the year	**7,205**	6,907	8,320
Approximate average amount outstanding during the year	**6,472**	5,732	6,375
Approximate weighted average interest rate during the year	**6.1%**	5.1%	5.8%
Approximate weighted average interest rate at year end	**6.1%**	5.1%	4.7%
Commercial paper			
Outstanding at 31 December	**495**	520	560
Maximum amount outstanding at any month end during the year	**973**	702	888
Approximate average amount outstanding during the year	**629**	537	696
Approximate weighted average interest rate during the year	**6.7%**	6.0%	3.8%
Approximate weighted average interest rate at year end	**6.0%**	5.5%	4.0%
Other short-term borrowings			
Outstanding at 31 December	**1,267**	1,904	2,462
Maximum amount outstanding at any month end during the year	**2,126**	2,809	2,602
Approximate average amount outstanding during the year	**1,465**	2,642	2,041
Approximate weighted average interest rate during the year	**6.4%**	6.7%	7.4%
Approximate weighted average interest rate at year end	**5.2%**	5.7%	7.6%

Short-term borrowings remain important to the overall market operations of the Group. Average short-term borrowings in 1995 amounted to £9.8bn (1994 £9.7bn) or approximately 5.7% (1994 6.0%) of average total liabilities.

Cash flow

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Net cash (outflow)/inflow from operating activities	**(574)**	3,186	5,328
Interest paid on subordinated liabilities	**(373)**	(353)	(311)
Dividends paid less received	**(406)**	(350)	(305)
Tax paid	**(270)**	(175)	(187)
Sale and purchase of investment securities (net)	**1,556**	(2,638)	667
Purchase and sale of subsidiary and associated undertakings (net)	**(30)**	(363)	(9)
Purchase and sale of fixed assets (net)	**(391)**	(382)	(319)
Purchase and sale of operating lease assets	**(391)**	(373)	(396)
Provisions utilised	**(17)**	(75)	(45)
Share capital proceeds (net of redemptions)	**236**	217	198
Subordinated liabilities redeemed/raised and minority interests (net)	**(463)**	(8)	274
(Decrease)/increase in cash and cash equivalents	**(1,123)**	(1,314)	4,895

The net cash outflow from operating activities in 1995 reflects the increase in customer lending and trading securities held.

Interest paid on subordinated liabilities increased by £20m to £373m, mainly as a result of higher interest rates in the US throughout most of 1995. At 31 December 1995, approximately 63% of the Group's subordinated liabilities paid interest at a floating rate at a margin over inter-bank rates.

The £56m increase in dividends paid less received in the year reflects the higher (18%) final ordinary share dividend payable for the year ended 31 December 1994 and the higher (15%) interim ordinary share dividend payable for the six months ended 30 June 1995.

A US tax payment relating to prior years caused most of the rise in tax paid in 1995. Other increases were due to tax paid on higher profits in the previous year.

Sales of investment securities, reflecting repositioning within Bancorp prior to its sale, led to a net cash inflow of £1,556m. The outflow in 1994 resulted from the utilisation of surplus liquidity and the extension of the maturity profile of the investment securities portfolio.

The purchases of Gleacher and Central Jersey in 1995 gave rise to the net cash outflow from the purchase and sale of subsidiary and associated undertakings, although a large part of these acquisitions was funded by the issue of shares. The net cash outflow in 1994 was primarily due to the cash and cash equivalents disposed of on the sale of the Group's interest in FvL.

Continued investment during 1995, largely in computer and other equipment, led to a net cash outflow of £391m on purchases and sales of fixed assets.

Provisions utilised were much lower than in 1994 when they were used to cover the termination of retail operations in France.

Share capital proceeds in 1995 relate largely to the issue of 20.8m ordinary shares, in the form of American Depositary Shares, in connection with the acquisition of Central Jersey, and the issue of 13.7m ordinary shares for the acquisition of Gleacher. In addition, 16.9m ordinary shares were issued upon the exercise of options granted under the Bank's various schemes for staff.

Redemption of $500m of undated variable rate notes and Swiss Francs 300m of capital bonds contributed to the outflow of £463m from subordinated liabilities redeemed/raised and minority interests (net). In 1994, no material subordinated liabilities were redeemed or issued.

As a result of the foregoing factors, the Group's cash and cash equivalents fell by £1,123m compared with a fall of £1,314m in 1994.

Supervision and regulation

The Banking Act 1987, replacing the Banking Act 1979, formally re-affirmed the Bank of England as the UK banking supervisory authority and gave it wide discretionary powers in relation to banks authorised by it to carry on banking business ('authorised institutions').

The Bank of England sets standards and ratios which serve as guidelines for the banks under its supervision. Each bank submits regular reports to the Bank of England which provide material for supervisory assessment. The Group's senior executives meet regularly with the Bank of England to discuss key topics relating to the Group's businesses, such as risk control, loan portfolio composition, profitability, capital adequacy and liquidity, organisational changes and operating practices. Supervision has become increasingly formalised with the introduction of guidelines, drawn up by the Bank of England in consultation with the banks, relating to, among other things, liquidity, large exposures to related borrowers, the adequacy of accounting procedures and controls, money laundering (through the Joint Money Laundering Steering Group), advertising, the Bank of England's relationship with a bank's external auditors and loan transfers and securitisation of loans.

UK banks are required to maintain, in interest free accounts at the Bank of England, a cash balance, which is currently 0.35% of their eligible liabilities (primarily sterling deposits less amounts on loan to other monetary institutions). The Bank of England has indicated that such balances in future will count towards the liquidity requirements for the Real Time Gross Settlement System to be introduced in the UK during 1996. Otherwise, these balances are regarded as non-operational and do not count towards overall liquidity requirements. A policy framework was issued by the Bank of England in 1995, which requires the maintenance of sufficient holdings of liquid assets to cover potential cash outflows over the next five business days.

Regulations were introduced in the UK in 1995 to implement the European Deposit Guarantee Schemes Directive. The new scheme increases the percentage of depositors funds covered from 75% to 90% subject to a maximum aggregate payment to one individual of £18,000. In addition, the scheme covers all European Economic Area currencies and the European Union ('EU') and establishes a minimum level of deposit protection of ECU 20,000 (approximately £16,600 or $25,600 at 31 December 1995), although the level will remain at ECU 15,000 until the end of 1999 in some member states.

A number of directives have been adopted by the EU in pursuit of the single market programme. Some deal with the provision of banking services in member states and allow EU banks to provide similar services throughout the Union. The single market programme for banking was completed when the Capital Adequacy Directive ('CAD') was implemented in the UK with effect from 1 January 1996. The CAD introduces, inter alia, a new requirement for banks to provide capital for market risk. The effect on the Group's total capital position is expected to be broadly neutral. The Investment Services Directive also came into force at the beginning of 1996 and introduces a similar capital regime for investment firms.

The Basle Committee on Banking Regulations and Supervisory Practices issued a capital accord in 1988 (the 'Basle Accord') creating a framework for measuring the capital adequacy of international banking organisations and establishing a risk asset ratio relating a bank's capital to its assets and off-balance sheet exposures, weighted according to broad categories of risk, primarily credit. The Basle Accord sets minimum capital adequacy ratios, but local banking regulators are permitted to set higher standards. The Bank of England implemented the Basle Accord in the UK in 1990.

Capital adequacy issues have also been addressed by the Own Funds and Solvency Ratio directives of the EU. These directives were brought into effect on 1 January 1991. They are broadly comparable to the Basle Accord and Bank of England guidelines.

A proposal by the Basle Committee to amend the Basle Accord to take account of market risks was endorsed by the Governors of the G10 central banks in December 1995. The amendment will take effect at the end of 1997. The Bank of England has indicated that it will be considering how the amendments to the Basle Accord will be implemented for UK banks in the light of any proposal from the EU Commission to update the CAD.

The Group's investment business in the UK is regulated by the Financial Services Act 1986 (the 'Act') which has established a framework for strengthening investor protection by the regulation of investment businesses and markets. The provisions of the Act (as amended) give principal authority for such regulation to HM Treasury, which has delegated certain powers to the Securities and Investments Board ('SIB'), which in turn enables, and delegates powers to, a number of self-regulating organisations which authorise and supervise most individual securities and investment businesses.

The SIB issued guidance in October 1994 following its review of the financial services industry's past business conduct in relation to personal pension transfers and non-joiners and opt-outs of occupational pension schemes. The Bank has set up a task force to investigate cases where customers may have been disadvantaged as a result of inappropriate pensions advice. Although the total potential liability cannot yet be determined with any certainty, a provision of £32m had been made by the end of 1994 and a further £30m was provided in 1995.

The Bank maintains a branch in the US and consequently its operations are subject to the US International Banking Act of 1978 and the Bank Holding Company Act of 1956 ('the BHCA'). As the indirect owner of NatWest Bank, N.A. and NatWest Bank (Delaware), the Bank is also a bank holding company under the BHCA. The Bank is required to file certain reports with, and is subject to examination by, the Board of Governors of the Federal Reserve System (the 'Board'). The Bank's US branches and agencies, NatWest Bank, N.A. and NatWest Bank (Delaware) are subject to the reserve requirements established by the Board. The BHCA prohibits the Bank, NatWest Bank, N.A. and NatWest Bank (Delaware) from engaging in certain tying arrangements in connection with any extension of credit or provision of any property or services. With respect to NatWest Bank, N.A. and NatWest Bank (Delaware), certain extensions of credit to, purchase of assets from and certain other dealings with any subsidiary or associated undertaking are limited by the Federal Reserve Act. With respect to non-banking activities, the BHCA generally prohibits the Bank from acquiring, directly or indirectly, more than 5% of the voting shares of any company engaged in non-banking activities in the US unless the Board has determined, by order or regulation, that such proposed activities are so closely related to banking or managing or controlling banks as to be a proper incident thereto. With respect to acquisitions of banks, the BHCA requires the Bank to obtain the prior approval of the Board before acquiring, directly or indirectly, the ownership or control of more than 5% of the voting shares of any US bank. Until recently, under Federal law, the Bank could acquire a bank outside New York only if the law of the State in which such a bank was located permitted it. Since September 1995, the BHCA has no longer required, subject to certain exceptions, that State law permit such acquisitions. Federal law continues to impose limitations on the ability of the Bank, NatWest Bank, N.A. and NatWest Bank (Delaware) and their subsidiary undertakings to engage in certain aspects of the securities business in the US.

Elsewhere, the Group's operations are subject to regulation and control by local central banks and monetary authorities.

Capital management

Capital structure

The Group's policy is to diversify its sources of capital, to allocate capital within the Group efficiently and to maintain a prudent relationship between capital resources and the risks of its underlying business. The Bank seeks to protect the total capital ratio against exchange rate movements primarily through foreign currency denominated loan capital.

Capital resources

	Year ended 31 December		
	1995 £m	1994 £m	1993 £m
Ordinary shares	**1,771**	1,716	1,662
Retained earnings and other reserves	**4,978**	4,245	3,572
Preference shares	**464**	460	492
Minority interests	**175**	164	168
Subordinated liabilities	**4,792**	5,199	5,462
Total capital resources	**12,180**	11,784	11,356

Total capital resources increased during 1995 by £396m. The retention for the year was £731m. This more than compensated for the reduction in subordinated liabilities, which was due to the redemption of $500m of undated variable rate notes in February 1995 and the maturing of Swiss Francs 300m of 4½% capital bonds in July 1995.

Group capital ratios

The Group monitors capital adequacy and the use of capital by reference to the Bank of England's capital adequacy guidelines. The risk-based capital ratios presented below exceed the international standards of the Basle Accord and the requirements of the Bank of England.

	At 31 December		
	1995 £m	1994 £m	1993 £m
Adjusted capital			
Tier 1	**7,419**	6,578	5,882
Tier 2	**5,087**	5,374	5,728
Supervisory deductions	**(756)**	(606)	(404)
Total	**11,750**	11,346	11,206
	£bn	£bn	£bn
Weighted risk assets			
On-balance sheet	**91.2**	85.6	84.5
Off-balance sheet	**18.8**	17.8	18.9
Total	**110.0**	103.4	103.4
Group capital ratios			
Tier 1	**6.7%**	6.4%	5.7%
Total	**10.7%**	11.0%	10.8%

The Group continues to be strongly capitalised. Tier 1 capital has benefited from retentions of £731m in the year. The £232m goodwill written off, relating mainly to the acquisition of Central Jersey and Gleacher, was largely offset by the issue of 35m ordinary shares in partial consideration. The Group redeemed $500m of undated variable rate notes (tier 2) in February 1995.

Group capital ratios continued

Group weighted risk assets ('WRAs') rose by £6.6bn (6%) during the year. On-balance sheet WRAs were higher by £5.6bn (7%), reflecting growth in lending at NatWest UK (principally mortgages and commercial loans), Lombard, Ulster Bank and Bancorp, whose loan book expanded as a result of its acquisitions. At NWM, less profitable lending continued to be managed down, but there were increases in reverse repurchase agreements and structured finance products.

Off-balance sheet WRAs grew by £1.0bn (6%). Growth in interest rate related derivative contracts and other commitments was offset, in part, by reductions in low yielding WRAs such as performance bonds, guarantees and other direct credit substitutes.

The proposed sale of Bancorp will increase the Group's capital base, improving its tier 1 capital ratio, on a proforma basis, by 1.0% to 7.7% at 31 December 1995, due largely to the elimination of approximately £13bn of WRAs. The acquisition of Gartmore will reduce the tier 1 and total capital ratios by an estimated 0.5%.

Average balance sheets and interest rates

The following table shows average balances, interest and interest rates for the past three years. In this table and elsewhere in this report, unless otherwise stated, average balances are calculated from a combination of daily, monthly and quarterly data and are considered to represent fairly the operations of the Group.

	1995			1994			1993		
	Average balance £m	**Interest receivable £m**	**Average rate %**	Average balance £m	Interest receivable £m	Average rate %	Average balance £m	Interest receivable £m	Average rate %
Assets									
Interest-earning assets									
Loans and advances to banks [1][2]									
Domestic	**4,175**	**288**	**6.9**	6,223	354	5.7	6,353	404	6.4
International	**28,105**	**1,768**	**6.3**	26,173	1,413	5.4	21,495	1,378	6.4
Loans and advances to customers [2] (includes operating lease assets)									
Domestic	**54,513**	**4,749**	**8.7**	52,043	4,282	8.2	51,349	4,581	8.9
International	**33,969**	**2,672**	**7.9**	32,887	2,245	6.8	33,750	2,374	7.0
Treasury and other eligible bills									
Domestic	**8,149**	**509**	**6.2**	6,441	335	5.2	7,632	427	5.6
International	**1,757**	**90**	**5.1**	2,289	125	5.5	1,229	81	6.6
Debt securities and equity shares									
Domestic	**6,286**	**364**	**5.8**	5,134	165	3.2	2,909	102	3.5
International	**12,565**	**656**	**5.2**	10,323	546	5.3	8,941	455	5.1
Total interest-earning assets	**149,519**	**11,096**	**7.4**	141,513	9,465	6.7	133,658	9,802	7.3
Allowance for bad and doubtful debts	**(1,674)**			(2,064)			(2,261)		
Non-interest earning assets	**24,956**			21,623			23,856		
Total assets	**172,801**			161,072			155,253		
Percentage of assets applicable to international operations	**51.7%**			50.8%			48.5%		

(1) These are primarily funds placed with institutions for maturities not exceeding six months. Federal funds sold and securities purchased under agreement to resell represented £1,755m of the average balance in this category in 1995 (1994 £1,276m; 1993 £673m).

(2) Loans and advances to banks and to customers are stated net of unearned income and before deduction of the allowance for bad and doubtful debts. Non-accrual loans have been included in the average balances. Interest income on non-accrual loans has been included to the extent that cash payments have been received.

	1995 Average balance £m	1995 Interest payable £m	1995 Average rate %	1994 Average balance £m	1994 Interest payable £m	1994 Average rate %	1993 Average balance £m	1993 Interest payable £m	1993 Average rate %
Liabilities									
Interest-bearing liabilities									
Deposits by banks									
Domestic	**4,415**	**300**	**6.8**	5,122	283	5.5	6,916	438	6.3
International	**31,452**	**1,888**	**6.0**	27,942	1,490	5.3	24,341	1,542	6.3
Customer accounts									
Demand deposits									
Domestic	**18,980**	**688**	**3.6**	18,570	575	3.1	18,422	691	3.8
International	**3,954**	**123**	**3.1**	4,568	150	3.3	4,098	169	4.1
Savings deposits									
Domestic	**12,534**	**653**	**5.2**	12,636	583	4.6	10,581	567	5.4
International	**4,698**	**128**	**2.7**	4,668	118	2.5	4,612	130	2.8
Time deposits									
Domestic	**14,215**	**931**	**6.5**	14,410	767	5.3	14,870	843	5.7
International	**19,117**	**1,191**	**6.2**	17,098	935	5.5	16,388	927	5.7
Debt securities in issue									
Domestic	**6,819**	**468**	**6.9**	4,068	239	5.9	3,824	271	7.1
International	**7,312**	**472**	**6.5**	5,687	277	4.9	5,053	222	4.4
Subordinated liabilities									
Domestic	**2,920**	**218**	**7.5**	3,205	201	6.3	3,216	186	5.8
International	**1,948**	**155**	**8.0**	2,155	150	7.0	1,947	128	6.6
Total interest-bearing liabilities	**128,364**	**7,215**	**5.6**	120,129	5,768	4.8	114,268	6,114	5.3
Non-interest bearing deposits	**15,934**			15,460			16,113		
Other non-interest bearing liabilities	**21,719**			19,378			19,046		
Total liabilities	**166,017**			154,967			149,427		
Shareholders' equity	**6,784**			6,105			5,826		
Total liabilities and shareholders' equity	**172,801**			161,072			155,253		
Percentage of liabilities applicable to international operations	**50.9%**			49.2%			47.1%		

The following table shows the Group's interest spread, net interest margin and certain interest rates for the past three years.

	1995 Average rate %	1994 Average rate %	1993 Average rate %
Interest spread*			
Domestic	**2.6**	2.8	2.9
International	**1.0**	1.0	1.0
Group	**1.8**	1.9	2.0
Net interest margin**			
Domestic	**3.6**	3.6	3.7
International	**1.6**	1.7	1.8
Group	**2.6**	2.6	2.8
Bank's sterling base loan rate	**6.7**	5.5	6.0
3 month sterling LIBOR	**6.8**	5.6	6.0
Dollar prime rate	**8.8**	7.2	6.0
3 month dollar LIBOR	**6.0**	4.8	3.3

* Interest spread represents the difference between the rate of interest earned on average interest-earning assets and the rate of interest paid on average interest-bearing liabilities.

** Net interest margin is net interest income expressed as a percentage of average interest-earning assets.

Analysis of changes in net interest income

The following table allocates changes in net interest income between volume and rate for 1995 compared with 1994 and for 1994 compared with 1993. Changes due to a combination of volume and rate are allocated to volume and rate on the same proportionate basis as changes due to each of volume and rate.

	1995 over 1994 Increase/(decrease) due to changes in			1994 over 1993 Increase/(decrease) due to changes in		
	Average volume £m	Average rate £m	Net change £m	Average volume £m	Average rate £m	Net change £m
Interest-earning assets						
Loans and advances to banks [1]						
Domestic	(131)	65	(66)	(8)	(42)	(50)
International	110	245	355	272	(237)	35
Loans and advances to customers [1]						
Domestic	208	259	467	61	(360)	(299)
International	76	351	427	(60)	(69)	(129)
Treasury and other eligible bills						
Domestic	99	75	174	(63)	(29)	(92)
International	(26)	(9)	(35)	60	(16)	44
Debt and equity securities						
Domestic	44	155	199	72	(9)	63
International	117	(7)	110	73	18	91
	497	1,134	1,631	407	(744)	(337)
Interest receivable						
Domestic	220	554	774	62	(440)	(378)
International	277	580	857	345	(304)	41
Total interest receivable	497	1,134	1,631	407	(744)	(337)
Interest-bearing liabilities						
Deposits by banks						
Domestic	(42)	59	17	(104)	(51)	(155)
International	199	199	398	211	(263)	(52)
Customer accounts						
Demand deposits						
Domestic	13	100	113	6	(122)	(116)
International	(19)	(8)	(27)	18	(37)	(19)
Savings deposits						
Domestic	(5)	75	70	101	(85)	16
International	1	9	10	2	(14)	(12)
Time deposits						
Domestic	(11)	175	164	(26)	(50)	(76)
International	117	139	256	39	(31)	8
Debt securities in issue						
Domestic	183	46	229	16	(48)	(32)
International	91	104	195	29	26	55
Subordinated liabilities						
Domestic	(19)	36	17	(1)	16	15
International	(15)	20	5	14	8	22
	493	954	1,447	305	(651)	(346)
Interest payable						
Domestic	119	491	610	(8)	(340)	(348)
International	374	463	837	313	(311)	2
Total interest payable	493	954	1,447	305	(651)	(346)
Net interest income						
Domestic	101	63	164	70	(100)	(30)
International	(97)	117	20	32	7	39
Total net interest income	4	180	184	102	(93)	9

(1) See note 2 on page 48.

Board of directors

at 19 February 1996

Chairman

Lord Alexander of Weedon QC. A former Chairman of the Panel on Takeovers and Mergers, Lord Alexander became a director and Chairman in 1989. He has been a director of The RTZ Corporation PLC since 1991 and in 1994 he took up the position of director and Deputy Chairman of the Securities and Investments Board. Lord Alexander is aged 59.

Deputy chairmen

Sir Edwin Nixon CBE DL has been a director of the Bank for over twenty years and has served as a Deputy Chairman since 1987. He chairs the Bank's Audit & Compliance Committee and is a director of National Westminster Bancorp Inc. and NatWest Bank, N.A. Sir Edwin is Chairman of Amersham International plc and NatWest Pension Trustees Limited. He is 70 and will be retiring at the 1996 Annual General Meeting.

Sir Sydney Lipworth QC became a director and a Deputy Chairman of the Bank in 1993. Sir Sydney is a director of National Westminster Life Assurance Limited and Coutts & Co Group. He is Chairman of the Financial Reporting Council and a former Chairman of the Monopolies and Mergers Commission. Sir Sydney is also Chairman of Zeneca Group PLC and a director of Carlton Communications Plc. Sir Sydney is 64.

Directors

Sir Michael Angus has been a director of the Bank since 1991. Sir Michael is Chairman of NatWest Markets and a former Deputy Chairman of the Bank. He is Chairman of Whitbread PLC and The Boots Company PLC and a Deputy Chairman of British Airways Plc. Sir Michael is 65.

Sir John Banham joined the Board in 1992. He is Chairman of the Bank's Remuneration Committee. Sir John is Chairman of Tarmac PLC, Kingfisher plc, ECI Ventures Limited and Westcountry Television Limited. Sir John serves as a director on the boards of National Power PLC and The Merchants Trust PLC. His former appointments include Director General of the Confederation of British Industry and Controller of the Audit Commission. Sir John is 55.

The Hon Sir Richard Butler DL was appointed a director of the Bank in 1986. He is Chairman of NatWest Investment Management Limited. Sir Richard is a farmer and a former President of the National Farmers' Union. He is 67 and will be retiring at the 1996 Annual General Meeting.

Denis M Child CBE was appointed a director of the Bank in 1982. He is a former Deputy Group Chief Executive and is Chairman of the Bank's subsidiary, Lombard North Central PLC. Mr Child is also a director of Eurotunnel PLC and Coutts & Co Group. Mr Child is 69 and will be retiring at the 1996 Annual General Meeting.

Richard Karl Goeltz was appointed a director and Group Chief Financial Officer of the Bank in 1992. Prior to joining the Group he was an Executive Vice-President of The Seagram Company Ltd. He is 53.

H Martin V Gray became a director of the Bank in 1993, having headed the Group's UK Retail business since 1992. He is Chief Executive, NatWest UK and is aged 49.

Bernard P Horn became a director of the Bank in October 1995. He is Chief Executive, International Businesses, a position he has held since 1991. He is aged 49.

The Rt Hon Douglas Hurd CH CBE MP became a director of the Bank and Deputy Chairman of NatWest Markets in October 1995. Mr Hurd retired as Foreign Secretary in July 1995 after a distinguished career in government spanning sixteen years. He is aged 65.

Sir Ian MacLaurin DL has been a director of the Bank since 1990. Sir Ian is Chairman of Tesco PLC. He is 58.

Board of directors continued
at 19 February 1996

John W Melbourn CBE was appointed a director of the Bank in 1989 and became Deputy Group Chief Executive in March 1994. He is 58.

Dr J Martin Owen has been a director of the Bank since 1992. He has occupied the position of Chief Executive of NatWest Markets since 1992 and is aged 49.

Sir Desmond Pitcher DL was appointed a director of the Bank in June 1994. He is Chairman of United Utilities PLC and the Merseyside Development Corporation. Sir Desmond is Deputy Chairman of Everton Football Club Company Limited. Sir Desmond is 60.

Sir Charles Powell KCMG was appointed a director of the Bank in 1991. He is a director of Jardine Matheson Holdings Limited; Deputy Chairman of Trafalgar House plc; and a director of Arjo Wiggins Appleton p.l.c. and Christian Dior SA. Sir Charles is a former Private Secretary to the Prime Minister. He is 54.

Sir George Quigley CB joined the Board in 1990. He is Chairman of Ulster Bank Limited and a director of Short Brothers plc. Sir George is 66.

Martin G Taylor CBE was appointed a director of the Bank in 1990. He is Chairman of National Westminster Life Assurance Limited. Mr Taylor is Deputy Chairman of Charter plc, a director of Vickers PLC and a former Vice-Chairman of Hanson PLC. He is 61.

Derek Wanless was appointed a director of the Bank in 1991. He has been Group Chief Executive since 1992. He is 48.

The Rt Hon the Baroness Young PC DL has been a director of the Bank since 1987. She is a director of Marks & Spencer p.l.c. Baroness Young is a former Lord Privy Seal and Leader of the House of Lords. She is 69 and will be retiring at the 1996 Annual General Meeting.

General Counsel
Christopher F FitzGerald

Company Secretary
Peter J S Hammonds FCIS

Committees of the Board

Audit & Compliance Committee
*Sir Edwin Nixon *(Chairman)*
Sir Sydney Lipworth
Sir John Banham
*Sir Richard Butler
Sir Ian MacLaurin
Sir George Quigley
Martin G Taylor

Nomination Committee
Lord Alexander *(Chairman)*
*Sir Edwin Nixon
Sir Sydney Lipworth
Sir Michael Angus
Sir Charles Powell
Derek Wanless

Remuneration Committee
Sir John Banham *(Chairman)*
*Sir Richard Butler
*Denis M Child
Sir Ian MacLaurin

*Sir Edwin Nixon, Sir Richard Butler and Denis M Child will retire from the above Committees at the 1996 Annual General Meeting. Sir Sydney Lipworth will succeed Sir Edwin Nixon as Chairman of the Audit & Compliance Committee and Professor Sue Birley, who has been appointed a director with effect from 1 March 1996, will also become a member of the Committee.

Sir Richard Butler and Denis M Child will be succeeded on the Remuneration Committee by Professor Sue Birley and Martin G Taylor.

Other executive officers of the Bank

at 19 February 1996

Name	Position	Appointed
Michael St J Ashley (41)	Chief Financial Officer, NatWest Markets	1995
R C Mark Aston (40)	Director of Strategy, NatWest UK	1995
Paul R Biddle (50)	Director of Finance, NatWest UK	1994
Trevor Blackler (56)	Chief Executive, Group Central Services	1994
Christopher R Bottomley (51)	Director of Human Resources, NatWest UK	1994
Patrick J Boylan (54)	Managing Director, Card Services, NatWest UK	1995
Roger W Byatt (55)	Deputy Chief Executive, NatWest Markets	1992
Stuart R Chandler (51)	Deputy Chief Executive, NatWest UK	1994
Lawrence Churchill (49)	Managing Director, Life & Investment Services, NatWest UK	1995
Robert C Cregeen (55)	Director of Risk Management, NatWest UK	1995
Philip W Deer (53)	Regional Managing Director, Asia Pacific, NatWest Markets	1994
David A Edmonds (51)	General Manager, Group Central Services	1993
Christopher F FitzGerald (50)	General Counsel	1995
Peter J Hall (46)	Deputy Chief Executive, NatWest Markets	1995
Peter J S Hammonds (42)	Company Secretary	1991
Stephan L Harris (49)	Chief Executive, Global Financial Markets, NatWest Markets and Group Treasurer	1994
John D Howland-Jackson (46)	Deputy Chief Executive, NatWest Markets	1993
W Stuart Humby (54)	Director of Group Purchasing	1992
R Stewart Legg (46)	General Manager, Group Information Technology	1994
Simon D Lewis (36)	Director of Corporate Affairs	1994
John R Mapplebeck (52)	Director of International Businesses	1994
David B Maycock (51)	Director of Group Compliance	1995
Robert F Park (49)	Head of Group Strategy	1995
Raoul M Pinnell (44)	Director of Marketing & Communications, NatWest UK	1994
Frederick W Pointon (55)	General Manager, Group Risk	1994
H Anthony Shaw (53)	Managing Director, Corporate Banking Services, NatWest UK	1995
Anthony C Warren (54)	Managing Director, Retail Banking Services, NatWest UK	1995
J Christopher Wathen (50)	General Manager, Group Human Resources	1994
Stephen J S Wells (47)	Managing Director, Insurance Services, NatWest UK	1995
Paul L Wickham (48)	Director of Group Audit	1995
George J Wise (52)	Managing Director, Mortgage Services, NatWest UK	1995

Other executive officers of the Bank continued

The Bank has employment contracts with the other executive officers listed on page 53. At present, these contracts generally provide for a term of service expiring at the end of a period of up to three years, or expiring on the individual's 60th birthday, if earlier. The notice periods within contracts for executive officers are being phased down generally to a 12 month notice period.

Remuneration of directors and officers

The aggregate remuneration for the year ended 31 December 1995 of all directors and officers of the Bank (56 persons) amounted to £13,154,000. This sum includes £200,000 in respect of services as directors and includes amounts paid under the Bank's profit sharing schemes, which are described in note 5 to the accounts on page 79.

The following table shows the aggregate shareholdings, as at 31 December 1995, of the directors and officers of the Bank.

Title of class	Owner	Number owned	Percentage of class
Ordinary shares of £1 each	Directors and officers of the Bank (52 persons)	**248,471**	**0.01%**

At 31 December 1995, executive officers held options under the Bank's 1981 Savings Related Share Option Scheme relating to a total of 25,098 shares. At the same date, executive officers held options under the Executive Share Option Scheme relating to a total of 1,640,193 shares.

Further details of directors' emoluments and interests in shares are given in the Remuneration Committee's Annual Report to Shareholders on pages 60 to 68.

Report of the directors

Results for the year

The Group profit on ordinary activities before taxation was £1,753m compared with £1,592m for the previous year.

The taxation charge for the year amounted to £513m as against £459m for 1994. After minority interests of £26m and preference share dividends of £37m, the profit attributable to ordinary shareholders of the Bank was £1,177m (1994 £1,055m). This profit has been dealt with as shown in the Consolidated Profit and Loss Account on page 72.

The final dividend for 1995 of 16.9p per ordinary share, together with the interim dividend of 8.4p, makes a total distribution to the ordinary shareholders for the year of 25.3p per ordinary share, compared with 21.6p for 1994. With the related tax credit at current rates, this represents a gross distribution of 31.6p per ordinary share (1994 27.0p). The final dividend will be paid on 1 May 1996 to shareholders registered at the close of business on 5 March 1996.

Activities

The Bank and its subsidiary undertakings which form the NatWest Group provide an extensive range of banking and financial services through offices and branches in the UK and overseas. The principal subsidiary undertakings, together with an indication of the nature of their businesses, are set out in note 24 to the accounts on page 93.

The Operating and Financial Review on pages 11 to 50, which is adopted as part of this report, contains a discussion and analysis of the performance of the businesses and the factors underlying their results, financial position and future prospects. It is based on the principles set out in the Accounting Standards Board's Statement on Operating and Financial Review. Further commentary on the development of the businesses during the year and an indication of likely future developments in the Group are contained in the Annual Review for 1995 which has been sent to all shareholders.

On 19 February 1996, the Bank announced it had agreed to acquire 75 per cent. of the issued share capital of Gartmore plc from Banque Indosuez and that an offer would be made to purchase the remaining 25 per cent. of the issued share capital not owned by them. The total cash consideration will amount to approximately £472m.

Going concern

In accordance with the Cadbury Code of Best Practice (the 'Code'), the directors confirm that they are satisfied that the Bank has adequate resources to continue in operational existence for the foreseeable future. It is, therefore, appropriate to continue to adopt the going concern basis in preparing the accounts.

Corporate governance

The board of directors adopted the Code in December 1992 and the Bank has complied with all applicable parts thereof throughout 1995. The auditors, KPMG, have confirmed to the directors that this statement appropriately reflects the Bank's compliance with the Code, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for their review.

KPMG have also reviewed the commentary on the Bank's internal financial control systems contained within the Directors' Responsibility for Financial Reporting statement on page 69 and the above reference to the Bank's continued adoption of the going concern basis in preparing these accounts. They have reported that in their opinion these statements: (i) provide the information required by the Code, as supplemented by the related guidance for directors, and (ii) are not

Corporate governance continued

inconsistent with the information of which they are aware from their work in connection with the audit of the accounts. The directors note that KPMG have performed their reviews in accordance with the guidance issued by the Auditing Practices Board. They have not performed any additional procedures to express separate opinions on the effectiveness of either the Bank's system of internal financial control or corporate governance procedures or on the going concern assumption.

The Remuneration Committee's Annual Report to Shareholders made on behalf of the board (the 'Remuneration Committee's Report'), setting out policies on executive remuneration and containing details of the remuneration packages of the members of the board, appears on pages 60 to 68 and is adopted as part of this report.

Capital

In January 1995, 20.8m ordinary shares were allotted in the form of American Depositary Shares in connection with the Group's acquisition of Central Jersey Bancorp in the US. Furthermore, in November 1995, 13.7m ordinary shares were issued in respect of the acquisition of Gleacher & Co. Inc. in the US.

A total of 14.0m ordinary shares were issued during the year to option holders on the exercise of options under the Bank's Savings Related Share Option Scheme at subscription prices between 196p and 436p per ordinary share. In addition, 2.9m ordinary shares were issued following exercises of options under the Bank's 1986 and 1994 Executive Share Option Schemes at prices between 278p and 590p per ordinary share.

Over 34,000 ordinary shareholders elected to receive in aggregate 2.8m ordinary shares in lieu of the 1994 final cash dividend and 0.9m ordinary shares instead of the 1995 interim cash dividend. Ordinary shareholders will have the opportunity to elect to receive ordinary shares in respect of the 1995 final dividend.

The effect of the transactions referred to above on the ordinary share capital and reserves of the Bank is detailed in notes 38 and 39 to the accounts on pages 102 and 103.

In February 1995, the Bank repaid all of the $500m undated variable rate notes issued in 1988 and 1989. In July 1995, Swiss Francs 300m 4½% Capital Bonds issued in 1985 were repaid at par. During the year, $290,000 of junior floating rate notes were purchased in the open market and cancelled.

An authority for the Bank to purchase its own shares through the stock market existed at the year end. The authority, which is limited to the purchase of up to 100m ordinary shares (5.6% of the issued ordinary share capital), was not used during the year. A resolution will be put to the Bank's Annual General Meeting on 23 April 1996 to renew the authority for the period to the Annual General Meeting in 1997 or 23 July 1997, whichever is the earlier.

Since 1994, over £28,000 has been donated by shareholders to four charities: The British Red Cross Society, Save the Children, Imperial Cancer Research Fund and WWF (World Wide Fund for Nature), by giving their residual cash balances (left after they have taken their dividend in the form of shares) through the charities option in our Share Dividend Scheme. Further details about this scheme appear on page 30 of the Annual Review.

Substantial shareholdings

At the date of this report, the Bank did not know, and had not been notified, of any interest in its shares which would currently need to be disclosed to the Bank under Part VI of the Companies Act 1985. The Bank is not aware of any person who owns 10% or more of its ordinary shares.

Directors

The current members of the board are shown on pages 51 and 52.

The Rt Hon Douglas Hurd and Mr B P Horn were appointed directors in October 1995. On 13 February 1996, Professor Sue Birley was appointed a director effective from 1 March 1996. The Rt Hon Douglas Hurd, Mr B P Horn and Professor Sue Birley will offer themselves for re-election at the forthcoming Annual General Meeting in accordance with the Articles of Association.

Mr J Tugwell resigned as a director on 21 December 1995.

Sir Edwin Nixon, Baroness Young, Sir Richard Butler and Mr D M Child will all be retiring at the forthcoming Annual General Meeting and will not be seeking re-election.

The directors retiring by rotation at the Annual General Meeting, in accordance with the Articles of Association, will be Mr J W Melbourn and Sir George Quigley. They both intend to offer themselves for re-election.

Directors' service agreements

Of the directors offering themselves for re-election at the Annual General Meeting for 1996, Mr Melbourn and Mr Horn have service agreements with the Bank which currently may be terminated by the Bank upon 15 months' notice in normal circumstances or 36 months' notice in certain limited circumstances. The Rt Hon Douglas Hurd has an agreement with a subsidiary undertaking which may be terminated upon 12 months' notice.

Since May 1994, when UK executive directors' service agreements were subject to 36 months' notice, the notice period has been reducing, so that by 31 May 1996 all executive directors will have a 12 month rolling service agreement which will require 36 months' notice in certain limited circumstances.

Sir George Quigley and Professor Sue Birley have no service agreement with the Bank or any of its subsidiary undertakings. For further information on directors' service agreements see the Remuneration Committee's Report on pages 60 to 68.

Directors' interests

The interests of the directors in office at 31 December 1995 in the ordinary shares of the Bank and its subsidiary undertakings, according to the register maintained under Section 325 of the Companies Act 1985, are shown in the Remuneration Committee's Report on pages 60 to 68.

Contracts

None of the directors had a material interest at any time during the year in any contract of significance in relation to the Bank's business.

Directors' and officers' liability insurance

Directors' and officers' liability insurance is maintained for the benefit of the Bank and its directors.

Employees

Policies and procedures to promote equality of opportunity regardless of sex, marital status, age, religion, race, nationality or disability have been developed. The aim of these policies, which cover recruitment, pay, training, career development and promotion opportunities is to encourage a culture ~~in which all~~ employees ~~have the opport~~unity to develop as ~~fully as~~ possible in accordance with their individual abilities and the needs of the Bank.

Employees continued

The Opportunity 2000 initiative is integral to the Bank's philosophy of recognising, valuing and managing the diversity of its employees. Since becoming a founder member in 1991, the number of our managers that are female has risen to 25% from 16%. Additionally, employees from ethnic minorities represent over 2% of all the Bank's management team.

As an equal opportunities employer, it is the Bank's policy to give full and fair consideration to every application for employment opportunities from persons with disabilities. This includes the rehabilitation and retention of staff who become disabled, having regard to their particular aptitude and abilities.

Employee participation

The methods used by the Bank to communicate directly with staff during 1995 included circulars and other information sheets, leaflets, videos, telephone hotlines and in-house magazines. Telephone surveys were regularly used to seek feedback from staff on key issues.

NatWest UK's units held regular communication meetings to enable a two-way flow of information on key issues.

The Bank remains committed to providing shareholding opportunities as a means of encouraging employee participation and, in 1995, 31,000 staff subscribed to an offer under the Bank's Savings Related Share Option Scheme. In addition, a distribution was again made under the Staff Profit Sharing Share Scheme.

As part of the Bank's overall reward package, all staff are eligible to earn performance-based incentive bonuses.

The Bank continues to consult and negotiate on a regular basis with the NatWest Staff Association and the Banking Insurance and Finance Union. To complement existing avenues for communication and consultation, the Bank announced the creation of the NatWest Staff Council ('Staff Council'). Developed in conjunction with staff representatives, the Staff Council will have 54 members reflecting the views of staff around the world.

Suppliers

Our suppliers are vital to the Group's success. We are committed to establishing mutually beneficial relationships with them, based on the same high ethical standards that must apply to all our dealings. We are open, professional, honest and committed to paying suppliers within 30 days of the invoice date (or as otherwise agreed).

Premises

At 31 December 1995, the Group had approximately 3,400 branches, representative and similar offices worldwide of which approximately 2,700, principally branch offices, were located in the UK. Of the total net book value of Group properties, approximately 90% is owned or held under long-term leases. There are no material encumbrances to the Group's properties.

A charge of £4m has been recognised in the Group's profit and loss account in respect of certain properties, the value of which is judged to be permanently impaired.

The Group's freehold properties were valued at the end of 1995 by its internal and external qualified valuers on the basis of existing use value or, in the case of specialised properties, on a depreciated replacement cost basis. There was no resulting surplus or deficit compared to net book value. There remains an overall deficit on the Group's revaluation reserve of £221m which the directors do not consider to be permanent.

Details of movements in fixed assets are shown in notes 23 to 25 to the accounts on pages 92 to 95.

Contributions

During the year, the Group made donations amounting to £2,793,833 to United Kingdom charitable organisations. No contributions were made by the Group to any United Kingdom political party.

Annual general meeting

In addition to the ordinary business to be transacted at the Annual General Meeting on 23 April 1996, three items of special business will be proposed. Details of these items can be found in the Shareholders' Circular which has been sent to all shareholders. Copies of the Circular can be obtained by writing to The Registrar for NatWest Group, Freepost (BS2282), PO Box 82, Bristol BS99 7YA or by telephoning our Shareholders' Helpline on 0117 930 6566.

Auditors

Our auditors, KPMG, have indicated that a limited liability company, KPMG Audit Plc, is to assume responsibility for certain aspects of their audit business. Accordingly, a resolution, of which special notice has been received, to appoint KPMG Audit Plc as auditors, at a remuneration to be fixed by the directors, will be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Peter J S Hammonds FCIS
Company Secretary

Registered Office
41 Lothbury
London EC2P 2BP

19 February 1996

Remuneration committee's annual report to shareholders

Members of the committee

Sir John Banham *(Chairman)*
Sir Richard Butler
Denis M Child
Sir Ian MacLaurin

The Remuneration Committee ('the Committee') consists of the four non-executive directors whose names are shown above. Sir Richard Butler and Mr D M Child are scheduled to retire at the 1996 Annual General Meeting and their successors on the Committee will be Professor Sue Birley and Mr M G Taylor.

The Committee:

- determines, on behalf of the board and the shareholders, the Bank's overall policy for executive remuneration;
- ensures that full regard is given to recommended best practice for executive remuneration;
- encourages a clear link between executive reward and the Group's performance, ensuring that executives are fairly, but responsibly, rewarded for their individual contributions; and
- will report annually to the shareholders.

Following a review of its responsibilities in 1995, the Committee now determines the remuneration of the Chairman, deputy chairmen, executive directors and other key executives. Previously, the Committee made recommendations to the board on these issues. The Committee does not determine fees for non-executive directors, which are recommended to the board by the Chairman and the Group Chief Executive and determined by the board. Full details of individual director's emoluments are given on page 61.

The Bank has complied with the 'Best Practice' provisions for remuneration committees published by the London Stock Exchange. In framing the Bank's remuneration policy, the Committee has given full consideration to the attachment to the Listing Rules which provides guidance on remuneration policy, service contracts and compensation.

Remuneration policy

The Committee's policy is to provide remuneration packages which are competitive in the markets in which our businesses operate and are structured in such a way that a significant part of an individual's reward depends upon the achievement of business objectives and the delivery of long-term shareholder value.

In this context, our aim is to attract, retain and motivate high calibre individuals by:

- paying market competitive base salaries and associated benefits, including pensions;
- awarding annual bonuses in cash and shares based on performance against specified objectives; and
- offering medium-term incentives in the form of shares, based on specified performance targets, in order to promote effective teamworking, to provide a check and balance against the short-term perspective of the annual bonus, and to reinforce the common identity of interest with our shareholders.

Emoluments of directors	Salary £000	Fees from an associated undertaking £000	Performance related bonuses £000	Profit sharing £000	Benefits £000	Total 1995 £000	Total 1994 £000
Chairman, deputy chairmen and executive directors							
Lord Alexander *(Chairman)*	304	–	135	–	15	454	417
Sir Edwin Nixon *(Deputy Chairman)*	129	–	–	–	2	131	133
Sir Sydney Lipworth *(Deputy Chairman)*	129	–	–	–	2	131	122
D Wanless *(Group Chief Executive)*	350	–	200	27	17	594	499
J W Melbourn *(Deputy Group Chief Executive)*	290	24	120	22	20	476	411
A Morris *(retired October 1994)*	–	–	–	–	–	–	346
Dr J M Owen *(Chief Executive, NWM) (highest paid UK director)*	300	–	277	23	17	617	490
R K Goeltz *(Group Chief Financial Officer)*	250	–	88	19	5	362	352
H M V Gray *(Chief Executive, NatWest UK)*	220	–	60	17	13	310	314
B P Horn *(Chief Executive, IB) (appointed October 1995)*	45	–	30	3	4	82	–
J Tugwell *(Chairman and Chief Executive, Bancorp) (based in the US, resigned as a director in December 1995)*	551	–	551	–	15	1,117	1,462
						4,274	4,546
Contributions to directors' pensions *(see note on pensions on page 66)*						276	362

Other non-executive directors	Board fee £000	Board committee fees £000	Salaries and fees including those from subsidiary under-takings £000	Benefits £000	Total 1995 £000	Total 1994 £000
Sir Michael Angus *(Deputy Chairman until April 1994)*	20	8	–	2	30	39
Sir John Banham	20	23	–	2	45	45
Sir Richard Butler	20	12	27	3	62	62
D M Child	20	15	56	2	93	81
The Rt Hon Douglas Hurd *(appointed October 1995)*	–	–	62	–	62	–
Sir Ian MacLaurin	20	11	–	2	33	34
Sir Antony Pilkington *(retired April 1994)*	–	–	–	–	–	10
Sir Desmond Pitcher *(appointed June 1994)*	20	1	–	2	23	15
Sir Charles Powell	20	22	–	2	44	46
Sir George Quigley	20	8	43	7	78	79
M G Taylor	20	9	27	2	58	56
Baroness Young	20	–	–	2	22	27
					550	494
Aggregate emoluments of directors who served in the year					5,100	5,402
Pensions paid to former directors and their dependants					262	238
Superannuation gratuity paid to a former director					–	20

Non-executive directors' fees

The basic fee received by certain non-executive directors for membership of the National Westminster Bank board is £20,000 per annum. The non-executive directors shown below have received fees and salaries during the year for the work described.

Sir Michael Angus – NatWest Markets (Chairman).
Sir John Banham – Remuneration Committee (Chairman), NatWest Markets board, Group Audit & Compliance Committee and NatWest Markets Audit & Compliance Committee (Chairman).
Sir Richard Butler – NatWest Investment Management Ltd (Chairman), Remuneration Committee, Group Audit & Compliance Committee and NatWest Markets Audit & Compliance Committee.
D M Child – Lombard North Central PLC (Chairman), Remuneration Committee, NatWest Markets board, Pension Fund Performance Committee, Coutts & Co Group board, Coutts & Co board and the Audit & Compliance Committees of NatWest Markets, Lombard North Central PLC (Chairman), Coutts & Co Group (Chairman) and Coutts & Co (Chairman).
The Rt Hon Douglas Hurd – NatWest Markets (Deputy Chairman).
Sir Ian MacLaurin – Group Audit & Compliance Committee and Remuneration Committee.
Sir Desmond Pitcher – NatWest UK & Group Services Audit & Compliance Committee.
Sir Charles Powell – International Advisory Board (Chairman), NatWest Markets board and NatWest UK & Group Services Audit & Compliance Committee.
Sir George Quigley – Ulster Bank Ltd (Chairman), Group Audit & Compliance Committee and NatWest UK & Group Services Audit & Compliance Committee.
M G Taylor – National Westminster Life Assurance Ltd (Chairman), NatWest Markets board, Group Audit & Compliance Committee and NatWest UK & Group Services Audit & Compliance Committee (Chairman).

Service agreements

The service agreements between the Bank and its UK based executive directors have a notice period which is in the process of reducing from a three year rolling contract in May 1994 to a one year rolling contract by the end of May 1996. If, however, there is a change in the control of the Bank, the agreements provide for a 36 month notice period to apply. The purpose of this clause is to support the alignment of directors' and shareholders' interests by encouraging a medium-term perspective should such exceptional circumstances ever arise. In the event of early termination, the Bank's normal policy is to seek fair mitigation of contractual rights. Information on the service agreements of the directors offering themselves for re-election at the 1996 Annual General Meeting is given in the Report of the Directors on page 57.

Annual remuneration

Each element of remuneration for the Chairman, deputy chairmen and executive directors is considered by the Committee in the context of the individual's overall reward package. Their salaries are considered by the Committee in the light of independent survey data on appropriate market comparators in financial and non-financial sectors, taking into account the responsibilities and experience of each individual. The selection of comparators varies with each role to reflect the different markets in which our businesses operate. The Committee also pays particular attention to the increases awarded to NatWest UK staff generally.

The executive directors' annual bonuses are determined by the Committee by assessing their achievements against a range of business objectives, financial and non-financial, including the achievement of key strategic milestones and financial plans and improvements in performance indices. The Chairman's bonus is determined by the Committee, taking into account the bonuses paid to certain executive directors. Annual bonuses will be paid in March 1996 in respect of performance during 1995 (see the amounts given in the table on page 61).

Annual remuneration continued

The Committee assessed performance payments for 1995 against the background of

- increases in total shareholder value, earnings per share and operating profits;
- return on equity of 18.6%, exceeding the Group's benchmark rate; and
- significant strategic developments, including the negotiation of the sale of Bancorp, continuing growth in NatWest Markets, a major reorganisation of our retail and commercial banking operations in the UK to improve the focus upon our customers, and continuing investments in new products and in people.

Medium Term Equity Plan

	Potential maximum share awards under the 1994 grants
Lord Alexander	30,400
R K Goeltz	25,000
H M V Gray	22,000
B P Horn	19,000
J W Melbourn	29,000
Dr J M Owen	30,000
D Wanless	35,000

In 1994, the Committee established a Medium Term Equity Plan (the 'Plan') for key individuals. This is a type of employee share ownership plan, funded by the Bank and administered by an independent trustee. It has performance targets that the Committee considers to be stretching and provides an incentive to enhance long-term shareholder value. The 1994 awards are subject to the following performance condition: the Group has to achieve a post-tax return on equity averaging at least 17.7% per annum over the three financial years 1994-96. If this minimum target is achieved, 50% of the shares allocated will be transferred to the participant; if an average post-tax return on equity of 18.2% per annum is achieved for the period 1994-96, 70% will be transferred; and if the post-tax return is equal to or greater than 18.7% per annum, the maximum award will be received by the participant. The maximum award would result in the directors receiving the number of ordinary shares of £1 each shown in the table above. If the performance criteria are met, directors will be able to elect to have the shares transferred to them between 1997 and 2001. If the performance criteria are not met, the participants' interest in the shares ceases.

It was the Committee's intention that eighteen key individuals should again participate in the Plan in the second half of 1995. However, as the Bank was in discussions at that time regarding the sale of Bancorp, the awards were deferred and the Committee will make the 1995 grants under the Plan on 1 March 1996. The 1995 grants will be subject to the same criteria as applied to the 1994 grants, except that the performance period relates to the three financial years 1995-97 and the minimum performance target is a post-tax return on equity averaging at least 17.5% per annum. If the performance criteria for the full award are met, directors will be able to elect to have the following number of ordinary shares of £1 transferred to them between 1998 and 2002: Lord Alexander: 43,944; R K Goeltz: 36,140; H M V Gray: 31,803; B P Horn: 28,911; J W Melbourn: 41,923; Dr J M Owen: 17,856; and D Wanless: 50,593.

None of the directors received grants under the Bank's Executive Share Option Scheme in 1995 and the Committee has no plans to make such grants to directors in future.

At 31 December 1995, 375,881 shares (1994 379,490 shares) were held by the independent trustee for the Plan and, in the terms of the trust deed setting up the Plan, all employees and executive directors are deemed to have an interest as potential discretionary beneficiaries in those ordinary shares.

Medium Term Equity Plan continued

Dr J M Owen's award under the Plan in respect of 1995 will take into account his additional participation in a medium-term incentive plan for selected employees of NatWest Markets. The latter plan provides deferred compensation in the form of performance units, the eventual value of which is linked to the trading return on capital employed achieved by NatWest Markets over a three year period. In April 1995, Dr Owen was allocated a deferred award of performance units under this plan, valued initially at £150,000; the relevant performance period is April 1995 to March 1998 inclusive.

Executive Share Option Scheme

The following table shows the options over ordinary shares of £1 each in the Bank held by the persons who were directors of the Bank at 31 December 1995. The options which are shown in bold below can now be exercised. The remaining options will only be exercisable once the performance conditions detailed below have been met.

	Year of grant	Number of options	Exercise price pence per share	Exercisable for 7 years from date shown subject to performance conditions
Lord Alexander	**1990**	**66,964**	**308**	**1 Sept 1993**
	1991	**61,020**	**338**	**1 Sept 1994**
	1992	**90,255**	**313**	**1 Sept 1995**
	1993	115,705	503	1 Sept 1996
	1994	24,139	493	1 Sept 1997
R K Goeltz	**1992**	**127,795**	**313**	**1 Sept 1995**
	1993	84,294	503	1 Sept 1996
	1994	50,709	493	1 Sept 1997
H M V Gray	**1990**	**12,175**	**308**	**1 Sept 1993**
	1991	**26,360**	**338**	**1 Sept 1994**
	1992	**51,118**	**313**	**1 Sept 1995**
	1993	75,546	503	1 Sept 1996
	1994	49,948	493	1 Sept 1997
B P Horn	**1990**	**16,233**	**308**	**1 Sept 1993**
	1991	**28,846**	**338**	**1 Sept 1994**
	1992	**51,118**	**313**	**1 Sept 1995**
	1993	67,196	503	1 Sept 1996
	1994	42,730	493	1 Sept 1997
J W Melbourn	**1991**	**43,047**	**338**	**1 Sept 1994**
	1992	**66,134**	**313**	**1 Sept 1995**
	1993	88,469	503	1 Sept 1996
	1994	78,904	493	1 Sept 1997
Dr J M Owen	**1990**	**18,344**	**308**	**1 Sept 1993**
	1991	**19,970**	**338**	**1 Sept 1994**
	1992	**68,690**	**313**	**1 Sept 1995**
	1993	99,403	503	1 Sept 1996
	1994	67,772	493	1 Sept 1997
D Wanless	**1987**	**17,612**	**352**	**1 Sept 1990**
	1991	**38,165**	**338**	**1 Sept 1994**
	1992	**85,303**	**313**	**1 Sept 1995**
	1993	114,115	503	1 Sept 1996
	1994	86,966	493	1 Sept 1997

The middle market price of the Bank's ordinary shares of £1 each as at 31 December 1995 was 649p per share. During the year, the price of the Bank's ordinary shares has ranged from a low of 458p to a high of 692p.

Executive Share Option Scheme continued

Options granted in 1988 and 1989 lapsed because the relevant performance targets were not met. Performance targets for options granted in 1987, 1990, 1991 and 1992 have been achieved and these options are now available for exercise. For options granted in 1993, the target set was real growth in earnings per share over any three year financial period during the ten year life of the option. Options granted in 1994 were subject to the condition that an average post-tax return on equity of 17.5% or more must be achieved in any three year financial period during the ten year life of the option.

Options were granted at the prevailing market price at the time of grant. The options will have no value unless performance targets are met and the Bank's share price at the date of exercise exceeds the subscription price. The Chairman and executive directors did not receive any awards under the Executive Share Option Scheme in 1995.

Savings Related Share Option Scheme

The following table shows the share options over ordinary shares of £1 each in the Bank held in this scheme by the persons who were directors of the Bank at 31 December 1995.

	Year of grant	Number of options	Exercise price pence per share	Exercise period	Market price at date of exercise pence per share
H M V Gray	1990	1,974	196	Nov 1997-May 1998	–
	1992	862	261	Oct 1997-Mar 1998	–
	1993	518	399	Nov 1998-May 1999	–
At 1 January 1995		**3,354**			
Granted during the year	**1995**	**553**	**436**	May-Nov 2000	**–**
At 31 December 1995		**3,907**			
B P Horn	1990	1,415	196	Nov 1995-May 1996	–
	1992	862	261	Oct 1997-Mar 1998	–
	1993	518	399	Nov 1998-May 1999	–
At date of appointment		**2,795**			
Granted during the year	**1995**	**553**	**436**	May-Nov 2000	**–**
At 31 December 1995		**3,348**			
J W Melbourn	1990	1,645	196	Exercised	669
At 1 January 1995		**1,645**			
Exercised during the year		**(1,645)**			**669**
At 31 December 1995		**Nil**			
Dr J M Owen	1988	1,730	242.5	Exercised	632
	1990	918	196	Exercised	662
	1992	747	261	Oct 1997-Mar 1998	–
	1993	518	399	Nov 1998-May 1999	–
At 1 January 1995		**3,913**			
Exercised during the year		**(1,730)**			**632**
		(918)			**662**
Granted during the year	**1995**	**316**	**436**	May-Nov 2000	**–**
At 31 December 1995		**1,581**			
D Wanless	1988	692	242.5	Exercised	601
	1990	1,377	196	Nov 1997-May 1998	–
	1992	862	261	Oct 1997-Mar 1998	–
	1993	518	399	Nov 1998-May 1999	–
At 1 January 1995		**3,449**			
Exercised during the year		**(692)**			**601**
Granted during the year	**1995**	**553**	**436**	May-Nov 2000	**–**
At 31 December 1995		**3,310**			

Savings Related Share Option Scheme continued

The Savings Related Share Option Scheme is open to all employees of relevant companies within the NatWest Group who have completed a qualifying period of employment with the Group. Employees may be granted an option to acquire shares in the Bank at a price which may be discounted by up to 20% of market value. Participants must open a 5 or 7 year savings contract and, at the end of the savings period, may use the amount saved to take up the option to buy the shares. The option will have no value unless the Bank's share price at the time of the exercise exceeds the option price.

Profit sharing scheme

All eligible employees, including UK-based executive directors, participate in the National Westminster Bank Plc Group 1979 profit sharing scheme which will provide for a distribution equivalent to 7.7% of basic salary to all eligible employees in respect of 1995 performance. Participants may elect to receive their payment in either cash or ordinary shares in the Bank (subject to a maximum of £8,000 in shares). For further details see note 5 to the accounts on page 79.

Profit-related pay

With effect from 1 January 1996, the Group has introduced Profit-Related Pay ('PRP') schemes in accordance with rules devised by the UK government. Executive directors participate in one of two PRP schemes, alongside the vast majority of our UK-based staff who have elected to join.

Benefits

The benefits referred to in the table on page 61 include some or all of the following: the provision of a car, private health insurance, liability insurance for directors and other officers, luncheon facilities and housing loans at interest rates available to employees of the Group. Non-executive directors are covered by the Group's Directors' and Officers' Liability Insurance but do not generally receive any other non-cash benefits.

Pensions

An amount of £61,000 (1994 £60,000) was paid in respect of the Chairman's personal pension arrangements. In addition, the Chairman is a non-participating member of the NatWest Retirement Benefits Scheme (the 'Scheme'); he is not eligible to receive a pension from the Scheme but his dependants would receive a lump-sum death benefit of four times his basic salary in the event of his death whilst in the service of the Group. The deputy chairmen and other non-executive directors are not members of any Group pension scheme, with the exception of Mr D M Child, who receives a pension in respect of his previous executive employment with the Group.

UK-based executive directors participate in the National Westminster Bank Pension Funds (the 'Funds'), which typically provide an entitlement equal to 1/60th of pensionable emoluments for each completed year of service, subject to an overall maximum of 40 years. The contribution rate payable to the Funds for the first quarter of 1995 was 14.6% and for the remainder of the year was 7.3% of the total pensionable emoluments of all fund participants. These figures were assessed in accordance with the advice of independent qualified actuaries. If they serve to normal retirement age (60), the following executive directors will be entitled to receive a pension based upon 40/60ths of pensionable emoluments: Mr D Wanless, Mr J W Melbourn, Mr H M V Gray, Mr B P Horn and Dr J M Owen.

Mr R K Goeltz has been guaranteed a pension of 25% of pensionable emoluments if he serves to normal retirement age (60). To the extent that the benefits payable to or in respect of Mr Goeltz out of the Funds are restricted by the Inland Revenue limits, the Group will make up the shortfall. The Bank has made a provision in the accounts amounting to £60,000 in respect of this pension commitment in relation to his employment during 1995.

Pensions continued

In addition to their base salary, an element of executive directors' annual bonuses is pensionable (up to a maximum of 20% of base salary). This fact is fully taken into account in ensuring pensionable emoluments are positioned at competitive levels and included as part of a total remuneration approach to executive compensation.

Mr J Tugwell

Mr Tugwell resigned as a director of the Bank in December 1995, although he continues to be employed as Chairman and Chief Executive of Bancorp. He is resident in the US and does not receive benefits under the remuneration schemes applicable to UK-based executive directors. His contract of employment is with Bancorp. He has a rolling three-year service agreement and, in accordance with US practice, his agreement excludes mitigation in the event of early termination. His emoluments are reviewed annually by Bancorp's board, with assistance from independent consultants, and referred to the Committee.

The compensation system at Bancorp includes base salary, annual and long-term incentives and is designed to be competitive with other US regional banks. The principal elements of Mr Tugwell's 1995 remuneration (shown on page 61) comprised a base salary of US$870,000 (£551,000) per annum, which was determined in the light of comparative peer group data, a performance related bonus of US$870,000 (£551,000) (to be paid 50% in February and 50% in March of 1996) in respect of the achievement of specified financial and non-financial objectives, and awards under the following two medium-term incentive schemes in which Bancorp's management participates:

- The Restricted Stock Unit Plan ('RSUP')
  Under the RSUP, participants receive an award of notional Bancorp shares. The awards are subject to three- to five-year vesting restrictions and are paid out as cash upon vesting unless otherwise deferred. Twelve key Bancorp executives participated in the RSUP in 1995, including Mr Tugwell who received an award equivalent to 11,100 notional shares in March 1995, at a notional strike price of US$25.85 (£16.74) per share.
- The Phantom Stock Appreciation Plan ('PSAP')
  Under the PSAP, participants receive options over notional Bancorp shares. The options vest uniformly in one-third tranches over three years and lapse after 10 years if not exercised. Six hundred and forty four Bancorp employees participated in the PSAP in 1995, including Mr Tugwell who received options over 64,438 notional shares in March 1995, at a notional strike price of US$25.85 (£16.74) per share.

The value of the notional shares is established upon completion of the sale of Bancorp or by a regular valuation of Bancorp undertaken by independent advisers. Total vesting of notional shares under both plans occurs upon change in control.

Mr Tugwell participates in the National Westminster Bancorp Retirement Plan which provides a benefit at normal retirement age (65) based on salary and length of service. In addition, he participates in the National Westminster Bancorp Supplemental Executive Retirement Plan and Supplement Retirement and Benefit Equalisation Plan, both of which provide coverage not available under the US Internal Revenue Service guidelines. The combined impact of these plans will produce an accrued pension payable at normal retirement of 41% of 1995 salary. An annual payment of 4.5% of Mr Tugwell's salary is also made to a defined contribution scheme. The amount paid in 1995 was US$39,000 (£25,000). Mr Tugwell also has a preserved pension entitlement with the Funds in respect of his previous UK employment with the Bank.

Directors' interests in shares

The interests, all beneficial, of those who were directors at 31 December 1995 in the ordinary shares of the Bank are shown below.

Ordinary shares of £1 each	At 1 January 1995 or date of appointment if later	At 31 December 1995
Lord Alexander	12,681	**13,237**
Sir Edwin Nixon	6,000	**6,000**
Sir Sydney Lipworth	6,000	**6,000**
Sir Michael Angus	3,000	**3,000**
Sir John Banham	–	**–**
Sir Richard Butler	6,232	**6,232**
D M Child	16,494	**16,494**
R K Goeltz	3,334	**4,843**
H M V Gray	5,625	**5,747**
B P Horn	10,737	**10,737**
The Rt Hon Douglas Hurd	–	**–**
Sir Ian MacLaurin	3,010	**3,142**
J W Melbourn	8,570	**10,215**
Dr J M Owen	9,843	**14,000**
Sir Desmond Pitcher	5,000	**5,071**
Sir Charles Powell	–	**–**
Sir George Quigley	3,800	**3,800**
M G Taylor	2,000	**2,000**
D Wanless	14,383	**16,664**
Baroness Young	3,000	**3,000**

None of the directors had any interest during the year in the preference shares or loan capital of the Bank or in the share or loan capital of the Bank's subsidiary undertakings.

The Register of Directors' Interests maintained by the Bank in accordance with Section 325 of the Companies Act 1985 does not:

(i) record any director as being interested in any debentures of the Bank or any other Group company as at 31 December 1995;

(ii) show any member of the immediate family of any director as having been granted or having exercised any rights to subscribe for shares of the Bank or other members of the Group.

Since 31 December 1995, Mr D Wanless and Mr H M V Gray have acquired an interest in an additional 6 and 5 ordinary shares respectively, pursuant to purchases under a discretionary single company personal equity plan.

On behalf of the board

Sir John Banham
Chairman
Remuneration Committee

19 February 1996

Directors' responsibility for financial reporting

The following statement, which should be read in conjunction with the Report of the Auditors on page 71, is made to enable shareholders to distinguish the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare, for each financial year, accounts which give a true and fair view of the state of affairs of the Bank and the Group as at the end of the financial year and of the profit for that financial year. The Bank also presents additional information for US shareholders. Accordingly, these accounts are framed to meet both UK and US requirements, including those of the SEC, to give a consistent picture to all shareholders.

The directors consider that, in preparing these accounts, the Bank has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the Bank keeps accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to prepare accounts that comply with the Companies Act 1985.

The board of directors is responsible for the Group's system of internal financial control. Its day-to-day operation is delegated to executive management which has established and disseminated clearly defined Group policies and standards. The Group's system of internal financial control, which includes physical controls, procedures for the segregation of duties, and credit, trading and other authorisation limits throughout the Group, is designed to provide reasonable, but not absolute, assurance

- as to the reliability and integrity of the accounts;
- that assets are safeguarded and only authorised transactions are entered into; and
- that fraud and other irregularities are prevented and detected.

In devising internal financial controls the Group has regard to the materiality of financial risks, the likelihood of a risk crystallising and the costs of control. The identification and evaluation of the key business risks facing the Group is undertaken by the Group's Risk Policy Committee. The Group operates a comprehensive strategic planning and management reporting system. A strategic plan which covers five years and a two-year operational plan are prepared annually. Financial reports are presented to the board monthly detailing the results, variances from plan and other performance data.

The system of internal financial control is subject to scrutiny by management and internal audit. The Audit & Compliance Committee (the 'Committee') of the board, all of whose members are non-executive directors, meets periodically with internal audit to discuss the nature, scope and results of its work. This Committee has reviewed the effectiveness of the Group's systems of internal financial controls that operated during 1995.

The Bank and certain of its United Kingdom subsidiary undertakings are subject to the requirements of the Bank of England and other regulators in respect of internal controls. The Banking Act 1987 provides for the appointment of Reporting Accountants to review selected aspects of accounting records and other internal control systems. The scope of such reviews is determined by the Bank of England. The management and the directors consider the Reporting Accountants' reports and discuss them with the Bank of England. In the United States, Bancorp and its subsidiary undertakings are subject to periodic examination by the Federal Reserve System and the Office of the Comptroller of the Currency. The resulting reports are considered by Bancorp's management and its board of directors.

KPMG, the independent auditors appointed by the ordinary shareholders of the Bank to audit the accounts, have full and unrestricted access to the Committee to discuss their audit and related findings as to the integrity of the Group's financial reporting and the adequacy of the systems of internal financial control. Both the internal auditors and KPMG have access to the Committee at any time to discuss matters they believe may be of significance. The Committee meets privately with representatives of KPMG at least once a year.

For and on behalf of the board

Robert Alexander	**Derek Wanless**	**Richard Karl Goeltz**
Chairman	Group Chief Executive	Group Chief Financial Officer

19 February 1996

Report of the auditors

To the Members of National Westminster Bank Plc

We have audited the accounts on pages 72 to 123 and the detailed information set out in the tables within the Remuneration Committee's Annual Report to Shareholders on pages 60 to 68.

Respective responsibilities of directors and auditors

As described on pages 69 and 70, the Bank's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the accounts.

United Kingdom opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 1995 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion

In our opinion, the accounts present fairly, in all material respects, the financial position of the Group at 31 December 1995 and 1994 and the results of its operations and cash flows for each of the years in the three-year period ended 31 December 1995, in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of the generally accepted accounting principles in the United States would have affected consolidated net income for each of the years in the three-year period ended 31 December 1995 and consolidated shareholders' equity at 31 December 1995, 1994 and 1993 to the extent summarised in note 48 to the accounts on page 115.

KPMG
Chartered Accountants
Registered Auditors
London, England

19 February 1996

Consolidated profit and loss account

for the year ended 31 December 1995

	Notes	1995 £m	1994 £m	1993 £m
Interest receivable and similar income arising from debt securities		**1,037**	711	557
Other interest receivable and similar income	2	**10,059**	8,754	9,245
Interest receivable		**11,096**	9,465	9,802
Interest payable		**(7,215)**	(5,768)	(6,114)
Net interest income		**3,881**	3,697	3,688
Dividend income	3	**23**	20	20
Fees and commissions receivable		**2,661**	2,656	2,621
Fees and commissions payable		**(432)**	(388)	(328)
Dealing profits	4	**577**	451	508
Other operating income		**552**	500	486
Non-interest income		**3,381**	3,239	3,307
Operating income		**7,262**	6,936	6,995
Administrative expenses	5	**(3,925)**	(3,825)	(3,606)
Depreciation and amortisation	25	**(296)**	(290)	(292)
Other operating charges		**(708)**	(683)	(690)
Operating expenses		**(4,929)**	(4,798)	(4,588)
Trading surplus		**2,333**	2,138	2,407
Provisions for bad and doubtful debts	18	**(639)**	(616)	(1,262)
Amounts written off fixed asset investments	6	**(24)**	(19)	(22)
Operating profit		**1,670**	1,503	1,123
Income from associated undertakings		**83**	49	25
Provisions for losses on termination and disposal of Group operations	7	**–**	–	(159)
Profit on disposal of interests in subsidiary and associated undertakings	8	**–**	40	–
Profit on ordinary activities before tax	9	**1,753**	1,592	989
Tax on profit on ordinary activities	11	**(513)**	(459)	(346)
Profit on ordinary activities after tax		**1,240**	1,133	643
Minority interests – equity		**(26)**	(40)	(26)
Profit for the financial year	12	**1,214**	1,093	617
Preference dividends non-equity	13	**(37)**	(38)	(34)
Ordinary dividends	13	**(446)**	(371)	(307)
		(483)	(409)	(341)
Retention for the year	39	**731**	684	276
Per ordinary share		**pence**	pence	pence
Dividends – net	13	**25.3**	21.6	18.5
Earnings	14	**67.6**	62.9	35.3

All items dealt with in arriving at operating profit for 1995, 1994 and 1993 relate to continuing operations.

Movements in profit and loss account reserves are shown in note 39.

Statement of total recognised gains and losses

for the year ended 31 December 1995

	1995 £m	1994 £m	1993 £m
Profit for the financial year	**1,214**	1,093	617
Other recognised gains/(losses)			
Revaluation of freehold properties	**–**	22	(293)
Exchange and other movements	**27**	(5)	(33)
	27	17	(326)
Total recognised gains for the year	**1,241**	1,110	291

Note of consolidated historical cost profits and losses

for the year ended 31 December 1995

	1995 £m	1994 £m	1993 £m
Profit on ordinary activities before tax	**1,753**	1,592	989
Realised property revaluation (deficit)/surplus	**(1)**	–	21
Historical cost profit on ordinary activities before tax	**1,752**	1,592	1,010
Retention for the year on an historical cost basis	**730**	684	297

Reconciliation of movements in consolidated shareholders' funds

for the year ended 31 December 1995

	1995 £m	1994 £m	1993 £m
Profit for the financial year	**1,214**	1,093	617
Dividends	**(483)**	(409)	(341)
Retention for the year	**731**	684	276
Other recognised gains/(losses)	**27**	17	(326)
Issue of ordinary and preference shares	**236**	231	198
Shares issued in lieu of cash dividends	**19**	14	13
Redemption of preference shares	**–**	(14)	–
Adjustment for goodwill previously written off	**7**	23	20
Goodwill written off	**(232)**	(242)	(3)
Exchange movement on preference shares	**4**	(18)	8
Net increase in shareholders' funds	**792**	695	186
Opening shareholders' funds	**6,421**	5,726	5,540
Closing shareholders' funds			
Equity interests	**6,749**	5,961	5,234
Non-equity interests	**464**	460	492
	7,213	6,421	5,726

The split between equity and non-equity interests of the Bank's shareholders' funds is the same as for the Group.

Consolidated balance sheet of National Westminster Bank Group

at 31 December 1995

	Notes	1995 £m	1994 £m
Assets			
Cash and balances at central banks		**1,583**	1,372
Items in the course of collection from other banks		**2,927**	3,353
Treasury and other eligible bills	15	**9,649**	8,918
Loans and advances to banks	16	**28,775**	32,045
Loans and advances to customers		**87,650**	80,561
less: non-returnable finance		**(232)**	(263)
	17	**87,418**	80,298
Operating lease assets	20	**1,107**	1,011
Debt securities	21	**15,509**	13,200
Equity shares	22	**2,910**	2,133
Interests in associated undertakings	23	**308**	225
Tangible fixed assets	25	**3,059**	2,916
Other assets	27	**11,142**	9,748
Prepayments and accrued income		**1,960**	1,674
		166,347	156,893
Long-term assurance assets attributable to policyholders	29	**1,925**	1,153
Total assets		**168,272**	158,046
Liabilities			
Items in the course of transmission to other banks		**1,317**	1,351
Deposits by banks	30	**32,111**	33,101
Customer accounts	31	**88,387**	84,001
Debt securities in issue	32	**14,627**	11,173
Other liabilities	34	**14,351**	12,210
Accruals and deferred income		**2,329**	2,314
Provisions for liabilities and charges			
Deferred taxation	35	**1,005**	911
Other provisions for liabilities and charges	36	**40**	48
		1,045	959
Subordinated liabilities			
Undated loan capital including convertible debt	37	**2,206**	2,505
Dated loan capital	37	**2,586**	2,694
		4,792	5,199
Minority interests including non-equity interests		**175**	164
Called up share capital			
Ordinary shares	38	**1,771**	1,716
Preference shares	38	**464**	460
		2,235	2,176
Share premium account	39	**960**	779
Revaluation reserve	39	**(221)**	(225)
Profit and loss account	39	**4,239**	3,691
Shareholders' funds including non-equity interests		**7,213**	6,421
		166,347	156,893
Long-term assurance liabilities attributable to policyholders		**1,925**	1,153
Total liabilities		**168,272**	158,046
Memorandum items	41		
Contingent liabilities			
Acceptances and endorsements		**1,031**	1,063
Guarantees and assets pledged as collateral security		**9,391**	10,107
		10,422	11,170
Commitments			
Other commitments		**57,051**	52,257

These accounts were approved by the Board of Directors on 19 February 1996 and signed on its behalf by

Robert Alexander
Chairman

Derek Wanless
Group Chief Executive

Richard Karl Goeltz
Group Chief Financial Officer

Balance sheet of National Westminster Bank Plc
at 31 December 1995

	Notes	1995 £m	1994 £m
Assets			
Cash and balances at central banks		**741**	709
Items in the course of collection from other banks		**2,330**	2,767
Treasury and other eligible bills	15	**8,084**	8,354
Loans and advances to banks	16	**28,225**	31,451
Loans and advances to customers	17	**57,641**	53,770
Debt securities	21	**9,209**	4,573
Equity shares	22	**410**	17
Participating interests – associated undertakings	23	**250**	192
Shares in Group undertakings	24	**7,956**	6,405
Tangible fixed assets	25	**2,116**	2,131
Other assets	27	**7,996**	6,223
Prepayments and accrued income		**1,438**	1,139
Total assets		**126,396**	117,731
Liabilities			
Items in the course of transmission to other banks		**1,240**	1,254
Deposits by banks	30	**31,494**	30,452
Customer accounts	31	**60,414**	57,832
Debt securities in issue	32	**11,803**	9,009
Other liabilities	34	**8,645**	6,413
Accruals and deferred income		**1,203**	1,552
Subordinated liabilities			
Undated loan capital including convertible debt	37	**2,206**	2,505
Dated loan capital	37	**2,178**	2,293
		4,384	4,798
Called up share capital			
Ordinary shares	38	**1,771**	1,716
Preference shares	38	**464**	460
		2,235	2,176
Share premium account	39	**960**	779
Revaluation reserve	39	**1,980**	1,237
Profit and loss account	39	**2,038**	2,229
Shareholders' funds including non-equity interests		**7,213**	6,421
Total liabilities		**126,396**	117,731
Memorandum items	41		
Contingent liabilities			
Acceptances and endorsements		**708**	756
Guarantees and assets pledged as collateral security		**11,970**	11,164
		12,678	11,920
Commitments			
Other commitments		**47,273**	45,501

These accounts were approved by the Board of Directors on 19 February 1996 and signed on its behalf by

Robert Alexander
Chairman

Derek Wanless
Group Chief Executive

Richard Karl Goeltz
Group Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 December 1995

	Notes	1995 £m	1994 £m	1993 £m
Net cash (outflow)/inflow from operating activities	44(i)	**(574)**	3,186	5,328
Returns on investments and servicing of finance				
Dividends received from associated undertakings		**14**	11	10
Ordinary share dividends paid		**(376)**	(309)	(280)
Preference share dividends paid		**(37)**	(36)	(34)
Dividends paid to minority shareholders in subsidiary undertakings		**(7)**	(16)	(1)
Interest paid on subordinated liabilities		**(373)**	(353)	(311)
Net cash outflow from returns on investments and servicing of finance		**(779)**	(703)	(616)
Taxation				
United Kingdom tax paid		**(110)**	(70)	(98)
Overseas tax paid		**(160)**	(105)	(89)
Tax paid		**(270)**	(175)	(187)
Investing activities				
Purchase of investment securities		**(8,390)**	(7,670)	(6,336)
Sale and maturity of investment securities		**9,946**	5,032	7,003
Net cash (outflow)/inflow in respect of acquisitions of subsidiary undertakings	44(iii)	**(24)**	30	(6)
Net cash inflow/(outflow) from disposal of interests in subsidiary and associated undertakings	44(v)	**32**	(386)	–
Investments in associated undertakings		**(38)**	(7)	(3)
Purchase of tangible fixed assets		**(626)**	(634)	(475)
Sale of tangible fixed assets		**235**	252	156
Purchase of operating lease assets		**(581)**	(881)	(955)
Sale of operating lease assets		**190**	508	559
Provisions utilised		**(17)**	(75)	(45)
Net cash inflow/(outflow) from investing activities		**727**	(3,831)	(102)
Net cash (outflow)/inflow before financing		**(896)**	(1,523)	4,423
Financing	44(vi)			
Net proceeds from issue of ordinary and preference share capital		**(236)**	(231)	(198)
Redemption of preference share capital		**–**	14	–
Repayment of subordinated liabilities		**466**	6	55
(Increase)/decrease in minority interests		**(3)**	2	(8)
Issue of subordinated liabilities		**–**	–	(338)
Share and loan capital issue expenses		**–**	–	17
Net cash outflow/(inflow) from financing		**227**	(209)	(472)
(Decrease)/increase in cash and cash equivalents	44(vii)	**(1,123)**	(1,314)	4,895
		(896)	(1,523)	4,423

Notes to the accounts

1 Principal accounting policies

(i) Accounting convention

The Group's accounts have been prepared under the historical cost convention modified by the inclusion of the revaluation of freehold properties and certain investments and in compliance with Part VII Chapter II of the Companies Act 1985 and in accordance with applicable accounting standards. In preparing the accounts, reasonable and prudent judgements and estimates have been made that affect the reported amounts of certain assets, liabilities, memorandum items, income and expenditure. Actual outcomes may differ from these estimates.

The effect on the Group's consolidated net income and ordinary shareholders' equity had US GAAP been applied in the preparation of these accounts is set out in note 48 commencing on page 114.

(ii) Basis of consolidation

To avoid undue delay in the presentation of the Group's accounts, the accounts of certain subsidiary undertakings have been made up to 30 November. There have been no changes in respect of these subsidiary undertakings, in the period from their balance sheet dates to 31 December, that materially affect the view given by the Group's accounts. Details of principal subsidiary undertakings are given in note 24. The long-term assurance assets and liabilities attributable to policyholders are separately disclosed on the consolidated balance sheet in view of their distinct characteristics.

(iii) Goodwill

The excess of the cost of shares in subsidiary and associated undertakings over the fair value of underlying separable net assets at the date of acquisition and other purchased goodwill are deducted from the Group's profit and loss account reserves in the year of acquisition. The gain or loss on the disposal of a subsidiary or associated undertaking is calculated by comparing the carrying value of the net assets sold and the related goodwill with the proceeds received.

(iv) Fees receivable

Fees receivable that represent a return for services provided are brought into profit when the related service is performed. Certain front-end fees relating to loans and advances are, subject to yield criteria, taken to profit over the period of the loan.

(v) Pension costs

The pension costs relating to UK schemes are assessed in accordance with the advice of independent qualified actuaries to recognise the cost of pensions on a systematic basis over employees' service lives. The costs of certain overseas schemes are calculated in accordance with local law and best practice.

(vi) Foreign currencies

Assets and liabilities of overseas subsidiary and associated undertakings denominated in foreign currencies are translated to sterling at rates current on 31 December. The results of these undertakings are translated at average rates of exchange for the year. Exchange differences arising from translation of opening net assets of overseas subsidiary and associated undertakings and from the restatement of their results from average to year-end rates are taken to reserves together with exchange differences arising on related foreign currency borrowings.

(vii) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are made as considered necessary having regard to both specific and general factors. The general element arises in relation to existing losses which, although not separately identified, are known from experience to be present in any portfolio of bank advances. Provisions made (less amounts released) during the year are charged against profits. Advances are written down to estimated realisable value when the normal banking relationship with the borrower has ceased. Where the collection of interest is in significant doubt it is credited to a suspense account. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

(viii) Leases and hire purchase contracts

Income from leases and hire purchase contracts is credited to the profit and loss account in proportion to the funds invested. Finance lease receivables and amounts due under hire purchase contracts are included under 'Loans and advances to banks' and 'Loans and advances to customers'.

(ix) Securities (treasury and other eligible bills, debt securities and equity shares)

Securities intended for use on a continuing basis in the Group's activities are classified as investment securities and are stated at cost less provision for any permanent diminution in value. The carrying value of dated investment securities is adjusted over the period to maturity to allow for the amortisation of premiums or discounts. Such amortisation is included in interest receivable. Securities maintained for the purpose of hedging are carried at a value which reflects the accounting treatment of the items hedged. Other securities are carried at market value. The difference between the cost of such securities and market value where the market value is higher than the cost is not disclosed as its determination is not practicable. Short positions in securities are carried at market value.

(x) Sale and repurchase transactions

Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase transactions are not recognised in the balance sheet and the purchase price is treated as a loan. The difference between the sale price and repurchase price is accrued evenly over the life of the transaction and charged or credited to the profit and loss account as interest payable or receivable.

1 Principal accounting policies continued

(xi) Interests in associated undertakings and shares in Group undertakings
The Group's and Bank's interests in associated undertakings and the Bank's shares in Group undertakings are included in the balance sheet at the share of net tangible assets.

(xii) Depreciation
Land is not depreciated. It is the Group's policy to maintain its properties in a state of good repair. The directors' assessment of the residual values (based on values prevailing at acquisition or subsequent valuation) and useful economic lives of freehold and long leasehold properties is such that the charge for depreciation would not be significant; consequently these properties are not depreciated. Depreciation of other fixed assets is provided on a straight-line basis over estimated useful lives generally as follows:

Short leasehold property (leases of less than 50 years unexpired)	Unexpired periods
Property adaptation costs	10 years
Computers	5 years
Motor vehicles	5 years
Other plant and equipment (including fixed plant in buildings)	10-15 years

(xiii) Forward foreign exchange contracts and other derivatives
Derivatives, including swaps, futures and forward contracts, options and similar contracts, used in trading activities are carried at their fair values. Fair values are based on quoted market prices when available. If no quoted price exists for a particular instrument, fair value is determined from market prices for its components using appropriate models. Changes in the fair value of trading derivatives are included in 'Dealing profits'. Positive and negative fair values of trading derivatives are set off where the contracts have been entered into under master netting agreements or other arrangements that give a legally enforceable right of set-off. Derivatives held to hedge assets, liabilities or positions measured on the accruals basis are classified as non-trading and accounted for in the same manner as the underlying items hedged. Profits and losses on instruments hedging interest-rate exposure are recognised over the life of the contract as an adjustment to interest receivable or payable. Any profit or loss on the early termination of a hedge is amortised over the remaining life of the assets or liabilities it was hedging. If an asset or liability that is hedged is sold or settled, any unrecognised profit or loss on the related hedge is taken to the profit and loss account.

(xiv) Long-term assurance business
The value placed on the shareholders' interest in the Group's long-term assurance business is a prudent estimate, based on the advice of a qualified actuary, of the net present value of the cash flows inherent in the policies in force, together with the net assets of the business. The change in this value, grossed up at the standard rate of UK corporation taxation, is included in 'Other operating income'.

(xv) Deferred taxation
Tax deferred or accelerated by timing differences is accounted for to the extent that it is probable that a liability or asset will arise. It is calculated at rates expected to be applicable when the liabilities or assets are expected to crystallise.

2 Other interest receivable and similar income

	1995 £m	1994 £m	1993 £m
Other interest receivable and similar income includes			
Operating lease rentals	**389**	374	420
Depreciation (note 20)	**(255)**	(253)	(241)
	134	121	179

3 Dividend income

	1995 £m	1994 £m	1993 £m
Income from equity shares	**23**	20	20

4 Dealing profits

	1995 £m	1994 £m	1993 £m
Foreign exchange	**240**	187	239
Securities	**193**	121	131
Other	**144**	143	138
	577	451	508

5 Administrative expenses

	1995 £m	1994 £m	1993 £m
Wages and salaries	**2,497**	2,406	2,267
Social security costs	**164**	166	158
Other pension costs (note 10)			
Pensions	**132**	186	187
Other post-retirement benefits	**6**	5	5
	138	191	192
Staff costs	**2,799**	2,763	2,617
Other administrative expenses	**1,126**	1,062	989
	3,925	3,825	3,606

Under the terms of the staff profit sharing schemes, provided that profit on ordinary activities before tax and profit sharing amounts to at least £100m, a payment totalling £3m plus 5% of the excess over £100m will be made for distribution to the eligible staff of the Group; the allocation for 1995 amounts to £90m (1994 £82m; 1993 £50m).

Number of employees

The weekly average number of persons, including part-time staff, employed by the Group during the year was made up as follows.

	1995	1994	1993
Managers	**13,000**	11,200	10,000
Clerical staff	**82,600**	84.500	86.600
Others	**1,200**	1,300	1,400
	96,800	97,000	98,000
Full-time equivalent at 31 December	**81,800**	87,400	91,400

6 Amounts written off fixed asset investments

	1995 £m	1994 £m	1993 £m
Investment debt securities (note 21)	**3**	7	4
Investment equity shares (note 22)	**21**	12	18
	24	19	22

7 Provisions for losses on termination and disposal of Group operations

	1995 £m	1994 £m	1993 £m
Costs of withdrawal from retail operations in France (including £20m goodwill previously written off) and of disposal of retail assets in Australia	–	–	159

8 Profit on disposal of interests in subsidiary and associated undertakings

	1995 £m	1994 £m	1993 £m
Profit arising from reduction of the investment in 3i Group plc, an associated undertaking, from 22.9% to 17.8% (tax-nil)	–	34	–
Profit arising on disposal of entire 78.2% holding in F van Lanschot Bankiers NV, a subsidiary undertaking (net of £23m goodwill previously written off) (tax-nil)	–	6	–
	–	40	–

9 Profit on ordinary activities before tax

	1995 £m	1994 £m	1993 £m
Is stated after			
(a) Income			
(i) Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	**3,725**	3,122	2,739
(ii) Income from listed investments	**398**	282	263
(iii) Profits less losses on disposal of investment securities	**133**	64	127
(b) Expenditure			
(i) Charges incurred with respect to subordinated liabilities	**373**	351	314
(ii) Finance charges in respect of finance leases	**27**	37	44
(iii) Operating lease rentals			
Hire of computers and equipment	**43**	43	43
Property rentals	**166**	159	152
Other	**19**	11	12
(iv) Auditors' remuneration			
The Group	**4.1**	3.8	3.9
The Bank	**0.5**	0.5	0.5
(v) Fees paid to auditors for non-audit work*			
UK	**8.6**	7.0	4.6
Overseas	**2.9**	2.2	2.1
	11.5	9.2	6.7

*Non-audit fees paid to KPMG comprise £4.4m for management consulting services (1994 £4.6m; 1993 £0.7m) and £7.1m for regulatory, tax, debt investigation and other advisory services (1994 £4.6m; 1993 £6.0m).

10 Other pension costs

The Group operates a number of pension schemes throughout the world. The major schemes, which cover 93% of the Group's employees, are defined-benefit schemes whose assets are independent of the Group's finances. The total pension cost for the Group was £132m (1994 £186m; 1993 £187m). This includes £15m (1994 £17m; 1993 £17m) relating to foreign schemes of which £9m (1994 £6m; 1993 £4m) has been determined in accordance with generally accepted accounting principles in the US. At 31 December 1995, there was a pension cost prepayment of £48m (1994 £7m; 1993 £14m).

At 31 March 1995, the date of the latest triennial actuarial valuation of the major UK schemes, the market value of their assets was £6,235m and the actuarial value was sufficient to cover 113% of the future benefits that had accrued to members after allowing for expected increases in earnings. The valuation was carried out using the projected unit method, on the basis that adjustment is made to the ongoing contribution rate over a period approximating to the average future service life of members of the schemes in respect of any imbalance between assets and liabilities. The assumptions, determined in consultation with the actuaries, which have the most significant effect on the results of the valuation are those relating to the rate of return on new investments and the rates of increases in salaries, pensions and dividends. It has been assumed that over the long term the rate of return on new investments will be 2.5% per annum in excess of the rate of general salary increases and 4.5% per annum in excess of the rate of pension and dividend increases.

The Group also provides post-retirement benefits in the form of healthcare plans to approximately 6,700 eligible employees in the US. The amount charged to the profit and loss account of £6m (1994 £5m; 1993 £5m) has been determined in accordance with regulations in the US and with the advice of qualified actuaries. It includes the amortisation of the accrued liability at transition.

11 Tax on profit on ordinary activities

	1995 £m	1994 £m	1993 £m
United Kingdom corporation tax	**272**	230	121
Relief for double taxation	**(24)**	(33)	(21)
	248	197	100
Tax credit on franked investment income	**20**	22	22
Deferred taxation	**131**	122	147
Overseas taxes	**138**	94	59
	537	435	328
Share of associated undertakings' taxation	**9**	18	(5)
	546	453	323
(Over)/under provisions in previous years	**(33)**	6	23
	513	459	346

The tax charge for the year, at 29%, is lower than the UK corporation tax rate of 33% largely because of prior year over provisions and overseas profits taxed at different rates.

The UK corporation tax charge includes notional tax of £11m (1994 £20m; 1993 £20m) on the shareholders' interest in the increase in value of the Group's long-term assurance business.

12 Profit dealt with in the accounts of the Bank

Of the profit for the financial year, £244m (1994 £311m; 1993 £49m) has been dealt with in the accounts of the Bank. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Bank has not been presented separately.

13 Dividends

	1995		1994		1993	
	pence per share	£m	pence per share	£m	pence per share	£m
Ordinary shares						
Interim (paid)	**8.4**	**146**	7.3	122	6.4	106
Final	**16.9**	**300**	14.3	249	12.1	201
	25.3	**446**	21.6	371	18.5	307
Total ordinary share dividends including related tax credit of 20%	**31.625**		27.000		23.125	
Preference shares – non-equity						
9% non-cumulative sterling preference shares, Series A	**9.00**	**12**	9.00	12	9.00	12
7% cumulative preference shares (redeemed in 1994)	**–**	**–**	2.45	1	4.90	1
	cents per share*		cents per share*		cents per share*	
Non-cumulative dollar preference shares, Series A	**212.80**	**14**	212.80	14	212.80	14
Non-cumulative dollar preference shares, Series B (issued June 1993)	**175.00**	**11**	175.00	11	99.65	7
		37		38		34

The non-cumulative dollar preference shares, Series A and Series B, carry dividends equal to a gross rate of 10.64% and 8.75% per annum respectively inclusive of any associated tax credit.

*The cents per share data are shown net of tax credit at the rate of 20%.

14 Earnings per ordinary share

Earnings per ordinary share is calculated on the profit for the financial year, after preference share dividends, of £1,177m (1994 £1,055m; 1993 £583m) and on the weighted average number of ordinary shares in issue during the year of 1,741m (1994 1,676m; 1993 1,653m). Fully diluted earnings per share are not materially different from basic earnings per share in any of the years. Net income per ordinary share under US GAAP is detailed in note 48 on page 115.

15 Treasury and other eligible bills

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Treasury bills and similar securities	**5,352**	4,996	**3,858**	4,493
Other eligible bills	**4,297**	3,922	**4,226**	3,861
	9,649	8,918	**8,084**	8,354

16 Loans and advances to banks

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Repayable on demand	**1,842**	2,206	**1,131**	1,725
Other loans and advances – remaining maturity				
3 months or less	**17,958**	19,832	**16,619**	16,752
1 year or less but over 3 months	**8,256**	9,360	**9,452**	10,513
5 years or less but over 1 year	**563**	435	**927**	1,109
Over 5 years	**216**	282	**154**	1,417
General and specific bad and doubtful debt provisions	**(60)**	(70)	**(58)**	(65)
	28,775	32,045	**28,225**	31,451
Amounts include				
Due from subsidiary undertakings – unsubordinated			**6,996**	6,982
Due from associated undertakings – unsubordinated	**1**	73	**1**	73
Finance lease receivables	**–**	69	**–**	69
Loans and advances to banks on which interest is being placed in suspense				
Gross loans and advances	**66**	50	**66**	50
Provisions	**(38)**	(36)	**(38)**	(36)
	28	14	**28**	14

17 Loans and advances to customers

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Remaining maturity				
On demand or short notice	**14,004**	11,078	**16,618**	15,151
3 months or less but not on demand or short notice	**14,665**	15,803	**12,565**	10,035
1 year or less but over 3 months	**10,994**	10,680	**6,241**	7,305
5 years or less but over 1 year	**21,037**	19,388	**12,514**	12,565
Over 5 years	**28,370**	25,105	**10,750**	9,782
General and specific bad and doubtful debt provisions	**(1,652)**	(1,756)	**(1,047)**	(1,068)
	87,418	80,298	**57,641**	53,770
Amounts include				
Subordinated	**1,163**	1,219	**666**	729
Due from subsidiary undertakings				
Subordinated			**46**	46
Unsubordinated			**18,133**	14,807
			18,179	14,853
Due from associated undertakings				
Subordinated	**14**	14	**–**	–
Unsubordinated	**192**	19	**–**	9
	206	33	**–**	9
Finance lease receivables	**6,106**	5,634	**–**	6
Hire purchase and conditional sale agreements	**3,390**	2,958	**–**	–
Loans and advances to customers on which interest is being placed in suspense				
Gross loans and advances	**2,266**	2,058	**1,330**	901
Provisions	**(976)**	(725)	**(720)**	(476)
	1,290	1,333	**610**	425

Mortgage securitisation

In October 1993, the Group transferred mortgage loans amounting to £300m to Lothbury Funding No 1 Plc ('Lothbury') which issued £300m Mortgage Backed Floating Rate Notes 2031 ('Notes'). A linked presentation has been adopted in accordance with FRS 5 'Reporting the Substance of Transactions'. The non-returnable finance received has been deducted from 'Loans and advances to customers'. There are no arrangements for the Group to repurchase the mortgages. The Group is entitled to transfer further mortgages to Lothbury if certain conditions are met. Lothbury has entered into an interest rate swap with the Bank under which Lothbury pays an average of building society mortgage rates and receives interest at a rate linked to 3 month LIBOR. Lothbury has also entered into a fixed/floating interest rate swap with Rabobank Nederland NV under which Lothbury pays the weighted average interest rate on its fixed rate mortgages and receives interest at a rate linked to 3 month LIBOR. The Bank has entered into a corresponding swap with Rabobank Nederland NV. The proceeds generated from the mortgage loans are to be utilised in priority to meet the claims of noteholders after the payment of trustee and administration expenses and amounts payable in respect of the interest rate swap agreements. The offering circular for the notes stated that they are the obligations solely of Lothbury and not guaranteed by, or the responsibility of, any other party. Lothbury's share capital is held by Sarfu Ltd whose entire issued share capital is held by Royal Exchange Trust Company Ltd as trustee under the terms of a trust, primarily for the benefits of the creditors of Sarfu Ltd. or, if none, the noteholders and ultimately for charitable purposes. The Bank has made a subordinated loan to Lothbury which is repayable after all other payments except dividends to Lothbury's shareholders. Interest is payable on the subordinated loan conditional upon Lothbury having funds available. In 1995, the Group recognised net income of £3m (1994 £3m) which comprised mortgage interest (net of swap payments) of £20m (1994 £20m) less interest payable and other expenses of £17m (1994 £17m).

17 Loans and advances to customers continued

Analysis by category of borrower	1995 The Group £m	1994 The Group £m
By domestic offices		
Agriculture, forestry and fishing	**1,378**	1,331
Manufacturing and other production	**3,786**	3,822
Construction	**1,453**	1,420
Distribution, transport and hotels	**6,588**	6,168
Financial and other	**7,936**	6,352
Property companies	**2,714**	2,342
Personal – mortgage	**15,031**	14,388
– other	**6,014**	5,930
Overseas	**154**	114
Instalment	**5,402**	4,550
Lease financing	**5,262**	4,881
Loans guaranteed by UK government agencies	**–**	195
Total domestic offices	**55,718**	51,493
By international offices		
United States		
Commercial and other	**6,799**	7,094
Financial and agricultural	**1,577**	1,033
Real estate – construction	**189**	189
– mortgage	**5,469**	3,112
Instalment	**1,207**	1,362
Lease financing	**114**	105
Total United States offices	**15,355**	12,895
United Kingdom international offices		
Residents	**7,002**	6,684
Non-residents	**2,907**	3,296
	9,909	9,980
Other Western Europe	**5,703**	4,961
Rest of the World	**2,385**	2,725
Total international offices	**33,352**	30,561
Total gross loans and advances to customers	**89,070**	82,054
Provisions for bad and doubtful debts	**(1,652)**	(1,756)
Total net loans and advances to customers	**87,418**	80,298

The geographical analysis of lendings is based on the location of office from which the loans are made.

18 Provisions for bad and doubtful debts

	1995 Specific £m	1995 General £m	1995 Total £m	1994 Specific £m	1994 General £m	1994 Total £m
The Group						
At 1 January	**1,486**	**340**	**1,826**	1,750	392	2,142
New and additional provisions						
Domestic	**738**			802		
International	**332**			335		
Releases and recoveries						
Domestic	**(362)**			(322)		
International	**(119)**			(135)		
Charge against profit						
Domestic	**376**	**48**	**424**	480	(1)	479
International	**213**	**2**	**215**	200	(63)	137
	589	**50**	**639**	680	(64)	616
Exchange and other adjustments	**21**	**2**	**23**	(1)	(9)	(10)
Subsidiary undertakings acquired	**–**	**11**	**11**	12	29	41
Disposal of subsidiary undertakings	**–**	**–**	**–**	(40)	(8)	(48)
	–	**11**	**11**	(28)	21	(7)
Amounts written off						
Domestic	**(696)**		**(696)**	(874)		(874)
International	**(334)**		**(334)**	(295)		(295)
	(1,030)		**(1,030)**	(1,169)		(1,169)
Recoveries						
Domestic	**191**		**191**	219		219
International	**52**		**52**	35		35
	243		**243**	254		254
At 31 December						
Domestic	**580**	**211**	**791**	722	163	885
International	**729**	**192**	**921**	764	177	941
	1,309	**403**	**1,712**	1,486	340	1,826
At 31 December						
Loans and advances to banks	**60**	**–**	**60**	70	–	70
Loans and advances to customers						
Domestic	**580**	**211**	**791**	722	163	885
International	**669**	**192**	**861**	694	177	871
	1,309	**403**	**1,712**	1,486	340	1,826
Customers closing provisions as a % of gross lending to customers						
Domestic			**1.42%**			1.72%
International			**2.58%**			2.85%
Total			**1.85%**			2.14%
Customers charge against profit as a % of gross lending to customers						
Domestic			**0.75%**			0.93%
International			**0.67%**			0.33%
Total			**0.72%**			0.71%

18 Provisions for bad and doubtful debts continued

	1995 Specific £m	1995 General £m	1995 Total £m	1994 Specific £m	1994 General £m	1994 Total £m
The Bank						
At 1 January	**955**	**178**	**1,133**	1,083	210	1,293
New and additional provisions						
Domestic	**486**			618		
International	**181**			106		
Releases and recoveries						
Domestic	**(222)**			(244)		
International	**(60)**			(49)		
Charge against profit						
Domestic	**264**	**58**	**322**	374	–	374
International	**121**	**–**	**121**	57	(30)	27
	385	**58**	**443**	431	(30)	401
Exchange and other adjustments	**4**	**1**	**5**	(6)	(2)	(8)
Amounts written off						
Domestic	**(522)**		**(522)**	(678)		(678)
International	**(106)**		**(106)**	(49)		(49)
	(628)		**(628)**	(727)		(727)
Recoveries						
Domestic	**146**		**146**	174		174
International	**6**		**6**	–		–
	152		**152**	174		174
At 31 December						
Domestic	**354**	**198**	**552**	480	140	620
International	**514**	**39**	**553**	475	38	513
	868	**237**	**1,105**	955	178	1,133
At 31 December						
Loans and advances to banks	**58**	**–**	**58**	65	–	65
Loans and advances to customers						
Domestic	**354**	**198**	**552**	480	140	620
International	**456**	**39**	**495**	410	38	448
	868	**237**	**1,105**	955	178	1,133

	1995	1994
Customers closing provisions as a % of gross lending to customers		
Domestic	**2.02%**	2.35%
International	**3.76%**	3.28%
Total	**2.58%**	2.67%
Customers charge against profit as a % of gross lending to customers		
Domestic	**1.18%**	1.42%
International	**0.99%**	0.00%
Total	**1.12%**	0.92%

18 Provisions for bad and doubtful debts continued

The breakdown of the Group's specific bad and doubtful debt provisions against loans and advances to customers by category and as a percentage of total gross loans and advances to customers by domestic and international offices is set out in the following table.

	1995 The Group £m	1994 The Group £m
Specific bad and doubtful debt provisions		
By domestic offices		
Agriculture, forestry and fishing	12	10
Manufacturing and other production	48	87
Construction	38	39
Distribution, transport and hotels	87	110
Financial and other	108	113
Property companies	40	52
Personal – mortgage	34	35
– other	78	132
Instalment	99	102
Lease financing	36	42
Total domestic offices	580	722
By international offices		
United States		
Commercial and other	45	83
Financial and agricultural	11	17
Real estate – construction	7	8
Instalment	11	28
Total United States offices	74	136
United Kingdom international offices	405	298
Other Western Europe	176	194
Rest of the World	14	66
Total international offices	669	694
Total domestic and international offices	1,249	1,416
Provisions as a % of gross loans and advances to customers		
Total domestic offices	1.04%	1.40%
Total international offices	2.01%	2.27%
Total domestic and international offices	1.40%	1.73%

19 Interest in suspense

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
At 1 January	423	399	169	127
Net interest suspended in the year	100	91	77	68
Interest written off	(129)	(66)	(69)	(25)
Exchange and other adjustments	1	(1)	1	(1)
At 31 December	395	423	178	169

20 Operating lease assets

The Group

	Cost £m	Accumulated depreciation £m	Carrying value £m
At 1 January 1995	1,495	(484)	1,011
Additions	581	–	581
Disposals	(396)	206	(190)
Subsidiary undertakings acquired	36	(16)	20
Disposal of subsidiary undertakings	(103)	43	(60)
Charge for year	–	(255)	(255)
At 31 December 1995	1,613	(506)	1,107

21 Debt securities

The Group

	1995 Balance sheet £m	1995 Market value £m	1994 Balance sheet £m	1994 Market value £m
Investment securities				
Issued by public bodies				
Government securities	1,840	1,881	3,874	3,733
Other public sector securities	874	882	1,325	1,308
	2,714	2,763	5,199	5,041
Other issuers				
Bank and building society certificates of deposit	2,787	2,811	1,195	1,197
Other debt securities	3,275	3,304	2,811	2,800
	8,776	8,878	9,205	9,038
Other debt securities				
Issued by public bodies				
Government securities	3,763		1,442	
Other public sector securities	311		320	
	4,074		1,762	
Other issuers				
Bank and building society certificates of deposit	305		414	
Other debt securities	2,354		1,819	
	6,733		3,995	
	15,509		13,200	
Investment securities				
Listed on a UK recognised investment exchange	866	879	753	851
Listed elsewhere	1,581	1,668	1,745	1,640
Unlisted	6,329	6,331	6,707	6,547
	8,776	8,878	9,205	9,038
Other debt securities				
Listed on a UK recognised investment exchange	1,784		1,373	
Listed elsewhere	2,578		1,295	
Unlisted	2,371		1,327	
	6,733		3,995	
	15,509		13,200	
Due within one year	7,026		4,360	
Due one year and over	8,483		8,840	
	15,509		13,200	
Unamortised discounts less premiums on investment securities	425		2,688	
Amounts include				
Subordinated debt securities	170		111	

21 Debt securities continued

	Cost £m	Amortised discounts/ (premiums) £m	Provisions £m	Carrying value £m
Investment securities				
At 1 January 1995	8,853	369	(17)	9,205
Exchange and other movements	86	2	–	88
Acquisitions	10,626	–	–	10,626
Securities sold or matured	(11,634)	(142)	2	(11,774)
Subsidiary undertakings acquired	518	–	–	518
Amortisation of discounts and premiums	–	116	–	116
Provisions made	–	–	(3)	(3)
At 31 December 1995	8,449	345	(18)	8,776

	1995 Balance sheet £m	1995 Market value £m	1994 Balance sheet £m	1994 Market value £m
The Bank				
Investment securities				
Issued by public bodies				
Government securities	824	848	678	667
Other public sector securities	267	269	231	226
	1,091	1,117	909	893
Other issuers				
Bank and building society certificates of deposit	2,692	2,716	571	573
Other debt securities	1,466	1,476	1,254	1,244
	5,249	5,309	2,734	2,710
Other debt securities				
Issued by public bodies				
Government securities	2,597		678	
Other public sector securities	134		77	
	2,731		755	
Other issuers				
Other debt securities	1,229		1,084	
	3,960		1,839	
	9,209		4,573	

21 Debt securities continued

	1995 Balance sheet £m	1995 Market value £m	1994 Balance sheet £m	1994 Market value £m
The Bank continued				
Investment securities				
Listed on a UK recognised investment exchange	**466**	**474**	430	429
Listed elsewhere	**678**	**730**	561	565
Unlisted	**4,105**	**4,105**	1,743	1,716
	5,249	**5,309**	2,734	2,710
Other debt securities				
Listed on a UK recognised investment exchange	**1,201**		532	
Listed elsewhere	**2,027**		856	
Unlisted	**732**		451	
	3,960		1,839	
	9,209		4,573	
Due within one year	**4,322**		1,368	
Due one year and over	**4,887**		3,205	
	9,209		4,573	
Unamortised discounts less premiums on investment securities	**4**		(3)	
Amounts include				
Subordinated debt securities	**156**		89	
Due from subsidiary undertakings – subordinated	**60**		48	

	Cost £m	Amortised discounts/ (premiums) £m	Provisions £m	Carrying value £m
Investment securities				
At 1 January 1995	**2,739**	**(4)**	**(1)**	**2,734**
Exchange adjustments	**40**	**–**	**–**	**40**
Acquisitions	**4,841**	**–**	**–**	**4,841**
Securities sold or matured	**(2,363)**	**4**	**–**	**(2,359)**
Amortisation of discounts and premiums	**–**	**(5)**	**–**	**(5)**
Provisions made	**–**	**–**	**(2)**	**(2)**
At 31 December 1995	**5,257**	**(5)**	**(3)**	**5,249**

Market value for investment securities is the market price for quoted securities and directors' estimates for unquoted securities.

22 Equity shares

The Group

	1995 Balance sheet £m	1995 Market value £m	1994 Balance sheet £m	1994 Market value £m
Investment securities				
Listed on a UK recognised investment exchange	14	49	14	24
Listed elsewhere	6	7	9	14
Unlisted	322	447	240	363
	342	503	263	401
Other securities				
Listed on a UK recognised investment exchange	323		586	
Listed elsewhere	2,238		1,284	
Unlisted	7		–	
	2,568		1,870	
	2,910		2,133	

Investment securities	Cost £m	Provisions £m	Carrying value £m
At 1 January 1995	344	(81)	263
Exchange and other movements	8	–	8
Acquisitions	158	–	158
Disposals	(66)	–	(66)
Written off	(34)	34	–
Provisions made	–	(21)	(21)
At 31 December 1995	410	(68)	342

The Bank

	1995 Balance sheet £m	1995 Market value £m	1994 Balance sheet £m	1994 Market value £m
Investment securities				
Listed on a UK recognised investment exchange	10	10	10	15
Unlisted	7	7	7	10
	17	17	17	25
Other securities				
Listed on a UK recognised investment exchange	6		–	
Listed elsewhere	387		–	
	393		–	
	410		17	

Investment securities	Cost £m	Provisions £m	Carrying value £m
At 1 January and 31 December 1995	17	–	17

Market value for investment securities is the market price for quoted securities and directors' estimate for unquoted securities.

23 Interests in associated undertakings

Share of net assets	The Group £m	The Bank £m
At 1 January 1995	225	192
Acquisitions	38	41
Disposals	(15)	(15)
Revaluation	–	32
Retained profits	60	–
At 31 December 1995	308	250

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Banks				
Listed on a UK recognised investment exchange	223	165	216	160
Unlisted	–	10	–	10
Others (all unlisted)	85	50	34	22
Total	308	225	250	192
Market value of listed associated undertaking	436	348	422	337

On the historical cost basis, the Bank's interests in associated undertakings would have been included as follows.

	1995 The Bank £m	1994 The Bank £m
Cost	78	46
Provisions	(1)	(1)
Net book value	77	45

The principal associated undertaking is	Nature of business	Issued share and loan capital 30 September 1995	Group's/ (Bank's) interest %	Group's share of results based on accounts for the year ended	Principal area of operation
3i Group plc	Permanent and long-term investment capital	585,894,382 50p shares	17.8 (17.2)	30 September 1995	Great Britain
		£830m debt securities in issue	–		

3i Group plc has its registered office in England and Wales. The Group, through active board representation, participates in the financial and operating policy decisions of 3i Group plc. Consequently, the company is accounted for as an associated undertaking.

24 Shares in Group undertakings

	Share of net assets £m
The Bank	
At 1 January 1995	**6,405**
Exchange adjustments	**47**
Acquisitions	**220**
Investment in subsidiary undertakings	**694**
Disposals	**(127)**
Revaluation	**717**
At 31 December 1995	**7,956**

	1995 £m	1994 £m
Banks	**4,839**	4,000
Other	**3,117**	2,405
Total (all unlisted)	**7,956**	6,405

On the historical cost basis, shares in Group undertakings would have been included as follows.

	1995 £m	1994 £m
Cost	**6,100**	5,261
Provisions	**(129)**	(129)
Net book value	**5,971**	5,132

The principal subsidiary undertakings of the Bank are	Nature of business	Country of incorporation and principal areas of operation	Notes	Accounting reference date
Banco NatWest España SA	Banking	Spain	(1)	31 December
Coutts & Co	Banking	Great Britain	(2)(3)(4)	31 December
Coutts & Co AG	Banking	Switzerland	(3)	31 December
Coutts & Co Trust Holdings Limited	Holding company	Bahamas	(3)(5)	31 December
Isle of Man Bank Limited	Banking	Isle of Man		31 December
Lombard North Central PLC	Banking, credit finance and leasing	Great Britain	(2)(6)	31 December
NatWest Bank, N.A.	Banking	US	(3)	31 December
National Westminster Home Loans Limited	Home mortgage finance	Great Britain	(2)	31 December
National Westminster Insurance Services Limited	Insurance broking	Great Britain	(2)	31 December
National Westminster Life Assurance Limited	Life assurance	Great Britain	(1)(2)	31 December
NatWest Securities Limited	Securities dealer and corporate broking	Great Britain	(2)	31 December
NatWest Ventures Investments Limited	Venture capital	Great Britain	(2)	31 December
Ulster Bank Limited	Banking	Northern Ireland	(7)	31 December

(1) At 31 December 1995, the Bank held, either directly or indirectly, 100% of the equity share capital and voting rights of the principal subsidiary undertakings except for Banco NatWest España SA (99.62%) and National Westminster Life Assurance Limited (92.5%).
(2) Has its registered office in England & Wales.
(3) Shares are not directly held by National Westminster Bank Plc.
(4) Coutts & Co is incorporated with unlimited liability.
(5) Coutts & Co Trust Holdings Limited and its subsidiary undertakings operate worldwide and provide trust, banking and investment services.
(6) The Bank has no holding in the preference share capital of Lombard North Central PLC.
(7) Ulster Bank Limited and its subsidiary undertakings also operate in the Republic of Ireland.
(8) All the above subsidiary undertakings are included in the Group's accounts.

25 Tangible fixed assets

	Freehold land and buildings* £m	Leases of 50 years or more unexpired* £m	Leases of less than 50 years unexpired £m	Computer and other equipment £m	Total £m
The Group					
Cost or valuation					
At 1 January 1995	2,029	185	333	1,995	4,542
Exchange adjustments	13	5	5	26	49
Additions	115	11	58	442	626
Disposals	(51)	(10)	(34)	(342)	(437)
Subsidiary undertakings acquired	14	–	2	6	22
Disposal of subsidiary undertakings	(2)	–	–	(8)	(10)
At 31 December 1995	2,118	191	364	2,119	4,792
Accumulated provisions for depreciation and diminution in value					
At 1 January 1995	312	52	128	1,134	1,626
Exchange adjustments	2	–	2	20	24
Disposals	(4)	(1)	(31)	(177)	(213)
Disposal of subsidiary undertakings	–	–	–	(4)	(4)
Charge for year	25	4	24	243	296
Provision for permanent diminution in value	3	–	1	–	4
At 31 December 1995	338	55	124	1,216	1,733
Net book value at 31 December 1995	1,780	136	240	903	3,059
Net book value at 31 December 1994	1,717	133	205	861	2,916
The Bank					
Cost or valuation					
At 1 January 1995	1,627	135	227	1,331	3,320
Exchange adjustments	–	(2)	1	1	–
Additions	60	9	26	252	347
Disposals	(39)	(6)	(10)	(240)	(295)
Revaluation	4	–	–	–	4
At 31 December 1995	1,652	136	244	1,344	3,376
Accumulated provisions for depreciation and diminution in value					
At 1 January 1995	297	40	85	767	1,189
Exchange adjustments	1	(1)	–	(1)	(1)
Disposals	(4)	(1)	(7)	(111)	(123)
Charge for year	23	3	14	151	191
Provision for permanent diminution in value	3	–	1	–	4
At 31 December 1995	320	41	93	806	1,260
Net book value at 31 December 1995	1,332	95	151	538	2,116
Net book value at 31 December 1994	1,330	95	142	564	2,131

*Including depreciable amounts comprising fixed plant with cost of £424m (1994 £411m) in the Group and £393m (1994 £380m) in the Bank together with costs of £195m (1994 £155m) in the Group and £142m (1994 £126m) in the Bank for adapting properties to meet business needs.

At the end of 1995, the Group's freehold land and buildings were valued by internal and external qualified valuers who are members of the Royal Institution of Chartered Surveyors ('RICS') or, in the case of some overseas properties, by local qualified valuers. Properties were valued in accordance with the RICS Statements of Asset Valuation Practice, on the basis of existing use value or, in the case of specialised properties, on a depreciated replacement cost basis.

25 Tangible fixed assets continued

Cost or valuation of freehold land and buildings	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
At 1995 valuation	**1,640**	–	**1,231**	–
At 1994 valuation	–	1,601	–	1,232
Adaptation costs at cost less depreciation	**140**	116	**101**	98
Net book value at 31 December	**1,780**	1,717	**1,332**	1,330
On the historical cost basis, freehold land and buildings would have been included as follows				
Cost	**1,739**	1,654	**1,230**	1,206
Accumulated provisions for depreciation and diminution in value	**(338)**	(312)	**(320)**	(297)
Net book value at 31 December	**1,401**	1,342	**910**	909
Land and buildings occupied for own activities				
Net book value at 31 December	**1,943**	1,876	**1,433**	1,420
Future capital expenditure				
Contracted but not provided in the accounts	**149**	136	**135**	106
Authorised by the directors but not contracted	**74**	74	**46**	47
	223	210	**181**	153
Net book value of tangible fixed assets included above held under finance leases	**41**	10	**5**	9
Depreciation for the period included above in respect of assets held under finance leases	**7**	5	**4**	4

26 Lease commitments

At the year end, annual commitments under non-cancellable operating leases relating to land and buildings expiring in the following periods were

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Within 1 year	**4**	6	**3**	4
Between 1 and 5 years	**22**	26	**11**	16
In 5 years or more	**118**	122	**81**	82
	144	154	**95**	102

Net obligations under finance leases at the year end were payable

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Within 1 year	**78**	100	**2**	2
Between 1 and 5 years	**99**	147	**3**	1
In 5 years or more	**148**	150	**3**	–
	325	397	**8**	3

27 Other assets

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Derivatives (note 42)	**7,266**	5,933	**6,415**	5,441
Settlement balances	**1,864**	2,443	**421**	213
Deferred taxation (note 35)	**–**	–	**–**	36
Other	**2,012**	1,372	**1,160**	533
	11,142	9,748	**7,996**	6,223

28 Assets subject to sale and repurchase transactions

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Treasury and other eligible bills	**346**	3,043	**–**	2,870
Debt securities	**1,931**	3,587	**854**	1,027
	2,277	6,630	**854**	3,897

29 Long-term assurance business

The long-term assurance assets attributable to policyholders comprise

	1995 The Group £m	1994 The Group £m
Investments	**1,920**	1,265
Value of in-force policies	**109**	93
Computer and other equipment	**14**	16
Net current assets/(liabilities)	**115**	(11)
	2,158	1,363
Long-term assurance business attributable to shareholders	**(233)**	(210)
	1,925	1,153

The increase in value of the Group's long-term assurance business included in the profit and loss account amounted to £34m before tax (1994 £60m) and £23m after tax (1994 £40m).

The value placed on long-term assurance business is calculated by discounting estimated future flows of statutory profits from in-force business at a discount rate that includes a risk margin. The future flows are based on prudent assumptions about long-term economic and business experience determined with the advice of a qualified actuary. The risk margin is designed to reflect uncertainties in expected future flows.

The key assumptions used are

Risk discount rate	12.5% net of tax
Economic assumptions	
Growth of unit-linked funds	10% pa gross of tax
Growth of non-linked funds	7% pa gross of tax
Policyholder taxation – life	25%
Shareholder taxation – life	28%
Expense inflation	5.5% pa

30 Deposits by banks

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Repayable on demand	**4,576**	5,010	**4,080**	4,002
With agreed maturity dates or periods of notice – remaining maturity				
3 months or less but not repayable on demand	**24,667**	24,783	**24,402**	23,373
1 year or less but over 3 months	**2,556**	2,964	**2,364**	2,845
5 years or less but over 1 year	**265**	268	**512**	179
Over 5 years	**47**	76	**136**	53
	32,111	33,101	**31,494**	30,452
Amounts include				
Due to subsidiary undertakings			**2,787**	1,676

The breakdown between domestic and international offices for the Group is set out below.

	1995 The Group £m	1994 The Group £m
In domestic offices		
Non interest-bearing	**195**	194
Interest-bearing	**4,249**	4,931
Total domestic offices	**4,444**	5,125
In international offices		
United States		
Non interest-bearing	**162**	100
Interest-bearing	**4,074**	3,566
Total United States offices	**4,236**	3,666
Other international offices		
Non interest-bearing	**419**	485
Interest-bearing	**23,012**	23,825
Total international offices	**27,667**	27,976
Total domestic and international offices	**32,111**	33,101

31 Customer accounts

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Repayable on demand	**37,727**	37,978	**28,047**	27,129
With agreed maturity dates or periods of notice – remaining maturity				
3 months or less but not repayable on demand	**43,493**	39,541	**27,405**	25,806
1 year or less but over 3 months	**3,838**	4,073	**1,163**	2,380
5 years or less but over 1 year	**1,254**	1,080	**1,572**	659
Over 5 years	**2,075**	1,329	**2,227**	1,858
	88,387	84,001	**60,414**	57,832
Amounts include				
Due to subsidiary undertakings			**2,216**	1,829
Due to associated undertakings	**36**	93	**36**	93

The breakdown between domestic and international offices for the Group is set out below.

	1995 The Group £m	1994 The Group £m
In domestic offices		
Non interest-bearing	**11,199**	11,479
Interest-bearing	**46,474**	42,518
Total domestic offices	**57,673**	53,997
In international offices		
United States		
Non interest-bearing	**3,068**	2,977
Interest-bearing	**9,921**	10,211
Total United States offices	**12,989**	13,188
Other international offices		
Non interest-bearing	**1,259**	1,025
Interest-bearing	**16,466**	15,791
Total international offices	**30,714**	30,004
Total domestic and international offices	**88,387**	84,001

32 Debt securities in issue

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Bonds and medium term notes – remaining maturity				
1 year or less	**112**	173	**61**	113
2 years or less but over 1 year	**102**	62	**98**	31
5 years or less but over 2 years	**293**	196	**271**	163
Over 5 years	**100**	104	**17**	19
	607	535	**447**	326
Other debt securities in issue – remaining maturity				
3 months or less	**12,693**	8,320	**10,177**	6,649
1 year or less but over 3 months	**1,227**	2,086	**1,118**	1,863
2 years or less but over 1 year	**100**	108	**61**	78
5 years or less but over 2 years	**–**	124	**–**	93
	14,020	10,638	**11,356**	8,683
	14,627	11,173	**11,803**	9,009

33 Short-term borrowings

Included within the balance sheet captions 'Deposits by banks', 'Customer accounts' and 'Debt securities in issue' are the following short-term borrowings.

	1995 The Group £m	1994 The Group £m
Federal funds purchased	**881**	583
Securities and bills sold under agreements to repurchase	**4,506**	6,907
Commercial paper	**495**	520
Other short-term borrowings	**1,267**	1,904
	7,149	9,914

34 Other liabilities

	1995 The Group £m	1994 The Group £m	**1995 The Bank £m**	1994 The Bank £m
Derivatives (note 42)	**7,106**	5,610	**6,423**	5,014
Settlement balances	**1,913**	1,724	**568**	209
Short positions in securities				
Debt securities				
Government securities	**1,433**	705	**418**	303
Other	**1,079**	613	**360**	83
Equity shares	**873**	1,445	**–**	–
Taxation	**320**	228	**40**	117
Dividends	**306**	257	**306**	257
Other liabilities	**1,321**	1,628	**530**	430
	14,351	12,210	**8,645**	6,413

35 Deferred taxation

	1995 The Group £m	1994 The Group £m	**1995 The Bank £m**	1994 The Bank £m
Capital allowances and depreciation	**1,077**	1,060	**32**	35
Other timing differences (net)	**(72)**	(149)	**(28)**	(71)
	1,005	911	**4**	(36)
At 1 January	**911**	800	**(36)**	(40)
Exchange and other adjustments	**–**	5	**–**	–
Arising during the year	**131**	122	**30**	1
Other movements	**(37)**	(16)	**1**	3
At 31 December	**1,005**	911	**4**	(36)

The Bank's net deferred tax liability is included in 'Other liabilities' (1994 net deferred tax asset shown in 'Other assets').

Provision for UK deferred taxation relating to capital allowances has been made at 33% being the rate of corporation tax at which the liability is expected to crystallise. Unprovided deferred taxation liabilities, all of which relate to capital allowances, amounted to £122m (1994 £121m) for the Group and £62m (1994 £64m) for the Bank.

Provision is also not made for any liability which might arise in the event of

(i) Group properties being realised at balance sheet values. Most of these properties are occupied for the purposes of the Group's trade and any gains arising on disposal are normally rolled-over pursuant to the Taxation of Chargeable Gains Act 1990 Section 152. The directors are, therefore, of the opinion that the likelihood of any material liability arising in this respect is remote and, in view of the large number of properties, no useful purpose would be served by quantifying the potential liability.

(ii) Subsidiary and associated undertakings being disposed of at their balance sheet amounts.

(iii) The reserves of overseas subsidiary and associated undertakings being remitted. A substantial proportion of such reserves are required to be retained by the overseas undertakings to meet their local regulatory requirements.

36 Other provisions for liabilities and charges

	Provision for losses on termination and disposal of retail operations £m	Unfunded post-retirement benefits £m	Total £m
At 1 January 1995	31	17	48
Exchange adjustments	(2)	1	(1)
Charge for year	1	9	10
Provisions utilised	(15)	(2)	(17)
At 31 December 1995	15	25	40

37 Subordinated liabilities

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Undated loan capital				
Sterling	550	550	550	550
US dollars	1,656	1,955	1,656	1,955
	2,206	2,505	2,206	2,505

Undated loan capital includes US$1,000m (£648m) primary capital FRNs, Series A & B. The FRNs have no final maturity but may be redeemed at the option of the Bank at their principal amount. Interest on the FRNs is at an annual rate of 1/4% per annum over the mean of the London interbank bid and offer quotations for dollar deposits during each six month interest period. The FRNs are subordinated to the claims of depositors and other unsubordinated creditors of the Bank and those subordinated creditors whose claims are expressed to be senior to the claims of the noteholders.

£200m 11.5% undated subordinated notes, issued in 1992, are convertible at the Bank's option into £200m 8.392% non-cumulative preference shares of £1 each.

US$500m (£324m) 7.875% exchangeable capital securities, Series A, issued in 1993, may be exchanged at the Bank's option for 20m non-cumulative dollar preference shares of US$25 each at any time on or after 16 October 1996 or redeemed at the option of the Bank after 3 November 2003.

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Dated loan capital				
Sterling	504	504	504	504
US dollars	1,927	1,902	1,539	1,518
Other currencies	155	288	135	271
	2,586	2,694	2,178	2,293

Group and Bank include US$750m (£486m) 9.45% subordinated notes maturing in 2001. The notes are not redeemable prior to maturity except in the event that payments thereunder become subject to certain taxes. The notes are subordinated to the claims of depositors and other creditors of the Bank except for claims which by their terms rank equally with or are subordinated to the notes.

Claims in respect of the Group's other loan capital are subordinated to the claims of other creditors. None of the Group's loan capital is secured.

The Bank's US dollar dated loan capital includes £438m (1994 £431m) of amounts due to subsidiary undertakings in respect of issues made by them and on-lent to the Bank on a subordinated basis. They have been guaranteed on a subordinated basis by the Bank as to the payment of principal, premium (if any) and interest.

Interest payable on Group floating rate issues totalling £3,039m (1994 £3,328m) is at a margin over London interbank rates. Interest is payable at various fixed rates on £1,753m (1994 £1,871m); the range of applicable rates is as follows.

Sterling	7.5%-12.5%
US dollars	7.875%-12.125%
Other currencies	6.0%-6.25%

37 Subordinated liabilities continued

Dated loan capital is repayable, in certain cases at a premium, as follows.

	1995 Fixed rate loan capital £m	1995 Floating rate loan capital £m	1995 Total £m	1994 Total £m
The Bank				
Due in				
1995	–	–	–	151
1996	–	36	36	32
1997	–	32	32	32
1998	136	32	168	156
1999	–	32	32	32
2000	–	32	32	32
2001 to 2005	685	397	1,082	1,072
2006 to 2010	–	358	358	355
	821	919	1,740	1,862
Due to subsidiary undertakings				
Due in				
1998	–	130	130	128
2000	–	308	308	303
	–	438	438	431
Bank dated loan capital	821	1,357	2,178	2,293
Subsidiary undertakings				
Due in				
1996	1	–	1	1
1997	2	–	2	2
1999	17	–	17	14
2001 to 2005	388	–	388	384
	408	–	408	401
Group dated loan capital	1,229	1,357	2,586	2,694

38 Called up share capital

	The Group and The Bank		
	1995 £m	1994 £m	1993 £m
Ordinary shares of £1 each			
Authorised	**2,250**	2,250	1,850
Allotted, called up and fully paid			
At 1 January	**1,716**	1,662	1,647
Issued in connection with the acquisition of			
Central Jersey Bancorp	**21**	–	–
Gleacher & Co. Inc.	**14**	–	–
Citizens First Bancorp Inc.	–	43	–
Issued under share option schemes for staff	**17**	8	12
Issued in lieu of cash dividends	**3**	3	3
At 31 December	**1,771**	1,716	1,662
Non-cumulative preference shares of $25 each	**1995 $m**	1994 $m	1993 $m
Authorised	**2,000**	2,000	1,000
Allotted, called up and fully paid			
At 1 January	**500**	500	250
Issued during the year	–	–	250
At 31 December ($m)	**500**	500	500
At 31 December (£m)	**324**	320	338
Non-cumulative preference shares of £1 each	**1995 £m**	1994 £m	1993 £m
Authorised	**1,000**	1,000	500
Allotted, called up and fully paid			
At 1 January and 31 December	**140**	140	140
7% cumulative preference shares of £1 each (redeemed May 1994)			
Authorised	–	–*	15
Allotted, called up and fully paid			
At 1 January	–	14	14
Redeemed during the year	–	(14)	–
At 31 December	–	–	14
Total preference share capital – non-equity shares	**464**	460	492

* Decrease in authorised share capital following a resolution at the Annual General Meeting and the approval of the court.

Under the terms of the executive and savings related share option schemes, options have been granted to eligible directors and other members of staff enabling them to subscribe for 58m (1994 63m; 1993 69m) ordinary shares between 1996 and 2005 at various prices between 196p and 629p.

It is not possible to quantify the number of ordinary shares that will be issued in 1996 in lieu of the final dividend for 1995 or under profit sharing schemes in respect of profits arising in 1995.

The dollar preference shares, Series A, which carry a gross dividend of 10.64% inclusive of associated tax credit, are redeemable at the option of the Bank from 26 September 1996 to 25 September 2001 inclusive, at a premium per share of US$1.50 in 1996, reducing by US$0.30 in each successive year. There is no redemption premium if the date of redemption falls after 25 September 2001.

The dollar preference shares, Series B, which carry a gross dividend of 8.75% inclusive of associated tax credit, are redeemable at the option of the Bank from 10 June 1998 to 9 June 2003 inclusive, at a premium per share of US$1.50 in 1998 reducing by US$0.30 in each successive year. There is no redemption premium if the date of redemption falls after 9 June 2003.

The 9% non-cumulative sterling preference shares, Series A, of £1 each are non-redeemable.

The holders of sterling and dollar preference shares are entitled, on the winding-up of the Bank, to priority over the ordinary shareholders as regards payment of capital. Otherwise the holders of preference shares are not entitled to any further participation in the profits or assets of the Bank and accordingly are classified as non-equity shares.

The holders of sterling and dollar preference shares are not entitled to receive notice of, attend, or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of the Bank or the sale of the whole of the business of the Bank or any resolution directly affecting any of the special rights or privileges attached to any of the classes of preference shares.

39 Reserves

	1995 The Group £m	1994 The Group £m	1993 The Group £m	1995 The Bank £m
Share premium account				
At 1 January	**779**	602	602	**779**
Premium on ordinary shares issued in connection with the acquisition of				
Central Jersey Bancorp	**81**	–	–	**81**
Gleacher & Co. Inc.	**80**	–	–	**80**
Citizens First Bancorp Inc.	**–**	164	–	**–**
Premium on ordinary shares issued under share option schemes for staff	**23**	16	20	**23**
Ordinary shares issued in lieu of cash dividends	**(3)**	(3)	(3)	**(3)**
Share and loan capital issue expenses	**–**	–	(17)	**–**
At 31 December	**960**	779	602	**960**
Revaluation reserve				
At 1 January	**(225)**	(250)	67	**1,237**
Exchange and other movements	**3**	3	(3)	**19**
Revaluation	**–**	22	(293)	**753**
Transfer to profit and loss account	**1**	–	(21)	**(29)**
At 31 December	**(221)**	(225)	(250)	**1,980**
Profit and loss account*				
At 1 January	**3,691**	3,220	2,906	**2,229**
Exchange and other movements	**24**	(8)	(13)	**–**
Retention for the year	**731**	684	276	**(239)**
Shares issued in lieu of cash dividends	**19**	14	13	**19**
Adjustment for goodwill previously written off	**7**	23	20	**–**
Goodwill written off	**(232)**	(242)	(3)	**–**
Transfer from revaluation reserve	**(1)**	–	21	**29**
At 31 December	**4,239**	3,691	3,220	**2,038**

Exchange losses of £53m (1994 gains £28m; 1993 gains £4m) arising on foreign currency borrowings have been offset in the Group's profit and loss account reserves against differences on retranslating the net investment in overseas subsidiary and associated undertakings financed by these borrowings.

Included in the closing balances of the Group's revaluation reserve and profit and loss account at 31 December 1995 are cumulative net losses, relating to the retranslation of opening net assets of overseas subsidiary and associated undertakings offset by foreign currency borrowings, of £8m (1994 £39m; 1993 £40m).

The cumulative amount of goodwill deducted from the Group's profit and loss account attributable to subsidiary and associated undertakings acquired after 1 January 1969 and not subsequently sold is £1,178m (1994 £953m; 1993 £734m). Similar information relating to subsidiary undertakings acquired before 1 January 1969 is not available.

*The Group's reserves include its share of reserves of associated undertakings as shown below.

Profit and loss account	1995 £m	1994 £m	1993 £m
At 1 January	**159**	185	166
Exchange and other movements	**–**	–	(1)
Retention for the year	**60**	20	20
Disposal of interests in associated undertakings	**(6)**	(46)	–
At 31 December	**213**	159	185

40 Assets and liabilities denominated in foreign currency

	1995 The Group £m	1994 The Group £m	1995 The Bank £m	1994 The Bank £m
Denominated in sterling	**90,467**	82,215	**77,398**	69,259
Denominated in other currencies	**77,805**	75,831	**48,998**	48,472
Total assets	**168,272**	158,046	**126,396**	117,731
Denominated in sterling	**90,687**	82,284	**77,109**	69,465
Denominated in other currencies	**77,585**	75,762	**49,287**	48,266
Total liabilities	**168,272**	158,046	**126,396**	117,731

41 Memorandum items

	At 31 December 1995		At 31 December 1994	
	Contract amount £m	Risk-weighted amount £m	Contract amount £m	Risk-weighted amount £m
The Group				
Contingent liabilities				
Acceptances and endorsements	**1,031**	**1,004**	1,063	995
Guarantees and assets pledged as collateral security	**9,391**	**5,465**	10,107	6,151
	10,422	**6,469**	11,170	7,146
Commitments – other commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
1 year and over	**19,096**	**7,542**	17,828	6,938
Less than 1 year	**36,402**	**–**	33,234	–
Other (including documentary credits)	**1,553**	**330**	1,195	263
	57,051	**7,872**	52,257	7,201
Exchange rate and interest rate contracts				
Exchange rate related contracts	**322,536**	**2,142**	297,944	2,202
Interest rate related contracts	**883,499**	**2,338**	572,757	1,244

41 Memorandum items continued

	1995		1994	
	Contract amount £m	Risk-weighted amount £m	Contract amount £m	Risk-weighted amount £m
The Bank				
Contingent liabilities				
Acceptances and endorsements	**708**	**689**	756	710
Guarantees and assets pledged as collateral security	**11,970**	**4,099**	11,164	5,368
	12,678	**4,788**	11,920	6,078
Commitments – other commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
1 year and over	**15,539**	**5,880**	16,921	5,698
Less than 1 year	**30,479**	**–**	27,724	–
Other (including documentary credits)	**1,255**	**252**	856	175
	47,273	**6,132**	45,501	5,873
Exchange rate and interest rate contracts				
Exchange rate related contracts	**302,564**	**2,017**	279,107	2,091
Interest rate related contracts	**869,925**	**2,195**	531,458	1,160
Incurred on behalf of subsidiary undertakings (included above)				
Contingent liabilities and commitments	**4,382**		4,065	

Risk-weighted amounts have been calculated in accordance with the Bank of England's guidelines implementing the EC solvency ratio directive.

Acceptances are obligations to pay on maturity the face value of a bill of exchange to a third party. Most acceptances are short-term and extend for one year or less. By endorsing a document, the Group accepts liability for payment if it is dishonoured.

Commitments to lend include commitments which are unconditionally cancellable and agreements to lend to a customer so long as all conditions established in the loan agreement have been satisfied or waived. A substantial proportion of the Group's loans is by way of overdrafts. Unutilised overdraft facilities constitute commitments to lend which, although unconditionally cancellable, are normally granted for a specific period of time. Unutilised overdraft facilities are included in commitments to lend.

Documentary credits are commercial letters of credit providing for payment by the Group to a named beneficiary, against delivery of specified documents.

Other commitments and contingent obligations usually have fixed expiry dates or other termination clauses.

Banking commitments and contingent obligations which have been entered into on behalf of customers and for which there are corresponding obligations by customers are not included in assets and liabilities. The Group's maximum exposure to credit loss, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual notional amount of those instruments. Many commitments are expected to expire without being drawn and do not necessarily represent future cash requirements.

Exchange rate and interest rate contracts comprise all such contracts with third parties, both trading and non-trading (see note 42). Consistent with regulatory treatment, exchange rate related contracts include equity and commodity contracts.

41 Memorandum items continued

Assets charged as security for liabilities

Assets under the following headings have been pledged to secure potential liabilities.

	1995 The Group £m	1994 The Group £m	**1995 The Bank £m**	1994 The Bank £m
Debt securities	**401**	437	**297**	325
Other assets	**220**	57	**73**	29
	621	494	**370**	354

Included above are assets pledged with overseas government agencies and banks and margins placed with futures exchanges.

Other contingent liabilities

(i) Litigation

Members of the Group are involved in litigation in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them which arise in the ordinary course of business. The directors of the Bank, after reviewing the claims pending and threatened against Group companies and taking into account the advice of the relevant legal advisers, are satisfied that the outcome of these claims will not have a material adverse effect on the net assets of the Group.

(ii) General

Additional contingent liabilities arise in the normal course of business. It is not anticipated that any material loss will arise from these transactions.

42 Derivatives

Companies in the Group enter into various off-balance sheet financial instruments (derivatives) as principal either as a trading activity or to manage balance sheet foreign exchange rate risk and interest rate risk (non-trading). Exchange rate related contracts include currency swaps, forwards and options. Currency swap transactions generally involve the exchange of interest payment obligations relating to assets or liabilities denominated in different currencies; the exchange of principal can be notional or actual. Forward foreign exchange contracts are contracts for delayed delivery of currency at a specified future date.

Interest rate related contracts include swaps, forward rate agreements and options. Interest rate swap transactions generally involve the exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts. Forward rate agreements are contracts under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future settlement date; there is no exchange of principal.

Foreign exchange rate and interest rate options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price and within a specified period of time. As a writer of options, the Group receives a premium and then bears the risk of an unfavourable change in the price of the financial instrument underlying the option.

42 Derivatives continued

Derivatives held for trading purposes

At 31 December 1995 and 31 December 1994, the notional principal amounts and fair values (which, after netting, are the carrying values) of trading instruments entered into with third parties were as follows.

	1995			1994		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
The Group	£bn	Asset £m	Liability £m	£bn	Asset £m	Liability £m
Exchange rate related contracts						
Spot, forwards and futures	**248.8**	**2,619**	**2,542**	251.0	2,544	2,390
Currency swaps	**19.9**	**781**	**631**	12.5	628	518
Options purchased	**23.6**	**347**	**–**	9.9	142	–
Options written	**21.2**	**–**	**419**	14.2	–	142
	313.5	**3,747**	**3,592**	287.6	3,314	3,050
Interest rate related contracts						
Interest rate swaps	**379.6**	**6,978**	**6,900**	266.7	3,231	3,108
Options purchased	**139.8**	**596**	**–**	76.2	298	–
Options written	**82.6**	**–**	**671**	51.8	–	361
Futures and forwards	**266.5**	**202**	**193**	138.8	116	96
	868.5	**7,776**	**7,764**	533.5	3,645	3,565
Equity and commodity related contracts	**7.1**	**237**	**244**	6.2	151	172
Effect of netting		**(4,494)**	**(4,494)**		(1,177)	(1,177)
		7,266	**7,106**		5,933	5,610
Average fair values (before netting)						
Exchange rate related contracts		**5,053**	**4,819**		3,987	3,718
Interest rate related contracts		**5,770**	**5,906**		3,640	3,392
Equity and commodity related contracts		**216**	**241**		168	187
		11,039	**10,966**		7,795	7,297

Averages are calculated from a combination of monthly and quarterly balances.

Gains and losses on exchange-traded contracts subject to daily margining requirements are settled daily. The fair value of such contracts included above reflects the last day's variation margin.

Maturity of notional principal amounts of trading contracts	1 year or less £bn	2 years or less but over 1 year £bn	5 years or less but over 2 years £bn	Over 5 years £bn	Total £bn
Exchange rate related contracts					
Spot, forwards and futures	**243.7**	**3.2**	**1.7**	**0.2**	**248.8**
Currency swaps	**5.5**	**3.1**	**7.7**	**3.6**	**19.9**
Options purchased	**23.3**	**0.2**	**0.1**	**–**	**23.6**
Options written	**21.0**	**0.2**	**–**	**–**	**21.2**
At 31 December 1995	**293.5**	**6.7**	**9.5**	**3.8**	**313.5**
At 31 December 1994	269.1	8.0	8.2	2.3	287.6

42 Derivatives continued

Maturity of notional principal amounts of trading contracts

	1 year or less £bn	2 years or less but over 1 year £bn	5 years or less but over 2 years £bn	Over 5 years £bn	Total £bn
Interest rate related contracts					
Interest rate swaps	137.6	83.1	111.6	47.3	379.6
Options purchased	87.6	25.6	22.6	4.0	139.8
Options written	27.7	20.1	26.1	8.7	82.6
Futures and forwards	183.0	55.7	27.8	–	266.5
At 31 December 1995	435.9	184.5	188.1	60.0	868.5
At 31 December 1994	245.7	112.1	133.8	41.9	533.5

Non-trading derivatives

The Group uses derivatives in managing its own asset and liability positions. They are used to manage specified interest rate positions relating to assets and liabilities and to hedge foreign exchange exposures. The Group establishes non-trading derivatives positions with third parties and through intra-company and intra-group transactions with the Group's independent trading operations. At the year end, the notional principal amounts, by maturity, of the Group's non-trading derivatives (third party, intra-company and intra-group) were as follows.

Notional principal amounts	1 year or less £bn	2 years or less but over 1 year £bn	5 years or less but over 2 years £bn	Over 5 years £bn	Total* £bn
Exchange rate related contracts					
Spot, forwards and futures	10.7	–	–	–	10.7
Currency swaps and options	0.2	–	0.4	0.3	0.9
At 31 December 1995	10.9	–	0.4	0.3	11.6
At 31 December 1994	9.0	–	0.3	0.3	9.6
Interest rate related contracts					
Interest rate swaps	6.9	4.9	5.2	4.0	21.0
Options purchased	2.7	–	–	–	2.7
Options written	1.3	–	–	–	1.3
Futures and forwards	7.9	0.2	–	–	8.1
At 31 December 1995	18.8	5.1	5.2	4.0	33.1
At 31 December 1994	37.2	6.3	8.2	3.9	55.6

*Includes contracts with third parties with notional principal amounts of £1.9bn (1994 £4.1bn) (exchange rate related) and £15.0bn (1994 £39.3bn) (interest rate related) and positive fair values of £68m (1994 £64m) and £162m (1994 £102m) respectively.

At 31 December 1995, gains of £163m (1994 £16m) and losses of £41m (1994 £4m) on terminated interest rate related contracts were being deferred over periods of up to 10 years (1994 7 years).

The table below shows the weighted average interest rates to be received and paid on the Group's non-trading interest rate swaps.

	1995 Notional principal amount £bn	1995 Weighted average interest rate Receive %	1995 Weighted average interest rate Pay %	1994 Notional principal amount £bn	1994 Weighted average interest rate Receive %	1994 Weighted average interest rate Pay %
Receive fixed swaps	7.5	6.6	5.7	10.5	6.7	6.4
Pay fixed swaps	13.0	6.6	7.7	11.7	6.1	7.4
Basis swaps	0.5	4.8	4.7	0.5	6.5	6.0
	21.0			22.7		

42 Derivatives continued

Credit exposure

An analysis by counterparty type of the positive fair values of the Group's derivatives (trading and non-trading) entered into with third parties is given below.

	1995 Before netting £m	1995 After netting £m
Banks and investment firms	**9,695**	**5,281**
Others	**2,295**	**2,215**
	11,990	**7,496**

43 Segmental information

Geographical segments (note (a))	Domestic £m	International United Kingdom £m	International United States £m	International Rest of the World £m	Total £m
Gross income					
1995					
Interest receivable	**6,038**	**1,963**	**1,706**	**1,389**	**11,096**
Dividend income	**19**	**-**	**2**	**2**	**23**
Fees and commissions receivable	**1,848**	**167**	**356**	**290**	**2,661**
Dealing profits	**158**	**272**	**39**	**108**	**577**
Other operating income	**401**	**11**	**112**	**28**	**552**
1994					
Interest receivable	5,136	1,756	1,336	1,237	9,465
Dividend income	16	1	–	3	20
Fees and commissions receivable	1,858	163	331	304	2,656
Dealing profits	101	252	29	69	451
Other operating income	446	17	13	24	500
1993					
Interest receivable	5,514	1,667	1,177	1,444	9,802
Dividend income	14	–	3	3	20
Fees and commissions receivable	1,865	160	326	270	2,621
Dealing profits	110	265	17	116	508
Other operating income	387	7	69	23	486
Profit/(loss) on ordinary activities before tax (note (b))					
1995	**1,075**	**194**	**316**	**168**	**1,753**
1994	882	536	208	(34)	1,592
1993	416	370	264	(61)	989
Profit/(loss) on ordinary activities after tax					
1995	**795**	**97**	**213**	**135**	**1,240**
1994	587	433	176	(63)	1,133
1993	195	317	236	(105)	643

43 Segmental information continued

Geographical segments (note (a)) continued	Domestic £m	International – United Kingdom £m	International – United States £m	International – Rest of the World £m	Total £m
Net assets (note (c))					
1995	**3,135**	**1,086**	**1,675**	**1,317**	**7,213**
1994	3,143	539	1,483	1,256	6,421
1993	2,815	365	1,438	1,108	5,726
Total assets (note (c))					
1995	**85,399**	**34,070**	**25,134**	**23,669**	**168,272**
1994	83,261	31,300	22,542	20,943	158,046
1993	76,024	35,353	21,431	20,054	152,862
Average total assets (note (d))					
1995	**83,537**	**37,952**	**26,008**	**25,304**	**172,801**
1994	79,221	36,026	22,809	23,016	161,072
1993	79,904	32,512	21,640	21,197	155,253

Classes of business (note (e))	NatWest UK £m	NatWest Markets £m	International Businesses £m	Bancorp £m	Total £m
Profit on ordinary activities before tax (note (b))					
1995	**671**	**297**	**429**	**356**	**1,753**
1994	591	359	403	239	1,592
1993	180	453	172	184	989
Net assets (note (c))					
1995	**1,343**	**1,835**	**2,584**	**1,451**	**7,213**
1994	1,231	1,681	2,197	1,312	6,421
1993	1,190	1,423	1,942	1,171	5,726
Total assets (note (c))					
1995	**50,088**	**70,917**	**28,844**	**18,423**	**168,272**
1994	46,196	69,372	25,673	16,805	158,046
1993	43,044	68,044	26,415	15,359	152,862
Average total assets (note (d))					
1995	**48,019**	**77,099**	**28,011**	**19,672**	**172,801**
1994	45,610	71,339	27,775	16,348	161,072
1993	46,887	66,456	26,962	14,948	155,253

(a) 'International – United Kingdom' includes the business of those offices in the UK specifically organised to service international banking transactions. NatWest Markets' activities are divided between 'Domestic' and the appropriate international segment based on the location of the office which provides the service. Business recorded in the Bahamas by United States operations is included in 'International – United States'.

(b) Interest on loan capital, central services costs and earnings on shareholders' funds are apportioned segmentally on appropriate bases. The 1993 figure for profit/(loss) on ordinary activities before tax is after provisions of £159m for termination and disposal of retail operations attributable to 'International – Rest of the World' and 'International Businesses'.

(c) Total assets are disclosed additionally as they are considered to be more meaningful than the segmental analyses of net assets required under SSAP25 'Segmental reporting'. In banking, liabilities, which mainly constitute the source of funds, are generally fungible in nature and some subjective allocations are necessary to provide segmental information on assets.

(d) Average total assets attributed to segments are derived from a combination of daily, monthly and quarterly balances.

(e) Classes of business conform to the four business sectors of the Group.

44 Consolidated cash flow statement

	1995 £m	1994 £m	1993 £m
(i) Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	**1,670**	1,503	1,123
(Increase)/decrease in accrued income	**(155)**	(349)	315
Interest on subordinated liabilities	**373**	351	314
Increase in accruals and deferred income	**1**	287	156
Amortisation of and provisions against investment securities	**(92)**	(64)	(37)
Provisions for bad and doubtful debts	**639**	616	1,262
Loans and advances written off net of recoveries	**(787)**	(915)	(1,382)
(Profit)/loss on sale of tangible fixed assets	**(11)**	(17)	2
Profit on sale of investment securities	**(133)**	(64)	(127)
Provision for liabilities and charges	**10**	11	8
Depreciation and amortisation of tangible fixed assets	**296**	290	292
Depreciation of operating lease assets	**255**	253	241
Permanent diminution in value of freehold and leasehold properties	**4**	10	15
Increase in value of long-term assurance business	**(34)**	(60)	(82)
Net cash inflow from trading activities	**2,036**	1,852	2,100
Decrease/(increase) in items in the course of collection	**426**	(582)	51
(Increase)/decrease in treasury and other eligible bills	**(1,046)**	172	264
Decrease/(increase) in loans and advances to banks	**126**	(2,961)	1,170
(Increase)/decrease in loans and advances to customers	**(4,545)**	227	6,676
(Increase)/decrease in securities	**(3,478)**	739	(3,806)
(Increase)/decrease in other assets	**(1,362)**	(204)	910
Increase in prepayments	**(131)**	(27)	(121)
(Decrease)/increase in items in the course of transmission	**(34)**	65	58
(Decrease)/increase in deposits by banks	**(990)**	(296)	240
Increase/(decrease) in customer accounts	**3,347**	28	(2,203)
Increase/(decrease) in debt securities in issue	**3,454**	3,358	(1,454)
Increase in other liabilities	**2,046**	490	1,244
Effect of other accruals/deferrals and other non-cash movements	**(423)**	325	199
Net cash (outflow)/inflow from operating activities	**(574)**	3,186	5,328
(ii) Acquisition of interests in subsidiary undertakings			
Net assets acquired	**67**	108	1
Goodwill	**223**	242	5
	290	350	6
Satisfied by			
Shares allotted	**196**	207	–
Cash	**92**	121	6
Deferred consideration	**–**	22	–
Shares already owned by the Group	**2**	–	–
	290	350	6
(iii) Analysis of net (outflow)/inflow of cash and cash equivalents in respect of the acquisition of interests in subsidiary undertakings			
Cash consideration	**(92)**	(121)	(6)
Cash and cash equivalents acquired	**68**	151	–
Net cash (outflow)/inflow	**(24)**	30	(6)

44 Consolidated cash flow statement continued

	1995 £m	1994 £m	1993 £m
(iv) Disposal of interests in subsidiary and associated undertakings			
Net assets disposed of	**17**	180	–
Goodwill previously written off	**7**	23	–
Profit on disposal	**8**	40	–
	32	243	–
Satisfied by			
Cash	**32**	243	–
(v) Analysis of net inflow/(outflow) of cash and cash equivalents in respect of the disposal of interests in subsidiary and associated undertakings			
Cash consideration	**32**	243	–
Cash and cash equivalents disposed of	**–**	(629)	–
Net cash inflow/(outflow)	**32**	(386)	–

	Share capital (including share premium account)			Subordinated liabilities		
	1995 £m	1994 £m	1993 £m	1995 £m	1994 £m	1993 £m
(vi) Analysis of changes in financing during the year						
At 1 January	**2,955**	2,756	2,567	**5,199**	5,462	5,073
Effect of foreign exchange differences	**4**	(18)	8	**59**	(205)	106
Repayments in the year	**–**	(14)	–	**(466)**	(6)	(55)
Disposal of subsidiary undertakings	**–**	–	–	**–**	(52)	–
Issues in the year	**236**	231	198	**–**	–	338
Other movements	**–**	–	(17)	**–**	–	–
At 31 December	**3,195**	2,955	2,756	**4,792**	5,199	5,462

	1995 £m	1994 £m	1993 £m
(vii) Analysis of changes in cash and cash equivalents during the year			
At 1 January	**27,856**	29,258	24,398
Net cash (outflow)/inflow before adjustments for the effect of foreign exchange rates	**(1,123)**	(1,314)	4,895
Effect of foreign exchange rate changes	**221**	(88)	(35)
At 31 December	**26,954**	27,856	29,258

	1995 £m	1994 £m	1993 £m
(viii) Analysis of the balances of cash and cash equivalents as shown in the balance sheet			
Cash and balances at central banks	**1,583**	1,372	1,289
Treasury and other eligible bills	**9,649**	8,918	8,141
Debt securities	**15,509**	13,200	12,096
	26,741	23,490	21,526
Balances with original maturity of over 3 months	**(16,990)**	(14,011)	(12,467)
	9,751	9,479	9,059
Money at call and market placings with original maturity less than 3 months	**17,203**	18,377	20,199
Cash and cash equivalents	**26,954**	27,856	29,258

Money at call and short notice is included within the balance sheet categories 'Loans and advances to banks' and 'Loans and advances to customers'.

The Group is required to maintain interest-free deposits with the Bank of England. At 31 December 1995, these deposits amounted to £220m (1994 £177m; 1993 £159m). The total amount required to be maintained both with the Bank of England and State banks abroad was £393m (1994 £335m; 1993 £354m).

The Group is also required to maintain reserve balances with the Federal Reserve Bank. The average amount of these reserve balances for the year ended 31 December 1995 was £173m (1994 £148m; 1993 £124m).

45 General

(i) Management and agency services
The Group undertakes investment management, insurance broking and stockbroking business.

(ii) Lease and similar finance arrangements
Amounts financed during the year under finance leases were £2,172m (1994 £1,895m) and under hire purchase and conditional sale agreements were £3,129m (1994 £2,817m).

(iii) Related undertakings
As permitted by Section 231 of the Companies Act 1985, the information required by Schedule 5 of the Act is given only for those undertakings whose results or financial position principally affect the figures shown in the accounts (notes 23 and 24). Full information will be annexed to the Bank's next annual return.

(iv) Investments in partnerships and unlimited companies
Interests of the Group in partnerships and unlimited companies have been incorporated in the accounts of the Group on a consolidated basis thereby exempting it from the requirements of The Partnerships and Unlimited Companies (Accounts) Regulations 1993.

46 Emoluments of directors

	1995 £000	1994 £000
Directors' fees for main board membership	**200**	207
Board committee and subsidiary company fees	**262**	223
	462	430
Salaries, bonuses and other emoluments and benefits	**4,638**	4,972
Aggregate emoluments of directors who served in the year	**5,100**	5,402
Pensions paid to former directors and their dependants	**262**	238
Superannuation gratuity paid to a former director	**–**	20

The Chairman's basic salary, bonus and benefits amounted to £454,000 (1994 £417,000) and comprised £304,000 basic salary, a performance bonus of £135,000 and benefits in kind to the value of £15,000. A further sum of £61,000 (1994 £60,000) was paid in respect of his personal pension arrangements making a total of £515,000 (1994 £477,000). He is a non-participating member of the NatWest Retirement Benefits Scheme and is not eligible to receive a pension from the scheme but his dependants would receive a lump-sum death benefit in the event of his death whilst in the service of the Group. The Chairman does not participate in the Group Staff Profit Sharing Scheme.

The total remuneration and benefits of the highest paid director in the UK, Dr J M Owen, were £617,000 (1994 Mr D Wanless £499,000) which comprised £300,000 basic salary, a performance related bonus of £277,000, profit sharing of £23,000 and benefits in kind of £17,000.

The following table shows the number of UK based directors of the Bank (including the Chairman and the highest paid director in the UK) receiving emoluments within the bands stated. These figures do not include contributions paid in respect of directors under any of the Bank's pension funds.

Emoluments £	Number of directors 1995	Number of directors 1994	Emoluments £	Number of directors 1995	Number of directors 1994
10,001 – 15,000	–	2	130,001 – 135,000	**2**	1
20,001 – 25,000	**2**	–	305,001 – 310,000	**1**	–
25,001 – 30,000	**1**	1	310,001 – 315,000	**–**	1
30,001 – 35,000	**1**	1	345,001 – 350,000	**–**	1
35,001 – 40,000	–	1	350,001 – 355,000	–	1
40,001 – 45,000	**2**	1	360,001 – 365,000	**1**	–
45,001 – 50,000	**–**	1	410,001 – 415,000	**–**	1
55,001 – 60,000	**1**	1	475,001 – 480,000	**1**	1
60,001 – 65,000	**2**	1	490,001 – 495,000	–	1
75,001 – 80,000	**1**	1	495,001 – 500,000	**–**	1
80,001 – 85,000	**1**	1	510,001 – 515,000	**1**	–
90,001 – 95,000	**1**	–	590,001 – 595,000	**1**	–
120,001 – 125,000	**–**	1	615,001 – 620,000	**1**	–

47 Transactions involving directors and others

(a) The aggregate amounts outstanding at 31 December 1995 under transactions, arrangements and agreements made by authorised institutions within the Group for persons who are, or were, directors of the Bank during the year and their connected persons and with officers of the Bank comprised the following.

	Number of directors/ officers of the Bank	Number of connected persons	Aggregate amount £000
Directors and their connected persons			
Loans and credit card transactions	**11**	**4**	**918**
Officers			
Loans and credit card transactions	**28**	**–**	**1,805**

(b) As at 31 December 1995, loans made by companies within the Group, other than authorised institutions, for officers of the Bank amounted to £238,000 in respect of 3 officers of the Bank.

(c) Mr D M Child has entered into an agreement with the Bank relating to the rental of accommodation in London at an annual rental of £14,500. This agreement is on usual commercial terms.

48 Differences between UK and US accounting principles

The consolidated accounts of the Group are prepared in accordance with UK GAAP which differs in certain respects from US GAAP. The following is a summary of the significant differences.

- Goodwill, representing the excess of the cost of shares in subsidiary and associated undertakings over the fair value of underlying separable net assets at the date of acquisition, is deducted from the Group's reserves in the year of acquisition. Under US GAAP, such goodwill is capitalised and amortised over its estimated useful life but not more than 25 years.
- Freehold property may be revalued and the surplus or deficit arising on such revaluation is included in the Group's reserves which form part of ordinary shareholders' equity. Revaluation of freehold property is not permitted under US GAAP.
- It is the Group's policy to maintain its properties in a state of good repair. The directors' assessment of the residual values (based on values prevailing at acquisition or subsequent revaluation) and useful economic lives of freehold and long leasehold properties is such that the charge for depreciation would not be significant; consequently, these properties are not depreciated. Under US GAAP, depreciation must be charged.
- Ordinary share dividends are provided in the financial year in respect of which they are declared by the board of directors. Under US GAAP, such dividends are not provided for until the date declared.
- Deferred taxation is provided only where it is probable that a taxation liability will crystallise. Under US GAAP, as provided by Statement of Financial Accounting Standards ('SFAS') No 109, 'Accounting for Income Taxes' ('SFAS 109'), full provision must generally be made for all potential taxation liabilities.
- Certain loan fees are recognised when received. Under US GAAP, all loan fees and certain direct costs are deferred and recognised as an adjustment to the yield on the related loan or facility.
- Pension costs, based on actuarial assumptions and methods, are charged in the accounts so as to allocate the cost of providing benefits over the service lives of employees in a consistent manner approved by the actuary. US GAAP prescribes the method of actuarial valuation and also requires assets to be assessed at fair value and the assessment of liabilities to be based on current interest rates.
- The shareholders' interest in the long-term assurance fund is valued as the discounted value of the cash flows expected to be generated from in-force policies together with the net assets in excess of the statutory liabilities. Under US GAAP, premiums are recognised as revenue when due from policyholders. The costs of claims are recognised when insured events occur. For traditional business, the present value of estimated future policy benefits is accrued when premium revenue is recognised. Acquisition costs are capitalised and charged to expense in proportion to premium revenue recognised. For unit-linked business, acquisition costs are amortised over the life of the contracts at a constant rate based on the present value of estimated gross profits. Initial income in respect of future services is not earned in the period assessed but recognised as income over the same amortisation period and using the same amortisation schedule as for acquisition costs.
- Acceptances and the related customer liabilities are reported in memorandum items on the consolidated balance sheet whereas in the US they would be reflected by banks in assets and liabilities.
- Operations are reported as discontinued only where the sale or termination is completed either in the period or before the date on which the accounts are approved. Under US GAAP, a business segment to be disposed of is treated as discontinued in the year the management commits itself to a formal plan to dispose of the segment.

48 Differences between UK and US accounting principles continued

Reconciliation between UK and US GAAP	**1995 £m**	1994 £m	1993 £m
Consolidated statement of income – Net income			
Profit for the financial year – UK GAAP	**1,214**	1,093	617
Preference dividends	**(37)**	(38)	(34)
Profit attributable to ordinary shareholders	**1,177**	1,055	583
Adjustments in respect of			
Amortisation of goodwill	**(56)**	(31)	(32)
Depreciation of freehold buildings and long leaseholds	**(23)**	(23)	(25)
Deferred taxation	**(1)**	1	2
Deferral of loan fees and costs	**(1)**	1	1
Pension costs (note (b))	**(31)**	(105)	(50)
Long-term assurance policies	**(34)**	(53)	(52)
Net income available for ordinary shareholders – US GAAP	**1,031**	845	427
Equivalent to	**$1,592m**	$1,321m	$631m
Net income per ordinary share – US GAAP	**£0.59**	£0.50	£0.26

Consolidated ordinary shareholders' equity – 31 December	**1995 £m**	1994 £m	1993 £m
Ordinary share capital	**1,771**	1,716	1,662
Reserves	**4,978**	4,245	3,572
Ordinary shareholders' equity – UK GAAP	**6,749**	5,961	5,234
Adjustments in respect of			
Restoration of previously deducted goodwill, less amortisation	**866**	697	509
Elimination of revaluation surplus on properties	**(379)**	(375)	(350)
Depreciation of freehold buildings and long leaseholds	**(259)**	(236)	(213)
Ordinary share dividends	**300**	249	201
Deferred taxation	**(122)**	(121)	(122)
Deferral of loan fees and costs	**(98)**	(97)	(98)
Pension costs (note (b))	**(199)**	(168)	(63)
Long-term assurance policies	**(139)**	(105)	(52)
Ordinary shareholders' equity – US GAAP	**6,719**	5,805	5,046
Equivalent to	**$10,374m**	$9,078m	$7,461m
Year end exchange rate £1=$	**1.544**	1.564	1.479

Under US GAAP, the operations of Bancorp which are being disposed of are classified as discontinued and, overall, no material loss on disposal is expected. Consolidated net income from continuing activities under US GAAP is £836m (1994 £672m; 1993 £205m) and net income from continuing activities per ordinary share is £0.48 (1994 £0.40; 1993 £0.12).

48 Differences between UK and US accounting principles continued

Note (a)

Income taxes

(i) Disclosures under SFAS 109, additional to notes 11 and 35 to the accounts published under UK GAAP, are set out below.

(ii) Income tax expense attributable to discontinued operations is £127m (1994 £47m; 1993 benefit £34m).

(iii) The significant components of income tax expense attributable to continuing operations are as follows.

	1995 £m	1994 £m	1993 £m
Current tax expense excluding benefits of operating losses brought forward	335	308	287
Benefits of operating losses brought forward	(17)	(14)	(7)
Deferred tax expense	68	118	100
	386	412	380

(iv) A reconciliation of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying the standard UK corporation tax rate to profit before tax from continuing operations is given below.

	1995 £m	1994 £m	1993 £m
United Kingdom corporation tax expense at 33%	454	441	254
Adjustments for prior years	(19)	6	23
Overseas losses for which relief is currently not available	14	19	9
Overseas profits covered by losses brought forward	(17)	(14)	(7)
Loss of double taxation relief	–	7	25
Tax free gain on sale of shares in 3i Group plc and F van Lanschot Bankiers NV	–	(14)	–
Provisions for losses on termination and disposal of retail operations	–	–	52
Other items	(46)	(33)	24
Tax expense provided on continuing operations	386	412	380

(v) The tax effects of the principal components of deferred tax liabilities and deferred tax assets are as follows.

	1995 £m	1994 £m
Deferred tax liabilities		
Capital allowances and depreciation	1,077	1,060
Accrued interest and other items	171	173
	1,248	1,233
Deferred tax assets		
Accrued interest and other items	243	195
Operating losses carried forward	–	50
Advance corporation tax	–	81
Gross deferred tax assets	243	326
Less valuation allowance	–	(4)
Deferred tax assets after valuation allowance	243	322
Net deferred tax liabilities	1,005	911

48 Differences between UK and US accounting principles continued

Note (b)

Pension costs

The provisions of SFAS No 87, 'Employers' Accounting for Pensions' have been applied only to the Group's main plans which represent 85% of the assets and actuarial liabilities of all Group plans. Pension benefits are based on years of credited service and the employee's compensation in the final year before retirement. Annual contributions are made equal to the cost of accruing benefits calculated in accordance with the advice of actuaries to the plans, adjusted appropriately to amortise any past service surpluses or deficiencies in respect of the liabilities accrued at the valuation date. The majority of plan assets comprise listed shares, fixed income securities and property.

Under US GAAP, the net periodic pension cost for the main plans included the following components.

	1995 £m	1994 £m	1993 £m
Service cost – benefits earned during the period	**189**	277	215
Interest cost on projected benefit obligation	**523**	494	481
Actual return on plan assets	**(867)**	(259)	(1,389)
Net amortisation and deferral	**285**	(219)	912
Net periodic pension cost	**130**	293	219

A long-term rate of return of 9.5% on the plan assets was used in determining the net periodic pension cost for 1995 (1994 8%; 1993 10%).

Actuarial assumptions used in determining the projected benefit obligation to 30 September 1995 included a discount rate of 8.5% (1994 9%; 1993 7.5%) and an increase in future compensation levels of 6.5% (1994 7%; 1993 6%).

The following table sets forth the estimated funded status of the main plans at 30 September, the measurement date.

	1995 £m	1994 £m	1993 £m
Actuarial present value of benefit obligations			
Accumulated benefit obligation – vested and non-vested	**5,077**	4,887	5,289
Projected benefit obligation	**(6,015)**	(6,202)	(6,707)
Plan assets at fair value	**6,869**	6,283	6,160
Funded status	**854**	81	(547)
Unrecognised net obligation at transition	**102**	111	121
Unrecognised prior service cost	**7**	8	8
Unrecognised net (gain)/loss	**(1,206)**	(445)	331
Pension cost accrual	**(243)**	(245)	(87)

The US GAAP pension expense for the main plans of £130m (1994 £293m; 1993 £219m) compares with a UK GAAP expense for the main plans of £83m (1994 £137m; 1993 £145m), giving a reduction to net income of £31m (1994 £105m; 1993 £50m).

Disclosure relating to the Group's other post-retirement benefits, accounted for in accordance with SFAS No 106, 'Employer's Accounting for Post-retirement Benefits Other Than Pensions', is given in note 10 to the accounts.

Note (c)

Cash flow

The Group prepares its cash flow statement in accordance with Financial Reporting Standard 1, 'Cash Flow Statements' ('FRS 1'). Its objective and principles are similar to those set out in SFAS No 95, 'Statement of Cash Flows' ('SFAS 95'). The principal difference between the standards relates to classification. Under FRS 1, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) investing activities; and (e) financing. SFAS 95 requires only three categories of cash flow activity being (a) operating; (b) investing; and (c) financing.

Cash flows from taxation under FRS 1 would be included as operating activities under SFAS 95 and the payment of dividends would be included as a financing activity. In addition, under FRS 1, cash and cash equivalents exclude collections on other banks, which would be included under SFAS 95.

48 Differences between UK and US accounting principles continued

Note (d)

Disclosure of information about the fair value of financial instruments

SFAS No 107 'Disclosures about Fair Value of Financial Instruments' ('SFAS 107') requires disclosure of the estimated fair value of the Group's financial instruments. SFAS 107 defines fair value as the amount at which an instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. Most of the Group's assets and liabilities are considered to be financial instruments. Many of these do not trade regularly and no market for them exists. Where quoted market prices are not available, fair values have been estimated based on discounted anticipated cash flows and other valuation techniques. The fair values estimated are influenced by the valuation method chosen from the options available under SFAS 107 and reflect the underlying subjective assumptions made about the discount rate and estimates of the amount and timing of anticipated future cash flows. Changes in these assumptions would significantly affect estimated fair values.

SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. The following table sets forth estimated fair values of the Group's financial instruments as at 31 December 1995 and 1994. The valuations are presented at a specific date and the estimated fair values of these financial instruments at other times may therefore be different from the amounts reported. In many cases, the estimated fair values could not be realised immediately. As a result, the aggregate fair value amounts disclosed do not represent the underlying value of the Group or the amounts which will actually be paid or realised on settlement or maturity.

	1995		1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets	£m	£m	£m	£m
Trading				
Treasury and other eligible bills	**9,649**	**9,649**	8,918	8,918
Debt securities	**6,733**	**6,733**	3,995	3,995
Equity shares	**2,568**	**2,568**	1,870	1,870
Derivatives	**7,266**	**7,266**	5,933	5,933
Non-trading				
Cash and balances at central banks	**1,583**	**1,583**	1,372	1,372
Items in the course of collection from other banks	**2,927**	**2,927**	3,353	3,353
Loans and advances to banks and customers	**116,193**	**115,924**	112,343	112,007
Related derivatives – assets	**147**	**497**	87	344
Related derivatives – liabilities	**(96)**	**(723)**	(113)	(600)
Investment debt and equity securities	**9,118**	**9,381**	9,468	9,439
Related derivatives – assets	**15**	**35**	10	38
Related derivatives – liabilities	**(30)**	**(92)**	(21)	(18)
Liabilities				
Trading				
Short positions in debt securities	**2,512**	**2,512**	1,318	1,318
Short positions in equity shares	**873**	**873**	1,445	1,445
Derivatives	**7,106**	**7,106**	5,610	5,610
Non-trading				
Items in the course of transmission to other banks	**1,317**	**1,317**	1,351	1,351
Deposits by banks and customer accounts	**120,498**	**120,541**	117,102	117,080
Related derivatives – assets	**2**	**27**	9	32
Related derivatives – liabilities	**(3)**	**(36)**	(20)	(3)
Debt securities in issue	**14,627**	**14,633**	11,173	11,164
Related derivatives – assets	**15**	**39**	–	–
Related derivatives – liabilities	**(1)**	**(6)**	–	–
Subordinated loan capital	**4,792**	**4,841**	5,199	5,050

Financial instruments that are held for trading purposes, comprising long and short positions in securities and derivative financial instruments, are included in the balance sheet at fair value.

48 Differences between UK and US accounting principles continued

Note (d) Disclosure of information about the fair value of financial instruments continued

Assets

Cash and balances at central banks and items in the course of collection from other banks: the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks and customers: for loans that reprice frequently, and with no significant change in credit risk since inception of the loan, carrying amounts represent a reasonable estimate of fair value. The fair values of other loans are estimated by discounting anticipated future cash flows, using interest rates currently being offered for loans with the same terms to borrowers of similar credit quality. The value of non-performing loans has been estimated by discounting the expected cash flows for recoveries. In accordance with SFAS 107, fair values are not estimated for lease receivables.

Debt securities and equity shares: fair values of marketable securities are based on quoted market prices. Where these are not available, fair values are based on the quoted market prices of comparable securities or, where these are unavailable, are estimated by discounting anticipated future cash flows or using other valuation techniques.

Liabilities

Items in the course of transmission to other banks: the carrying amount is a reasonable estimate of fair value.

Deposits by banks and customer accounts: the fair value of demand deposits, savings accounts and certain variable-rate money market deposits is the amount payable on demand on 31 December. SFAS 107 requires deposit liabilities with no stated maturity to be reported at their carrying value and does not allow for the recognition of the interest funding value of these instruments. The directors believe that significant value exists in this funding source. The carrying amounts of borrowings under repurchase agreements and other short-term borrowings approximate to their fair value. The fair value of fixed-rate term deposits is estimated by discounting anticipated future cash flows using the rates currently offered for deposits of similar maturities.

Debt securities in issue: the carrying amounts of short-term debt securities in issue approximate to their fair values. Fair values of other debt securities in issue are based on quoted prices where available, otherwise by discounting anticipated future cash flows.

Subordinated loan capital: the fair value of quoted loan capital equates to the offer price. For unquoted loan capital, fair values have been estimated based on rates currently available to the Bank for loan capital with similar terms and conditions.

Financial commitments and contingent liabilities: the directors believe that the diversity of the fee structures, the lack of an established market and the difficulty of separating the value of the instruments from the value of the overall relationship involve such uncertainty that it is not meaningful to provide an estimate of fair value for these instruments. (The principal and risk-weighted amounts of financial commitments and contingencies are given in note 41.)

Derivatives

Fair values of derivatives are the amounts estimated to be payable or receivable by the Group at the balance sheet date to replace outstanding contracts. These are based on market prices where available. Otherwise, fair value is estimated based on current market data using appropriate valuation models.

48 Differences between UK and US accounting principles continued

Note (e)

Investment debt and equity securities

The following table analyses by maturity the book value and fair value of the Group's holdings of securities classified as available for sale as at 31 December 1995 and gives the weighted average yield on the book value for each category within each maturity range.

	1 year or less		After 1 year but within 5 years		After 5 years but within 10 years		After 10 years		Total	
Available for sale	£m	Yield %	£m	Yield %	£m	Yield %	£m	Yield %	£m	Yield %
Debt securities of, or guaranteed by, the UK government	185	10.6	370	7.7	12	7.8	–	–	567	8.6
Debt securities issued by the US treasury and other US government corporations and agencies	341	5.7	103	6.0	3	6.3	1	5.6	448	5.8
Debt securities issued by other foreign governments	206	9.7	425	7.7	188	7.7	6	8.2	825	8.2
Debt securities issued by states of the United States and political subdivisions of the states	330	4.7	51	7.3	33	6.7	2	5.8	416	5.1
Corporate debt securities	365	5.5	1,163	7.1	127	7.5	75	7.9	1,730	6.9
Mortgage-backed securities	4	6.5	43	7.2	184	3.0	98	6.3	329	4.5
Certificates of deposit	2,330	7.1	457	7.3	–	–	–	–	2,787	7.1
Other debt securities	742	7.6	735	7.1	181	7.8	16	5.0	1,674	7.4
Equity securities	–	–	–	–	–	–	342	–	342	–
Total book value	4,503	7.0	3,347	7.2	728	6.5	540	7.1	9,118	7.1
Total fair value	4,509		3,415		753		704		9,381	

Proceeds from the sales of available for sale investment debt securities were £7,693m. Gross realised gains of £135m and gross realised losses of £2m were recorded on those sales. Realised gains and losses on investment debt and equity securities are generally computed using the specific identification method.

In December 1995, the Group reclassified securities previously classified as 'held to maturity' to 'available for sale' following publication in November 1995 by the Financial Accounting Standards Board of 'A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities'. There were no transfers from the available for sale category to the trading category during 1995.

48 Differences between UK and US accounting principles continued

Note (e) Investment debt and equity securities continued

The following tables show the book value and fair value of the Group's holdings of securities classified as available for sale and as held to maturity at 31 December 1995 and 1994. Similar information is not available for 1993 and is therefore shown on a total basis. The fair values in the tables represent the mean of the bid and offered quotations for listed securities and directors' valuations for unlisted securities.

	1995			
	Available for sale			
	Amortised cost £m	Gross unrealised gains £m	Gross unrealised losses £m	Fair value £m
Debt securities of, or guaranteed by, the UK government	**567**	**9**	**–**	**576**
Debt securities issued by the US treasury and other US government corporations and agencies	**448**	**2**	**(1)**	**449**
Debt securities issued by other foreign governments	**825**	**34**	**(2)**	**857**
Debt securities issued by states of the United States and political subdivisions of the states	**416**	**2**	**–**	**418**
Corporate debt securities	**1,730**	**16**	**(3)**	**1,743**
Mortgage-backed securities	**329**	**1**	**–**	**330**
Certificates of deposit	**2,787**	**24**	**–**	**2,811**
Other debt securities	**1,674**	**21**	**(1)**	**1,694**
Equity securities	**342**	**161**	**–**	**503**
Total	**9,118**	**270**	**(7)**	**9,381**

	1994							
	Available for sale				Held to maturity			
	Amortised cost £m	Gross unrealised gains £m	Gross unrealised losses £m	Fair value £m	Amortised cost £m	Gross unrealised gains £m	Gross unrealised losses £m	Fair value £m
Debt securities of, or guaranteed by, the UK government	513	–	(6)	507	–	–	–	–
Debt securities issued by the US treasury and other US government corporations and agencies	845	–	(35)	810	1,633	–	(80)	1,553
Debt securities issued by other foreign governments	876	6	(26)	856	7	–	–	7
Debt securities issued by states of the United States and political subdivisions of the states	–	–	–	–	145	–	–	145
Corporate debt securities	1,554	3	(10)	1,547	6	–	–	6
Mortgage-backed securities	154	–	–	154	8	–	–	8
Certificates of deposit	588	3	(1)	590	607	–	–	607
Other debt securities	2,085	10	(16)	2,079	184	–	(15)	169
Equity securities	263	138	–	401	–	–	–	–
Total	6,878	160	(94)	6,944	2,590	–	(95)	2,495

48 Differences between UK and US accounting principles continued

Note (e) Investment debt and equity securities continued

	1993			
	Amortised cost £m	Gross unrealised gains £m	Gross unrealised losses £m	Fair value £m
Debt securities of, or guaranteed by, the UK government	148	7	–	155
Debt securities issued by the US treasury and other US government corporations and agencies	2,697	17	(3)	2,711
Debt securities issued by states of the United States and political subdivisions of the states	156	–	–	156
Certificates of deposit	1,145	1	(9)	1,137
Other debt securities	3,232	80	(3)	3,309
Equity securities	260	12	–	272
Total	7,638	117	(15)	7,740

Note (f)
SFAS No 114, 'Accounting by Creditors for Impairment of a Loan' ('SFAS 114') as amended by SFAS No 118, 'Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures' ('SFAS 118') is effective for accounting periods beginning after 15 December 1994. SFAS 114 addresses accounting by creditors for impairment of a loan by specifying how allowances for credit losses for certain loans should be determined. A loan is impaired when it is probable that the creditor will be unable to collect all amounts in accordance with the contractual terms of the loan agreement. Impairment is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as an expedient, at the fair value of the loan's collateral. Leases, smaller-balance homogeneous loans and debt securities are excluded from the scope of SFAS 114.

At 31 December 1995, the Group estimated that the difference between the carrying value of its loan portfolio on the basis of SFAS 114 and its value in the Group's UK GAAP accounts was such that no adjustment to net income or consolidated ordinary shareholders' equity was required.

At 31 December 1995, the Group's net investment in non-accrual loans and troubled debt restructurings was £2,707m of which £2,222m was after specific provisions of £986m. The average investment during 1995 in such loans was £2,841m. Interest credited to interest receivable on these loans in 1995 amounted to £83m.

Note (g)
The Financial Accounting Standards Board issued SFAS No 121, 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of' ('SFAS 121') in March 1995 and SFAS No 122, 'Accounting for Mortgage Servicing Rights: an amendment of FASB Statement No 65' ('SFAS 122') in May 1995, both effective for the Group for 1996. SFAS 121 requires an impairment loss, which is the amount by which the carrying amount of an asset exceeds its fair value, to be recognised on long-lived assets and identifiable intangibles when the sum of future expected cash flows is less than the carrying amount. SFAS 122 requires mortgage servicing rights retained without the underlying mortgages to be recognised as assets and amortised over the period of estimated net servicing income and evaluated regularly for impairment based on their fair value. The Group is currently reviewing SFAS 121 and SFAS 122 to determine their effects, if any, on the reconciliation between UK and US GAAP of net income and consolidated ordinary shareholders' equity.

The Group is also considering its approach to SFAS No 123, 'Accounting for Stock-Based Compensation' issued in October 1995 and effective for calendar-year 1996, which encourages companies to recognise stock compensation awards based on their fair value at the date the awards are granted. Alternatively, this data may be disclosed in the notes to the accounts.

Note (h)
As set out on page 8, the Group has entered into an agreement for the sale of most of the operations of Bancorp to Fleet. The sale, which is subject to regulatory approval, is expected to be completed in the second quarter of 1996. Operating income relating to the operations to be disposed of was £995m (1994 £842m; 1993 £809m). Net assets of the operations to be disposed of were £1.6bn at 31 December 1995.

49 Summary of operating results of National Westminster Bancorp Inc.

The following selected information of National Westminster Bancorp Inc. has been included to comply with the filing requirements of the Securities and Exchange Commission. The data have been compiled using US GAAP.

Summary of consolidated statement of operations (profit and loss account)	Year ended 31 December 1995 $m	1994 $m	1993 $m
Total interest income	**2,150**	1,604	1,359
Total interest expense	**(1,101)**	(661)	(561)
Net interest income	**1,049**	943	798
Provision for loan losses	**(95)**	(81)	(135)
Net interest income after provision for loan losses	**954**	862	663
Total non-interest income	**518**	343	404
Total operating expenses	**(965)**	(878)	(815)
Income before income taxes	**507**	327	252
(Provision)/benefit for income taxes	**(201)**	(28)	46
Net income	**306**	299	298

Summary of consolidated statement of condition (balance sheet) data	At 31 December 1995 $m	1994 $m
Total assets	**29,615**	27,089
Loans to customers	**18,212**	15,298
Allowance for loan losses	**(258)**	(289)
Total deposits	**21,006**	19,013
Short-term borrowed funds	**3,915**	4,158
Long-term debt	**654**	598
Total equity capital	**3,235**	2,686

Five year summary

Amounts in accordance with UK GAAP [1][2]	1995[1] $m	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
		Year ended 31 December				
Consolidated profit and loss account						
Net interest income	5,992	3,881	3,697	3,688	3,751	3,623
Non-interest income	5,221	3,381	3,239	3,307	2,942	2,511
Operating income	11,213	7,262	6,936	6,995	6,693	6,134
Operating expenses	(7,610)	(4,929)	(4,798)	(4,588)	(4,491)	(4,245)
Provisions for bad and doubtful debts	(987)	(639)	(616)	(1,262)	(1,799)	(1,826)
Amounts written off fixed asset investments	(37)	(24)	(19)	(22)	(40)	–
Operating profit	2,579	1,670	1,503	1,123	363	63
Income from associated undertakings	128	83	49	25	11	47
Provisions for losses on termination and disposal of retail operations	–	–	–	(159)	–	–
Profit/(loss) on sale of interests in subsidiary and associated undertakings	–	–	40	–	(7)	24
Profit on ordinary activities before tax	2,707	1,753	1,592	989	367	134
Tax on profit on ordinary activities	(793)	(513)	(459)	(346)	(158)	(58)
Minority interests – equity	(40)	(26)	(40)	(26)	(20)	(4)
Preference dividends	(57)	(37)	(38)	(34)	(25)	(7)
Profit attributable to ordinary shareholders	1,817	1,177	1,055	583	164	65
Consolidated balance sheet data [3]						
Total assets	259,812	168,272	158,046	152,862	153,442	129,556
Loans and advances to banks	44,429	28,775	32,045	30,479	28,672	20,299
Loans and advances to customers	134,973	87,418	80,298	80,351	86,297	81,128
Debt securities	23,946	15,509	13,200	12,096	9,179	7,410
Deposits by banks	49,579	32,111	33,101	33,397	33,157	22,264
Customer accounts	136,470	88,387	84,001	83,973	86,176	78,396
Subordinated liabilities	7,399	4,792	5,199	5,462	5,073	4,264
Ordinary shareholders' equity	10,420	6,749	5,961	5,234	5,222	5,257
Average balances [4]						
Total assets	266,805	172,801	161,072	155,253	140,104	130,443
Ordinary shareholders' equity	9,769	6,327	5,631	5,406	5,547	5,796

	1995[1]	1995	1994	1993	1992	1991
Selected financial statistics						
Average ordinary shares of £1 each outstanding		1,741m	1,676m	1,653m	1,640m	1,618m
Earnings per ordinary share	$1.04	£0.68	£0.63	£0.35	£0.10	£0.04
Dividends per ordinary share [5]	$0.49	£0.32	£0.27	£0.23	£0.22	£0.23
Dividend payout ratio [5]		38%	35%	53%	176%	438%
Earnings per ADS [6]	$6.26	£4.06	£3.78	£2.12	£0.60	£0.24
Dividends per ADS [5][6]	$2.93	£1.90	£1.62	£1.39	£1.34	£1.40
Net asset value per ADS [6]	$35.30	£22.87	£20.84	£18.90	£19.02	£19.41
Post-tax return on average total assets		0.68%	0.65%	0.38%	0.12%	0.05%
Post-tax return on ordinary shareholders' average equity		18.60%	18.74%	10.78%	2.96%	1.12%
Ordinary shareholders' average equity to average total assets		3.66%	3.50%	3.48%	3.96%	4.44%
Ratio of earnings to combined fixed charges and preference share dividends [7]						
Excluding interest on deposits		2.46x	2.58x	1.99x	1.41x	1.14x
Including interest on deposits		1.23x	1.27x	1.16x	1.04x	1.01x

Five year summary continued

Amounts in accordance with US GAAP [1][2]	1995[1] $m	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
		Year ended 31 December				
Consolidated income statement data						
Net interest income	**6,241**	**4,042**	3,880	3,889	3,951	3,790
Non-interest income	**5,097**	**3,301**	3,107	3,132	2,741	2,367
Operating expenses	**(7,978)**	**(5,167)**	(5,119)	(4,860)	(4,589)	(4,317)
Income on ordinary activities before taxes	**2,373**	**1,537**	1,252	740	297	38
Taxes	**(724)**	**469**	(369)	(279)	(147)	(90)
Net income available for ordinary shareholders [8][9]	**1,592**	**1,031**	845	427	125	(59)
Consolidated balance sheet data [3]						
Total assets	**261,469**	**169,345**	159,022	153,938	154,776	130,661
Ordinary shareholders' equity	**10,374**	**6,719**	5,805	5,046	4,876	4,930
Average balances [4]						
Total assets	**268,358**	**173,807**	162,026	156,140	141,463	131,736
Ordinary shareholders' equity	**9,281**	**6,011**	5,226	4,842	5,070	5,036

	1995[1]	1995	1994	1993	1992	1991
Selected financial statistics						
Net income per ordinary share [9]	**$0.91**	**£0.59**	£0.50	£0.26	£0.08	£(0.04)
Dividends per ordinary share [5]	**$0.44**	**£0.28**	£0.24	£0.22	£0.23	£0.23
Dividend payout ratio [5]		**38%**	38%	69%	229%	(481)%
Net income/(loss) per ADS [6][9]	**$5.49**	**£3.55**	£3.03	£1.55	£0.46	£(0.22)
Dividends per ADS [5][6]	**$2.63**	**£1.70**	£1.46	£1.33	£1.40	£1.40
Net asset value per ADS [6]	**$35.15**	**£22.76**	£20.30	£18.22	£17.76	£18.20
Post-tax return on average total assets		**0.59%**	0.52%	0.27%	0.09%	(0.04)%
Post-tax return on ordinary shareholders' average equity		**17.15%**	16.17%	8.82%	2.47%	(1.17)%
Ordinary shareholders' average equity to average total assets		**3.46%**	3.23%	3.10%	3.58%	3.82%
Ratio of earnings to combined fixed charges and preference share dividends [7]						
Excluding interest on deposits		**2.31x**	2.29x	1.78x	1.36x	1.02x
Including interest on deposits		**1.21x**	1.22x	1.12x	1.04x	1.00x

Notes to five year summary

(1) The Bank publishes its accounts in sterling. The dollar exchange rates used by the Bank in preparing such accounts are shown on page 4.

(2) The Bank's consolidated accounts are prepared in accordance with generally accepted accounting principles in the United Kingdom ('UK GAAP') which differ in certain significant respects from generally accepted accounting principles in the United States ('US GAAP'). For a discussion of such differences and a reconciliation of UK and US GAAP amounts, see note 48 to the accounts starting on page 114. Amounts in accordance with US GAAP have been shown only where they differ materially from those shown under UK GAAP.

(3) At year end.

(4) Average balances are calculated from a combination of daily, monthly and quarterly balances. All balances are considered to represent fairly the operations of the Group.

(5) Dividend data include the dividends proposed or declared by the Bank plus any related UK Advance Corporation Tax credit (gross dividend). The dividend payout ratio has been calculated using the net dividend payable (gross dividend less UK Advance Corporation Tax). Dividend data under US GAAP are based on dividends declared in the financial period; UK GAAP requires recognition of dividends in the period to which they relate.

(6) Each American Depositary Share ('ADS') represents six ordinary shares of £1 each.

(7) For the purpose of calculating the ratios of earnings to combined fixed charges and preference share dividends, earnings consist of profit before taxes and minority interests, less the unremitted income of associated undertakings, plus fixed charges. Fixed charges consist of total net interest expense, including or excluding interest on deposits, as appropriate, and the proportion of rental expense deemed representative of the interest factor.

(8) The Group has reported profit attributable to ordinary shareholders under UK GAAP of £1,177m for the year ended 31 December 1995 compared with net income available for ordinary shareholders of £1,031m under US GAAP. A reconciliation is provided in note 48 to the accounts on page 115.

(9) Under US GAAP, the operations of Bancorp which are being disposed of are classified as discontinued and, overall, no material loss on disposal is expected. Consolidated net income from continuing activities under US GAAP is $1,291m, £836m (1994 £672m; 1993 £205m); net income from continuing activities per ordinary share is $0.74, £0.48 (1994 £0.40; 1993 £0.12); and net income from continuing activities per ADS is $4.45, £2.88 (1994 £2.41; 1993 £0.74).

Shareholder information

Holders of ordinary shares

Analyses of ordinary shareholders of National Westminster Bank Plc as at 31 December 1995

	Number of shareholders	Percentage of total shareholders	Number of shares held	Percentage of issued shares held
Class of shareholder				
Individuals	**104,565**	**85.01**	**192,789,979**	**10.89**
Insurance companies	**718**	**0.58**	**125,208,718**	**7.07**
Nominee companies	**14,193**	**11.54**	**1,240,551,705**	**70.06**
Pension funds	**61**	**0.05**	**56,831,811**	**3.21**
Universities, schools and other corporate bodies	**476**	**0.39**	**38,251,291**	**2.16**
Other limited companies	**997**	**0.81**	**32,209,238**	**1.82**
Banks (including bank trust companies)	**1,997**	**1.62**	**84,850,668**	**4.79**
	123,007	**100.00**	**1,770,693,410**	**100.00**

	Number of shareholders	Percentage of total shareholders	Number of shares held	Percentage of issued shares held
Shareholding range				
1 – 100	**11,932**	**9.70**	**372,747**	**0.02**
101 –250	**7,664**	**6.23**	**1,371,410**	**0.08**
251 – 500	**16,193**	**13.16**	**6,577,671**	**0.37**
501 – 1,000	**26,481**	**21.53**	**20,380,497**	**1.15**
1,001 – 5,000	**49,068**	**39.89**	**109,426,875**	**6.18**
5,001 – 10,000	**6,920**	**5.62**	**47,816,285**	**2.70**
10,001 – 25,000	**2,482**	**2.02**	**36,543,267**	**2.06**
25,001 – 50,000	**624**	**0.51**	**22,743,831**	**1.29**
50,001 and above	**1,643**	**1.34**	**1,525,460,827**	**86.15**
	123,007	**100.00**	**1,770,693,410**	**100.00**

Nature of trading market

The principal listing of the Bank's ordinary shares is on the London Stock Exchange with additional listings on the Frankfurt Stock Exchange, the Düsseldorf Stock Exchange and the Tokyo Stock Exchange. American Depositary Shares ('ADSs'), each representing six ordinary shares, for which Morgan Guaranty Trust Company of New York is the Depositary, have been listed on the New York Stock Exchange since October 1986. The ADSs are evidenced by American Depositary Receipts ('ADRs') and are traded on the New York Stock Exchange under the symbol 'NW'.

The table below sets forth, for the calendar quarters indicated, the reported high and low middle market quotations in pence for the Bank's ordinary shares on the London Stock Exchange based on its Daily Official List.

	Pence per ordinary share	
	High	Low
1995		
Fourth quarter	**692**	**601**
Third quarter	**651**	**554**
Second quarter	**581**	**532**
First quarter	**540**	**458**
1994		
Fourth quarter	531	472
Third quarter	518	434
Second quarter	486	424
First quarter	620	458

Shareholder information – Nature of trading market continued

At 31 December 1995, a total of 58,503,590 ordinary shares (including ordinary shares denoted by ADSs), representing 3.3% of 1,770,693,410 total outstanding ordinary shares were held of record in the US by 3,478 record holders. Since certain of such ordinary shares are held by nominees, the number of record holders may not be representative of the number of beneficial holders. At 31 December 1995, there was a total of 123,007 record holders of the Bank's ordinary shares.

At 31 December 1995, there were 8,552,363 ADSs outstanding representing 51,314,178 ordinary shares. The ADSs are traded on the New York Stock Exchange; the daily average volume traded during 1995 was 20,805.

The Bank had outstanding at 31 December 1995 $250m of its non-cumulative dollar preference shares, Series A, of $25 each ('Series A dollar preference shares') and $250m of its non-cumulative dollar preference shares, Series B, of $25 each ('Series B dollar preference shares'), issued in September 1991 and June 1993, respectively. Both the Series A dollar preference shares and the Series B dollar preference shares are listed on the London Stock Exchange and the New York Stock Exchange. The trading market for the Series A dollar preference shares and the Series B dollar preference shares, however, is the New York Stock Exchange only. The listings on the New York Stock Exchange are in the form of ADSs ('Series A ADSs' and 'Series B ADSs'), each representing one Series A dollar preference share and one Series B dollar preference share, respectively, for which Morgan Guaranty Trust Company of New York is the Depositary. The ADSs are evidenced by Series A ADRs and Series B ADRs.

At 31 December 1995, there were 10,000,000 Series A ADSs outstanding representing 10,000,000 Series A dollar preference shares held of record by 1,294 record holders. At the same date, there were 10,000,000 Series B ADSs outstanding representing 10,000,000 Series B dollar preference shares held of record by 1,029 record holders. Since certain of such Series A ADSs and Series B ADSs are held by nominees, the number of record holders may not be representative of the number of beneficial holders. The Series A ADSs and Series B ADSs are traded on the New York Stock Exchange and the daily average volume traded during 1995 was 7,144 and 17,861, respectively.

At 31 December 1995, the Bank had outstanding $500m aggregate principal amount of 7.875% exchangeable capital securities, Series A, of $25 each, (the 'Capital Securities') which are listed and traded on the New York Stock Exchange and listed on the London Stock Exchange. The Capital Securities were issued in their entirety to, and subsequently deposited with, The Depository Trust Company in bearer form. It is not possible to advise the number of record holders. The daily average volume traded during 1995 was 54,908.

The table below sets forth the high and low sales prices of the ADSs, the Series A ADSs, the Series B ADSs and the Capital Securities, as reported by the New York Stock Exchange.

	ADSs		Series A ADSs		Series B ADSs		Capital Securities	
	High $	Low $	High $	Low $	High $	Low $	High $	Low $
1995								
Fourth quarter	**64.75**	**56.75**	**27.25**	**26.50**	**25.75**	**24.25**	**25.87**	**23.75**
Third quarter	**61.87**	**52.37**	**27.25**	**26.50**	**25.25**	**23.75**	**25.12**	**23.37**
Second quarter	**55.75**	**50.25**	**27.37**	**25.75**	**24.87**	**22.50**	**24.50**	**21.75**
First quarter	**51.87**	**43.75**	**26.50**	**25.50**	**23.62**	**21.87**	**22.75**	**20.87**
1994								
Fourth quarter	50.25	44.62	26.50	24.50	23.00	20.75	22.37	20.12
Third quarter	47.87	40.25	27.37	25.75	23.87	21.62	22.75	21.00
Second quarter	44.00	38.75	27.00	25.62	23.25	21.51	22.75	20.50
First quarter	55.50	40.62	29.00	26.75	25.62	22.87	25.37	22.12

Exchange controls and other limitations affecting security holders

At present there are no UK foreign exchange control restrictions on payments of dividends on the ordinary shares or dollar preference shares or interest on securities of the Bank or on the conduct of the Bank's operations. However, the Banking Act 1987 (the '1987 Act'), the Companies Act 1985 and the Bank's Articles of Association may delay, prevent, or make more costly a change in control of the Bank or a takeover attempt that the Bank's shareholders might consider to be in their best interest.

The 1987 Act provides the Bank of England with statutory powers to object to persons who intend to acquire 10% or more of the voting rights of an authorised institution on prudential grounds or, by direction of HM Treasury, on grounds of lack of reciprocity. There are no other limitations under the laws of the UK or the terms of the Memorandum and Articles of Association of the Bank concerning the right of non-residents to hold or vote their securities.

The Companies Act 1985 confers upon a public company the power to require persons whom it knows or reasonably believes to have, or to have had, interests in its voting shares (of whatever size or nature) to provide information regarding those interests and other interests in the same shares of which such persons may be aware. Failure to provide such information within the time specified entitles the company to apply to the court for an order imposing restrictions on, among other things, the transfer of such shares, the exercise of voting rights and the receipt of distributions. In addition, in such circumstances, the Bank is currently entitled under its Articles of Association, without application to the court, to prohibit the exercise of voting rights in respect of such shares, to refuse to register any transfer of such shares and to retain any dividend or other money held by the Bank in respect of such shares.

Dividends

Ordinary shares

The table below sets forth the amounts of interim, final and total dividends paid and proposed on each ordinary share in respect of each financial year indicated, increased by the associated tax credit referred to in the section on Taxation commencing on page 129. It also sets forth the equivalent amounts per ADS in respect of the same financial years, translated into dollars at the Noon Buying Rate on each of the respective payment dates for interim and final dividends, other than for the 1995 final dividend which is translated at $1.549, the Noon Buying Rate on 16 February 1996, the latest practical date for inclusion in this report.

	Pence per ordinary share			Translated into dollars per ADS		
	Interim	Final	Total	Interim	Final	Total
1995	**10.50**	**21.13**	**31.63**	**0.99**	**1.96**	**2.95**
1994	9.13	17.87	27.00	0.86	1.70	2.56
1993	8.00	15.13	23.13	0.72	1.36	2.08
1992	8.16	14.22*	22.38	0.83	1.35*	2.18
1991	8.16	15.17	23.33	0.84	1.65	2.49

* A change in the UK tax laws reduced the associated tax credit from 25% to 20%, affecting all dividends payable since the 1992 interim dividend.

The final dividend will be paid to ADR holders whose names are registered with the Depositary on 5 March 1996. Where tax credits are refunded and added to dividends paid to US resident individuals and corporations, 15% UK withholding tax will be deducted. The declared dividend will be converted into dollars using the market rate in effect when the dividend on the shares is paid by the Bank to the Depositary on 1 May 1996. The dividend will be sent to individual ADR holders 11 business days later.

Dividends continued

A resolution was passed at the Annual General Meeting in April 1993 authorising the board of directors, at their discretion, to offer to shareholders outside North America a share dividend alternative in respect of all dividends declared in any of the years ending 31 December 1993 to 1997 inclusive.

Series A and Series B dollar preference shares

Series A and Series B dollar preference shares carry a dividend equal to a gross rate of 10.64% and 8.75%, respectively, per annum, inclusive of any associated tax credit. As discussed above, UK withholding tax at 15% will be deducted from the gross dividends paid to certain US resident individuals and corporations.

Taxation

Ordinary and preference shares

UK taxation of dividends on ordinary and preference shares

The taxation discussion set forth below is intended only as a descriptive summary of certain tax consequences to US Holders (as defined below) of the acquisition, ownership and disposition of ADSs, Series A ADSs and Series B ADSs (all hereinafter referred to as 'ADSs') or ordinary shares or Series A dollar preference shares, or Series B dollar preference shares, (all hereinafter referred to as 'Shares') and does not purport to be a complete technical analysis or listing of all potential tax effects or considerations relevant to ownership of ADSs or Shares. The statements of UK and US tax laws set out below (i) are based on laws currently in force and are subject to any changes which may be made in UK or US law and in any double taxation convention between the UK and the US, and (ii) are based, in part, on representations of the Depositary and assume that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms. As used herein, the term 'US Holder' means a beneficial owner of ADSs or Shares, as the case may be, and of the dividends paid thereon, who is an individual, a corporation, a partnership, a trust or an estate resident in the US for purposes of the UK/US double taxation convention relating to income and capital gains (the 'Income Tax Convention') (and, in the case of a corporation, not also resident in the UK for UK tax purposes).

For the purposes of both the Income Tax Convention and the US Internal Revenue Code of 1986, as amended, US Holders will be treated as the owners of the underlying Shares represented by the ADSs that are evidenced by the ADRs.

Under the Income Tax Convention, an Eligible US Holder (as defined below) is entitled to a repayment from the UK Inland Revenue of the tax credit to which a UK resident individual would have been allowed in respect of a dividend less a withholding of 15% of the sum of the dividend and associated tax credit. Thus, at the existing tax credit rate of 20/80ths, payment to an Eligible US Holder of a dividend of £80 (which amount has been selected for illustrative purposes only) would result in a tax credit repayment of £20 less a withholding tax of £15, giving a total cash receipt of £85. An 'Eligible US Holder' is a US Holder (i) that is an individual or corporation (other than a corporation which together with one or more associated corporations controls, directly or indirectly, 10% or more of the voting stock of the Bank), (ii) whose holding is not effectively connected with (a) a permanent establishment through which the US Holder carries on business in the UK or (b) a fixed base regularly available and situated in the UK from which the US Holder performs independent personal services, (iii) under certain circumstances, that is not an investment or holding company 25% or more of the capital of which is owned, directly or indirectly, by persons that are not individuals resident in, and are not nationals of, the US and (iv) under certain circumstances, that is not exempt from federal income tax on dividend income in the US. Special rules apply in the case of certain partnerships, trusts and estates and may apply if the US Holder is a corporation which owns 10% or more of the class of Shares in respect of which the dividend is paid.

UK taxation of dividends on ordinary and preference shares continued

Arrangements have been made by the Depositary for the ADSs such that the associated tax credit will be refunded, net of withholding tax, to certain Eligible US Holders at the same time as they receive the cash dividend to which it relates if (i) in the case of an Eligible US Holder who holds ADRs through a broker who is a participant in the clearance and settlement system of The Depository Trust Company, the broker completes a declaration as to the conditions entitling the Eligible US Holder to such refund, or (ii) in the case of other Eligible US Holders, the registered owner completes a similar declaration on the reverse of the dividend cheque and presents the cheque for payment within three months of the date of issue of the cheque. To obtain the associated tax credit payment (net of withholding tax), Eligible US Holders who do not satisfy these requirements must file, in the manner and at the time specified by procedures established by the UK Inland Revenue, a claim for refund of tax credit identifying the dividends with respect to which the associated tax credit was paid. Eligible US Holders who cannot use these procedures include certain investment and holding companies, persons (other than certain pension funds) exempt from US federal income tax on dividend income and persons who hold 10% or more of the class of shares in respect of which the dividend is paid.

The gross dividend (the sum of the dividend paid by the Bank plus any related tax credit), including the amount withheld therefrom, paid to a holder who is a US resident will be included in gross income and treated as foreign source dividend income for US federal income tax purposes. Subject to certain limitations, the applicable UK withholding tax will be treated as a foreign tax eligible for credit against such a shareholder's US federal income tax.

Legislation exists in the UK which, if brought into effect, could withdraw the entitlement of a US corporation to certain UK tax credit repayments if it, or an associate (as defined in the legislation), has a qualifying presence in a state which utilises a worldwide unitary combination method of tax accounting. The likelihood of this legislation being brought into effect, its precise form or its effective date cannot be predicted.

Taxation of capital gains

US Holders who are not resident or ordinarily resident in the UK will not be liable to UK taxation of capital gains realised on the disposal of their ADSs or Shares unless the ADSs or Shares are used or held for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or for the purposes of the branch or agency.

Inheritance tax

The current Estate and Gift Tax Convention (the 'Convention') between the UK and the US generally relieves from UK inheritance tax (the equivalent of US federal estate and gift tax) the transfer of Shares or of ADSs where the beneficial owner thereof is domiciled, for the purposes of the Convention, in the US. This will not apply if the Shares or ADSs are part of the business property of an individual's permanent establishment in the UK or are related to the fixed base in the UK of a person providing independent personal services.

If no relief is given under the Convention, UK inheritance tax may be charged on the amount by which the value of the shareholder's estate is reduced as a result of any transfer by way of gift or other gratuitous transaction made by him or treated as made by him (including a transfer on or within seven years of death by an individual). In the unusual case where Shares or ADSs are subject to both UK inheritance tax and US federal estate and gift tax, the Convention generally provides for tax paid in the UK to be credited against tax payable in the US or for tax paid in the US to be credited against tax payable in the UK based on priority rules set forth in the Convention.

Stamp duty and stamp duty reserve tax

UK stamp duty is payable in respect of certain documents and stamp duty reserve tax ('SDRT') is imposed in respect of certain transactions in securities.

On any deposit of Shares under the agreement with the Depositary, stamp duty at the rate of 1½% will be payable by the transferor on any instrument transferring Shares to the custodian of the Depositary. In circumstances where stamp duty is not payable on the transfer of Shares to the custodian of the Depositary at the rate of 1½%, SDRT will be payable to bring the charge up to 1½% in total. The rate of stamp duty and SDRT is reduced in certain circumstances for transfers from qualified dealers in securities (as defined by the Finance Act 1986).

Stamp duty and stamp duty reserve tax continued

No UK stamp duty will be payable on the acquisition of ADRs or on any subsequent transfer of an ADR, provided that the ADR (and any subsequent instrument of transfer) remains at all times outside the UK and that the instrument of transfer is not executed in or brought into the UK.

Any transfer (which will include a transfer from the Depositary to an ADR holder) of the underlying Shares could require the purchaser of such Shares to pay *ad valorem* stamp duty at the rate of ½%. Generally, *ad valorem* stamp duty applies neither to gifts nor on a transfer from a nominee to the beneficial owner. In cases of transfers where no *ad valorem* stamp duty arises, a fixed stamp duty of 50 pence may be payable. Stamp duty is generally calculated on the purchase price of such Shares.

SDRT will not be payable on any agreement to transfer ADRs or Shares in bearer form. SDRT at a rate of ½% may be payable on any agreement to transfer Shares in registered form or any interest therein or right thereto, except to the extent that an instrument transferring the Shares is executed and duly stamped within two months of the date on which the agreement is made or, where the agreement is conditional, within two months of the date on which the condition is satisfied. However, no SDRT is payable on an agreement to transfer Shares between two non-UK residents where the transaction is effected outside the UK.

Guaranteed capital notes
The Bank has been advised that, under English law as in effect at the date of this report, no UK deductions, taxes, levies, imposts, charges or withholdings would be applicable to any payment to a US Holder (as defined below) (i) by Bancorp of principal of, or interest on, the 12⅛% guaranteed capital notes due 15 November 2002 or the 9⅜% guaranteed capital notes due 15 November 2003 (each a 'Capital Note') or (ii) by the Bank pursuant to its guarantees in respect of those notes. For the purposes of this paragraph, 'US Holder' means the beneficial owner of a Capital Note who is an individual, a corporation, a partnership, a trust or an estate resident in the US for the purposes of the Income Tax Convention and, in the case of a corporation, not also resident in the UK for UK tax purposes.

Exchangeable capital securities
The taxation discussion set forth below is a descriptive summary of certain tax consequences to US Holders of the acquisition, ownership and disposition of a holding in the Capital Securities. These may be exchanged at the Bank's option for 20m non-cumulative dollar preference shares of $25 each at any time on or after 16 October 1996 or redeemed at the option of the Bank after 3 November 2003.

Payments
Payments of interest on any series of Capital Securities ('Payments') will not be subject to withholding or deduction for or on account of UK taxation as long as the Capital Securities of such series are issued, and remain at all times, in bearer form quoted on the New York Stock Exchange or some other stock exchange recognised by the UK Inland Revenue and the Payments are made by or through a paying agent outside the UK.

As Payments will have a UK source, they will be chargeable to UK tax by direct assessment even if paid without withholding or deduction. However, a US Holder who would in any case be entitled to receive Payments free of withholding tax or deduction under the Treaty will not be subject to such tax. Furthermore, as a matter of long-standing UK Inland Revenue concession, any person who is not resident in the UK for the whole of the relevant tax year will not usually be assessed to UK tax in respect of such Payments except where such person (a) is subject to tax in the name of a UK agent or branch having management or control of the Payments, (b) seeks to claim relief in respect of taxed income from UK sources, (c) is chargeable to UK tax on the income of a UK trade to which the Payments are attributable or (d) is chargeable to corporation tax on the income of a UK branch or agency to which the Payments are attributable.

Payments continued

A collecting agent in the UK receiving or obtaining Payments on the Capital Securities of any series, whether in the UK or elsewhere, on behalf of a US Holder (in circumstances where no withholding tax or deduction for or on account of UK taxation has been made by the person making the Payment) must withhold or deduct income tax at the lower rate (currently 20%) unless it is proved on a claim made in advance to the satisfaction of the UK Inland Revenue that the US Holder is beneficially entitled to the Capital Securities of such series and to the Payments and is not resident in the UK.

The UK Inland Revenue has confirmed that Payments will not be treated as distributions for UK tax purposes (i) by reason of the fact that Payments may be deferred under the terms of issue or (ii) by reason of the undated nature of the Capital Securities, provided that at the time a Payment is made, the Capital Securities are not held by a company which is 'associated' with the Bank or by a 'funded company'. A company will be associated with the Bank if, broadly speaking, it is in the same group as the Bank. A company will be a 'funded company' for these purposes if there are arrangements involving the company being put in funds (directly or indirectly) by the Bank or a company associated with the Bank. In this respect, the Inland Revenue has confirmed that a company holding an interest in Capital Securities which incidentally has banking facilities with the Bank will not be a 'funded company' by virtue of such facilities.

Disposal (including redemption)
A disposal (including redemption) of a Capital Security of any series by a US Holder will not give rise to any liability to UK taxation on capital gains unless the US Holder carries on a trade (which for this purpose includes a profession or vocation) in the UK through a branch or agency and the Capital Security is, or has been, used, held or acquired for the purposes of that trade or branch or agency. However, the exchange by such a US Holder of a Capital Security for dollar preference shares pursuant to the Bank's exercise of its exchange right will not be treated as a taxable disposal for the purposes of UK tax on capital gains.

A transfer of a Capital Security by a US Holder will not give rise to a tax charge on accrued but unpaid Payments unless the US Holder carries on a trade in the UK through a branch or agency to which the Capital Security is attributable. For these purposes, a transfer of the Capital Security will, in any case, not include the exchange of the Capital Security for a dollar preference share if, as envisaged, there are no accrued but unpaid Payments, and no Payments not made, on the Capital Securities on the exchange date.

Inheritance tax
Capital Securities physically held outside the UK will not be subject to UK inheritance tax in respect of a lifetime transfer by, or the death of, a US Holder who is not domiciled in the UK for inheritance tax purposes. However, in relation to Capital Securities held through a clearing system, the position is not free from doubt and the UK Inland Revenue are known to consider that the situs of Capital Securities held in this manner is not necessarily determined by the place in which the Capital Securities are physically held. If the Capital Securities of any series are or become situated in the UK, there may be a charge to UK inheritance tax as a result of a lifetime transfer at less than fair market value by, or on the death of, such a US Holder. However, exemption from, or a reduction of, any such UK tax liability may be available under the Estate and Gift Tax Convention. For further details on the provisions of the Estate and Gift Tax Convention, see 'Ordinary and preference shares – Inheritance tax' on page 130.

Stamp duty and stamp duty reserve tax
No UK stamp duty or SDRT is payable on the issue, transfer by delivery, redemption or exchange for dollar preference shares of the bearer Capital Securities of any series. No UK stamp duty will be payable in respect of a transfer of Capital Securities through a clearing system, provided that any instrument relating to such a transfer is not executed in the UK and remains at all times outside the UK. An agreement to transfer Capital Securities between two non-UK residents through a clearing system should not give rise to a liability for SDRT provided that the transaction is carried out outside the UK.

Once converted, the dollar preference shares will have the same tax consequences as the Series A and Series B dollar preference shares referred to above.

Group structure

Office of the Group Chief Executive

D Wanless, *Group Chief Executive*
J W Melbourn, *Deputy Group Chief Executive*
R K Goeltz, *Group Chief Financial Officer*
C F FitzGerald, *General Counsel*
F W Pointon, *General Manager, Group Risk*
J C Wathen, *General Manager, Group Human Resources*
P J S Hammonds, *Company Secretary*
W S Humby, *Director of Group Purchasing*
S D Lewis, *Director of Corporate Affairs*
D B Maycock, *Director of Group Compliance*
R F Park, *Head of Group Strategy*
P L Wickham, *Director of Group Audit*

Group Central Services

T Blackler, *Chief Executive*
D A Edmonds, *General Manager, Group Central Services*

Subsidiary undertaking

NatWest Estate Management and Development Limited (property and development activities as agent of the bank) — **T Blackler,** *Chairman*

Head office: 41 Lothbury, London EC2P 2BP

Associated undertaking

BACS Limited (21.3%) (provision of automated clearing services)

Group structure – NatWest UK

NatWest UK

H M V Gray, *Chief Executive*
S R Chandler, *Deputy Chief Executive*
R C M Aston, *Director of Strategy*
P R Biddle, *Director of Finance*
C R Bottomley, *Director of Human Resources*
P J Boylan, *Managing Director, Card Services*
L Churchill, *Managing Director, Life and Investment Services*
R C Cregeen, *Director of Risk Management*
M Himsworth, *Director of Audit*
R S Legg, *General Manager, Group Information Technology*
R M Pinnell, *Director of Marketing and Communications*
H A Shaw, *Managing Director, Corporate Banking Services*
R G Ware, *Director of Compliance, UK and International Businesses*
A C Warren, *Managing Director, Retail Banking Services*
S J S Wells, *Managing Director, Insurance Services*
G J Wise, *Managing Director, Mortgage Services*

Regional managing directors

RETAIL BANKING SERVICES
Mrs J M Bradford, *East*
I A Clegg, *West Midlands*
K D Francis, *London South*
M F Harker, *South West*
J C Heyward, *City and West End*
M I O Howells, *South East*
D J Larmer, *Wales*
H H Rosser, *North West*
R G Thomas, *London North*
E R Williams, *North*

CORPORATE BANKING SERVICES
J Thornton, *South East*
B McConnell, *Midlands*
W Martin, *North West*
M A Thomas, *West*
G Westwell, *City and West End*
C G Youngs, *North*

INTERNATIONAL TRADE AND BANKING SERVICES
C D H Bryant, *Director*

Subsidiary undertakings

National Westminster Home Loans Limited (i) (home mortgage finance)
Head office: PO Box 156, Priory House, 38 Colmore Circus, Birmingham B4 6AL
S R Chandler, *Chairman*
G J Wise, *Managing Director*

National Westminster Insurance Services Limited (i) (insurance brokers)
Head office: PO Box 106, 37 Broad Street, Bristol BS99 7NQ
S R Chandler, *Chairman*
S J S Wells, *Managing Director*

National Westminster Life Assurance Limited (92.5%) (i) (life assurance)
Head office: Trinity Quay, Avon Street, Bristol BS2 0YY
M G Taylor CBE, *Chairman*
G V Barker, *Chief Executive*

National Westminster Unit Trust Managers Limited (i) (unit trust managers)
Head office: Trinity Quay, Avon Street, Bristol BS2 0YY
L Churchill, *Chairman*
A Stacy, *Managing Director*

NatWest Stockbrokers Limited (retail brokers and investment managers)
Head office & registered office: 55 Mansell Street, London E1 8AN
L Churchill, *Chairman*
J S Chester, *Managing Director*

(i) Registered office: 41 Lothbury, London EC2P 2BP

Associated undertakings

3i Group plc (17.8%) (permanent and long-term investment finance)
ICCH Limited (20%) (clearing services for London markets)
Switch Card Services Limited (33.3%) (management of the Switch debit card scheme)

Group structure – NatWest Markets

NatWest Markets

The Rt Hon Douglas Hurd, *Deputy Chairman*
Dr J M Owen, *Chief Executive*
R W Byatt, *Deputy Chief Executive*
P J Hall, *Deputy Chief Executive*
J D Howland-Jackson, *Deputy Chief Executive*
P W Deer, *Regional Managing Director, Asia Pacific*
M V F Allsop, *Senior Managing Director, Global Financing*
M St J Ashley, *Chief Financial Officer*
S L Harris, *Chief Executive, Global Financial Markets & Group Treasurer*
Dr J Lafferty, *Managing Director, Pan European Equities*
P B St George, *Chief Executive, NatWest Markets Australia*
P J S Wise, *Senior Managing Director, Global Financial Markets*

Subsidiary undertakings

NatWest Capital Markets Limited (ii) (capital markets activities as agent of the bank)	**P J S Wise,** *Chairman*
NatWest Corporate Investments Limited (ii) (investment company)	**M V F Allsop,** *Chairman*
NatWest Financial Products plc (ii) (financial derivative products)	**S J Dobbie,** *Chairman*
NatWest Futures Limited (ii) (futures and options broker)	**V A Ward,** *Chairman*
NatWest Gilts Limited (ii) (UK government securities market maker)	**P J S Wise,** *Chairman*
NatWest Investment Management Limited (ii) (investment management)	**The Hon Sir Richard Butler,** *Chairman*
NatWest Investment Management Channel Islands Limited (investment management) Registered office: PO Box 205, Commerce House Les Banques, St Peter Port, Guernsey, Channel Islands	**P Marchant,** *Director*
NatWest Markets Corporate Finance Limited (ii) (advisory services)	**D C MacPherson,** *Chairman* **D M Barclay,** *Managing Director* **P N G Wilson,** *Managing Director*
NatWest Securities Limited (ii) (securities dealing and corporate broking)	**S J Dobbie,** *Chairman*
NatWest Specialist Finance Limited (ii) (finance leasing)	**R P A Bull,** *Director*
NatWest Ventures Investments Limited (ii) (venture capital)	**D R Shaw,** *Director*
NatWest Wood MacKenzie & Co Limited (ii) (corporate stockbroking)	**R L Norbury,** *Chairman*

(ii) Registered office: 135 Bishopsgate, London EC2M 3UR

Regional offices

Birmingham
Wellesley House, 37 Waterloo Street, Birmingham B2 5TJ
Priory House, 38 Colmore Circus, Birmingham B4 6DJ

Bristol
33-35 Queen Square, Bristol BS1 4LU
Northcliffe House, Colston Avenue, Bristol BS99 7QE

Dublin
Ferry House, 48-53 Lower Mount Street, Dublin 2, Republic of Ireland

Edinburgh
Kintore House, 74-77 Queen Street, Edinburgh EH2 4NS

Leeds
Lion House, 41 York Place, Leeds LS1 2ED
Priestly House, 3/5 Park Row, Leeds LS1 5LA

Manchester
Clarence House, Clarence Street, Manchester M2 4DW
Lowry House, Marble Street, Manchester M60 2QP

Nottingham
Redford House, Redford Boulevard, Nottingham NG7 5QG

Principal overseas offices

North America

National Westminster Bank Plc
175 Water Street, New York, NY10038, USA

P J Hall, *Regional Managing Director*

National Westminster Bank of Canada (banking services)
Suite 2060, 200 Bay Street, South Tower, PO Box 10,
Royal Bank Plaza, Toronto, Ontario, Canada M5J 2JT

Hon A W Gillespie DC, *Chairman*

NatWest Futures Inc (futures and options broker)
175 W Jackson Blvd, Suite A1527, Chicago, IL 60602, USA

NatWest Investment Management Limited (investment management)
Park Avenue Tower, 65 East 55 Street, 22nd Floor, New York, NY10022, USA

NatWest Markets Group Inc (holding company for securities companies)
175 Water Street, New York NY10038, USA

P J Hall, *Director*

NatWest Capital Markets Corporation USA

NatWest Securities Corporation

NatWest International Securities Inc

Westminster Research Associates Inc

Other branch offices in Chicago, San Francisco, Los Angeles, Nassau and Grand Cayman

Other representative and sales offices in Baltimore, Boston and Houston

Asia and Australia

NatWest Markets Australia Limited (holding company for the Australian group of companies)
Level 16, Grosvenor Place, 225 George Street, Sydney NSW 2000, Australia
N F Greiner, *Chairman*
P B St George, *Chief Executive*

NatWest Capital Markets Australia Limited (futures broking)
Level 16, Grosvenor Place, 225 George Street, Sydney NSW 2000, Australia

County NatWest Corporate Finance Australia Limited (corporate advice, equity issues)
Level 16, Grosvenor Place, 225 George Street, Sydney NSW 2000, Australia
M J McComas, *Managing Director*

County NatWest Australia Investment Management Limited (investment management)
Level 20, 333 Collins Street, Melbourne, VIC 3000, Australia
Level 14, Grosvenor Place, 225 George Street, Sydney NSW 2000, Australia
Dr N Birrell, *Chief Executive Officer*

County NatWest Securities Australia Limited (equity sales, trading and research)
Level 15, Grosvenor Place, 225 George Street, Sydney NSW 2000, Australia
Level 52, The Rialto, 525 Collins Street, Melbourne, VIC 3000, Australia
R B Thomas, *Managing Director*

County NatWest Securities New Zealand Limited (equity sales and trading)
Level 20, Trust Bank Centre, 125 The Terrace, Wellington, New Zealand

National Westminster Bank Plc
43/f NatWest Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
P W Deer, *Regional Managing Director*

NatWest Investment Management Asia Limited (investment management)
43/f NatWest Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
E Troughton, *Director*

National Westminster Bank Plc
Riverside Yomiuri Building, 36-2 Nihonbashi-Hakozakicho, Chuo-Ku, Tokyo 103, Japan

NatWest Investment Management Japan Limited (investment management)
Riverside Yomiuri Building, 36-2 Nihonbashi-Hakozakicho, Chuo-Ku, Tokyo 103, Japan
I Katsushima, *Managing Director*

National Westminster Bank Plc
18th Floor, Dong Ah Life Insurance Building, Ta Dong 33, Chung-Ku, Seoul, South Korea

National Westminster Bank Plc
5th Floor, Shell Tower, 50 Raffles Place, Singapore 0104

Other representative offices in Bangkok, Bombay, Kuala Lumpur, Moscow, Shanghai and Taipei

Europe

NatWest Sellier SA (equity and fixed income dealing and research, derivative products) — **P Poupon,** *Director*
12 rue d'Uzes, 75002 Paris, France

National Westminster Bank Plc
13 rue d'Uzes, 75002 Paris, France

National Westminster Bank Plc
Feldbergstrasse 35, D-60323 Frankfurt am Main, Germany

NatWest Securities GmbH (securities dealing and corporate broking) — **A Sommer,** *Director*
Kaufingerstrasse 12, RGB 80331, Munich, Germany

National Westminster Bank Plc
Via Turati 16-18, Milan, 20121 Italy

NatWest Securities Limited (securities dealing and corporate broking)
Limmatquai 112, 8001 Zurich, Switzerland

National Westminster Bank Plc
Principe de Vergara, 125, 28002, Madrid, Spain

Representative office in Valencia

Group structure – International Businesses

International Businesses

B P Horn, *Chief Executive*
J R Mapplebeck, *Director*
B A Carte, *Chief Executive, Lombard North Central PLC*
D Went, *Chief Executive, Coutts & Co Group*
H E Post, *Chief Executive and Deputy Chairman, Coutts & Co*
R D Kells, *Chief Executive, Ulster Bank Ltd*
A P Duffy, *Managing Director, Banco NatWest España SA*
I A Jarritt, *Chief Executive, Isle of Man Bank Ltd*

Subsidiary undertakings

Lombard Group

Lombard North Central PLC (banking services, credit finance, leasing and contract hire)
Head office & registered office: Lombard House, 3 Princess Way, Redhill, Surrey RH1 1NP
D M Child CBE, *Chairman*
B A Carte, *Chief Executive*

Lombard NatWest Commercial Services Limited (factoring services, invoice discounting)
Head office & registered office: Smith House, PO Box 50, Elmwood Avenue, Feltham, Middlesex TW13 7QD
B A Carte, *Chairman*
M W Turner, *Managing Director*

Lombard Tricity Finance Limited (instalment credit and credit card facilities)
Head office & registered office: Tricity House, 284 Southbury Road, Enfield, Middlesex EN1 1HF
B A Carte, *Chairman*
P Linnell, *Managing Director*

Lex Vehicle Leasing Limited (50%) (vehicle contract hire)
Head office: Globe House, Parkway, Globe Park, Marlow, Bucks SL7 1LY
M A Maberly, *Chairman*
D A Galloway, *Managing Director*

Rover Finance Holdings Limited (50.1%) (instalment credit, leasing and contract hire)
Head office: Avon House, 435 Stratford Road, Shirley, Solihull, West Midlands B90 4BL
J D Fitch, *Chairman*
J G Woodhouse, *Group Chief Executive*

Lombard Bank Limited (direct marketing - personal financial services)
Head office: 339 Southbury Road, Enfield, Middlesex EN1 1TW
B A Carte, *Chairman*
I Springett, *Managing Director*

Lex Transfleet Limited (50%) (commercial vehicle contract hire logistics and rental)
Head office: Lex House, Torwood Close, Westwood Business Park, Coventry CV4 8JB
M A Maberly, *Chairman*
P Cosgrove, *Managing Director*

Ulster Bank Group

Ulster Bank Limited (banking services)
Head office & registered office: 47 Donegall Place, Belfast BT1 5AU
Sir George Quigley CB, *Chairman*
R D Kells, *Chief Executive*

Ulster Investment Bank Limited (corporate and investment banking)
Head office: Ulster Bank Group Centre, George's Quay, Dublin 2
M Rafferty, *Chairman*
M J Wilson, *Chief Executive*

Lombard and Ulster Limited (banking services, credit finance and leasing)
Head office: 40 Linenhall Street, Belfast BT2 8DF
H S E Catherwood, *Chairman*
G J Simms, *Chief Executive*

Lombard and Ulster Banking Limited (banking services, credit finance and leasing)
Head office: Ulster Bank Group Centre, George's Quay, Dublin 2
M Rafferty, *Chairman*
P A McArdle, *Chief Executive*

NCB Group Limited (stockbroking and financial services)
Head office: Ferry House, 48-53 Lower Mount Street, Dublin 2
S J Dobbie, *Chairman*
P O'Connor, *Chief Executive*

Ulster Bank (Isle of Man) Limited (banking services)
Head office: 45 Victoria Street, Douglas, Isle of Man

T W N Walsh, *Chairman*
A J Jordan, *Chief Executive*

Ulster Bank Dublin Trust Company (trustee and income tax services, investment management)
Head office: PO Box 145, 33 College Green, Dublin 2

J J McNally, *Chairman*
M F Daly, *Manager*

Ulster Bank Insurance Services Limited (insurance brokers, independent life assurance and pension advisors)
Head office: Ulster Bank House, Shaftesbury Square, Belfast BT2 7DL

R D Kells, *Chairman*
J Burns, *Manager*

Ulster Bank Commercial Services (NI) Limited (factoring services, invoice discounting)
Head office: 11 Donegall Square South, Belfast BT1 5PH

D F Adair, *Chairman*
D F Moynihan, *Managing Director*

Ulster Bank Commercial Services Limited (factoring services, invoice discounting)
Head office: Ulster Bank Group Centre, George's Quay, Dublin 2

J Donnelly, *Chairman*
W J Glynn, *Chief Executive*

Ulster Bank Group Treasury Limited (treasury, foreign exchange and interest rate management, financial engineering)
Head office: PO Box 3255, IFSC House, International Financial Services Centre, Dublin 1

M J Wilson, *Chairman*
D J O'Neill, *Chief Executive*

Ulster Bank Group Treasury (International) Limited (treasury, foreign exchange and interest rate management, financial engineering)
Head office: PO Box 3255, IFSC House, International Financial Services Centre, Dublin 1

M J Wilson, *Chairman*
D J O'Neill, *Chief Executive*

Coutts & Co Group

Coutts & Co Group
Head office: 7th Floor, Princess House, 27 Bush Lane, London EC4R 0AA
Registered office: 440 Strand, London WC2R 0QS

Sir Ewen Fergusson GCMG GCVO, *Chairman*
D Went, *Chief Executive*

Coutts & Co (banking services)
Head office: 440 Strand, London WC2R 0QS
Registered office: 15 Lombard Street, London EC3V 9AU

Sir Ewen Fergusson GCMG GCVO, *Chairman*
H E Post, *Chief Executive and Deputy Chairman*

Coutts & Co AG (banking services)
Head office: Talstrasse 59, CH 8022 Zurich, Switzerland

Dr R Domeniconi, *Chairman of the Board*
Dr R Zünd, *Chief Executive*

Branches and representative offices in Athens, Buenos Aires, Cannes, Geneva, Hong Kong, Montevideo, New York, Singapore and Vienna

Coutts & Co Trust Holdings Limited (holding company)
Head office & registered office: PO Box N4889 Nassau, Bahamas

S L Dill, *Chairman*
P ap G Stradling, *Chairman and President*

Coutts & Co (Jersey) Limited (trust, banking and investment services)
Head office & registered office: PO Box 6, 23-25 Broad Street, St Helier, Jersey JE4 8ND, Channel Islands

P A E Littleboy, *Managing Director*

Coutts & Co (Isle of Man) Limited (trust, banking and investment services)
Head office & registered office: Coutts House, PO Box 59, Summerhill Road, Onchan, Isle of Man

D McCauley, *Managing Director*

Coutts & Co (Guernsey) Limited (trust, banking and investment services)
Head office & registered office: PO Box 16, Coutts House, Le Truchot, St Peter Port, Guernsey, Channel Islands

P Doyle, *Managing Director*

Coutts & Co (Trustees) SA (trust company management and fiduciary services)
13 Quai de l'Ile PO Box 5511, Geneva 11, Switzerland
Zürich branch: Talstrasse 59, P O Box, 8022 Zürich, Switzerland

D Martineau, *Managing Director*
J D Fleming, *Vice Chairman*

Coutts & Co Financial Services (CI) Limited (Channel Islands based deposit taking and lending institution)
Head office & registered office: PO Box 125, 27 Broad Street, St Helier, Jersey, Channel Islands

P A Shaw, *Managing Director*

Coutts & Co (Cayman) Limited (trust, banking and investment services)
Head office & registered office: PO Box 707, West Bay Road, Grand Cayman, B.W.I.

G Williams, *Managing Director*

Coutts & Co (Bahamas) Limited (trust, banking and investment services)
Head office & registered office: PO Box N7788, West Bay Street, Nassau, Bahamas

W H Jennings, *Managing Director*

Coutts & Co (Bermuda) Limited (trust and investment services)
Head office & registered office: PO Box HM 1436, Crawford House, 23 Church Street, Hamilton, HMFX, Bermuda

D C Titcombe, *Director and Manager*

Coutts & Co Servicios Administrativos SA (marketing office)
Calle Gabriel Otero 6462, PO Box 18962, Montevideo, Uruguay

Coutts & Co (USA) International Limited (banking services)
Head office & registered office: 701 Brickell Avenue, Suite 2400, Miami, Florida 33131, USA

C Patiño, *General Manager*

Offices in Beverly Hills, San Diego and Los Angeles

Europe

Banco NatWest España SA (99.6%) (banking and investment services)
Head office: 125 Principe De Vergara, 28002 Madrid, Spain

R Martinez Cortina, *Chairman*
A P Duffy, *Managing Director*

National Westminster Bank AG (banking services)
Head office: Feldbergstrasse 35, Postfach 111051, 60045 Frankfurt am Main, Germany

J R Mapplebeck, *Chairman of the Supervisory Board*
G Grehl, *Speaker of the Management Board*

Isle of Man Bank Limited (banking services)
Head office: PO Box 13, 2 Athol Street, Douglas, Isle of Man

W L B Stott, *Chairman*
I A Jarritt, *Chief Executive*

Branches and representative offices in Athens, Piraeus, Thessalonika and Gibraltar

Bancorp

J Tugwell, *Chairman and Chief Executive*
A C Blessley, *Chief Operating Officer*

Subsidiary undertakings

National Westminster Bancorp Inc. (holding company)
Head office: 10 Exchange Place, Jersey City, New Jersey 07302, USA

J Tugwell, *Chairman and Chief Executive*

NatWest Bank, N.A. (banking services)
Head office: 2 Montgomery Street, Jersey City, New Jersey 07302, USA

NatWest Bank (Delaware) (banking services)
Head office: 824 Market Street, Wilmington, Delaware 19801, USA

NatWest Bank Services Inc. (operations and servicing facility)
Head office: 102 Wyoming Avenue, Scranton, Pennsylvania, USA

SEC Form 20-F cross reference guide

Form 20-F item number Page reference in this document

To the extent referenced in this SEC Form 20-F cross reference guide, the information contained in the Annual Report and Accounts comprises the Annual Report on Form 20-F of National Westminster Bank Plc for the year ended 31 December 1995 (the '1995 Form 20-F'). Portions of the Annual Report and Accounts are not required to be included in the 1995 Form 20-F and any portion of the Annual Report and Accounts that is not referenced in this SEC Form 20-F cross reference guide is not filed as part of the 1995 Form 20-F. The 1995 Form 20-F has not been approved or disapproved by the SEC nor has the SEC passed upon the accuracy or adequacy of the 1995 Form 20-F.

Other information

Addresses and telephone numbers

The Registrar for NatWest Group
Freepost (BS2282), PO Box No 82, Bristol BS99 7YA

Shareholders' Helpline
0117 930 6566

Depositary for American Depositary Receipts
Morgan Guaranty Trust Company of New York, PO Box 8205, Boston, MA 02266-8205
Toll free telephone number for ADR (symbol 'NW') holders 800 459 0905

Financial calendar 1996

The ordinary shares are marked ex-dividend	26 February 1996
Period for working out the share dividend reference price	26 February to 1 March 1996
The dividend is recorded	5 March 1996
Final date for joining the Share Dividend Scheme	26 March 1996
Annual General Meeting	23 April 1996
We will pay the cash dividend and dealings will begin in new shares	1 May 1996
We will announce the interim dividend for 1996	30 July 1996
We will pay the interim dividend for 1996	October 1996

Environmental responsibility

As part of NatWest's commitment to the environment and our risk management programme, we are closely involved in the debate on environmental reporting and disclosure. We produce yearly environmental reports which provide information on our performance and we are encouraging others to follow our example. If you would like a copy of the Environment Report for 1995/6, please telephone our Shareholders' Helpline on 0117 930 6566.

We believe that there is a clear link between well managed businesses and good environmental performance and we are working with the European Commission on an experimental environmental scheme for the financial sector.

Financial Services Act 1986

Under the terms of the Financial Services Act 1986, we must tell you that the value of investments and the income from them can go down as well as up. You may not get back the original amount you invested. How shares performed in the past does not indicate how they will perform in the future.

National Westminster Bank Plc is regulated by the Personal Investment Authority, IMRO and the Securities and Futures Authority. It is a member of the NatWest Life and NatWest Unit Trust Marketing Group, advising on life assurance, pensions and unit trust products only of that Marketing Group.

London **STOCK EXCHANGE**

NYSE
THE NEW YORK STOCK EXCHANGE

Registered number 929027 England

Crown Way Cardiff CF14 3UZ
www.companieshouse.gov.uk

NOTICE OF ILLEGIBLE DOCUMENTS

Companies House regrets that documents in this company's microfiche record have pages which are illegible.

This has been noted but unfortunately steps taken to rectify this were unsuccessful.

Companies House would like to apologise for any inconvenience this may cause.