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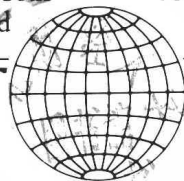
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	Six months to 30th June		
	<u>1990</u> (Unaudited)	<u>1989</u>	<u>Change</u> %
RESULTS			
Profit Before Taxation (£m)	280	203	37.9
Profit After Taxation (£m)	182	132	37.9
PER ORDINARY SHARE**			
Earnings (pence)	13.9	12.6	10.3
Dividend (pence)	3.15	—	—
Net Asset (pence)	199	177	12.4
FINANCIAL RATIOS			
Pre Tax Return on Average Equity %**	22.3	22.6	
Risk Asset Ratio %	11.3	—	

* The 1989 figures represent the audited results of Abbey National Building Society. These were reported upon without qualification.

** 1989 figures are presented on a pro forma basis. Pro forma earnings have been calculated assuming that the benefit from the new share capital raised, net of the flotation expenses, cash distribution and interest free deposit with the Bank of England, had been available from 1st January 1989. An assumed rate of interest of 13% from 1st January to Vesting Day, 12th July 1989, has been used.



Abbey National Plc, Abbey House, Baker Street, London NW1 6XL.

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The International Stock Exchange produces a wide selection of publications covering the stock market, some of which are listed here. They are available from:

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The Quotations Department, The International Stock Exchange, London EC2N 1HP.

Admission of Securities to Listing (plus postage) £20·00

Unlisted Securities Market (post free to addresses within the U.K.) £2·00

The International Stock Exchange

Although the phrase 'The City of London' is strictly speaking no more than a geographical term, it has become synonymous with finance. The City of London contains a series of market places, some of them with visible trading floors, some of them telephone and telecommunications networks with no physical trading floor. There are markets in banking, finance, insurance, stocks and shares, shipbroking, air chartering, metals, soft commodities and many others. These markets are separate and independent, but they touch and overlap at many points.

An important element which has made the City of London such a major international financial centre is its code of regulation. The Stock Exchange has always been proud of its record of investor protection, so it welcomed the introduction of the Financial Services Act in 1986, because this Act seeks to extend these high standards of regulation to a much wider range of financial services.

The Financial Services Act has led to a radical restructuring of the regulatory framework under which Member Firms of the Exchange (and firms outside the Exchange) operate. In November 1986 members of The Stock Exchange supported the decision of the Council of The Stock Exchange to come together with members of the international broking community in London,

and two new bodies were created to fit in with the requirements of the Act.

The first is the Securities Association Limited which has received recognition from the Securities and Investments Board as a Self-Regulating Organisation. The Securities Association is the authorising body for most firms engaged in securities business, and it lays down and enforces the basic requirements for the authorisation which investment businesses need under the new Act.

The second body is the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, which is recognised as a Recognised Investment Exchange. Under its new name, the International Stock Exchange will continue to run marketplaces for the trading of domestic and foreign equities and Government securities. The Exchange is responsible for ensuring that these markets are fair and efficient places in which to do business.

Governments, local authorities, and companies come to the market in order to raise the capital they need for their various purposes. The market provides the means by which investors and users of capital can be brought together to ensure that their differing objectives are fulfilled.

The Origins of The Stock Exchange

The origins of The Stock Exchange can be found in the coffee houses of 17th century London. Here both investors and those who wished to raise money would congregate to buy and sell the shares of 'joint stock' companies. The need for such companies had arisen when merchants, keen to expand their trade overseas, found that the capital needed to finance such high risk ventures was not easy to obtain in sufficient quantity. The solution lay in the formation of joint stock companies whereby those willing to participate in a venture would pool their resources and so share the risks and the profits. The capital of these companies was divided into shares and any investor in an enterprise could sell his shares to another investor if he so wished. In this manner an investor could quickly convert his investments back into cash or into the shares of some other company. The earliest recorded company raising finance on this 'joint stock' principle was the Muscovy Company in 1555. Other well known companies include the East India Company (1600) and the Hudson's Bay Company (1668).

This concept of joint ownership with its benefits for both investor and user quickly gained wider appeal. Its use rapidly spread beyond the high risk business of the overseas traders and in 1609, the New River Company – still identified with a Stock Exchange listed security – was formed on a joint ownership basis to fund the provision of fresh water for London. Because the market provided a place where shares could be easily traded and investors could turn investments back into cash when they wished, investors were prepared to put up the money for new ventures. This meant that the supply of funds necessary for a company to expand became less of a constraint. As more investors used the market the role of the fund-raiser became easier and the market gained the reputation of being a quick, cheap and efficient place for raising funds.

The great demand for new capital to develop the growing industries of the industrial revolution led to the setting up of many small Stock Exchanges around the country in the 19th century. At their height there were over 20 such

exchanges in various towns and cities throughout the UK, all serving the needs of local industrialists and investors.

Towards the end of the 17th century, the market had received official acknowledgement of its fund raising capabilities when the government sought to raise capital by issuing its own securities. Thus the National Debt was born and a close long standing relationship was created which still exists today between the Government and the stock market.

As the number of users approaching the market in order to raise capital increased, the number of securities being bought and sold also rose, giving rise to new problems. One difficulty lay in matching the supply of securities for sale with the demand at any one time. It was highly unlikely that these would balance exactly and it became increasingly obvious that some form of trader was necessary to act as a buffer between buyer and seller. Out of this need, the role of the stockjobber emerged. He would act as a principal between buyer and seller absorbing the profits or losses which would occur as he tried to match the supply with the demand. If more investors were selling securities than buying, the stockjobber would buy stock temporarily in the hope of selling it at a higher price later on when the demand had picked up, and vice versa.

By the early 19th century, however, the Members of The Stock Exchange realised that if the market was to retain the confidence of its users, some form of regulation was necessary. The result was a set of rules governing the conduct of Members first introduced in 1802. Later on further rules were introduced relating to the companies whose securities were being traded and The Stock Exchange added market regulation to the other functions it was fulfilling.

The International Stock Exchange Today

Gradually, the individual stock exchanges around the country realised the benefits of coming together in one organisation. By a process of amalgamation, a Federation of Stock Exchanges was created in 1965, and in 1973 the unified Stock Exchange was formed, which now has offices in

Belfast, Birmingham, Bristol, Glasgow, Liverpool, Manchester and Newcastle.

The introduction of the computerised price information service SEAQ in October 1986 has changed the method of trading on the Exchange. SEAQ was designed to be complementary to, but not dependent on, the presence of a physical trading floor. The success of the new system is shown by the way in which brokers and market makers rapidly adapted to it and chose no longer to use the trading floor in London, except for traded options business.

In March 1986 the rules concerning membership of The Stock Exchange were changed to enable Member Firms to establish the capital base needed to trade competitively in international securities. Member firms are now allowed to be 100% owned by a single outside corporation. Many firms have been bought by UK and overseas banks, and major overseas securities firms have become direct Members of the Exchange for the first time.

The Functions of The International Stock Exchange

The main functions of The International Stock Exchange today, however, remain the same as they were in its earlier days. Firstly it provides a means whereby investors can buy and sell securities. Because they can do this easily they are prepared to use the market. This provides the basis for the second function – helping those who wish to raise capital to obtain the cash they need.

The essential mismatch in the needs of the investors for liquidity and the users of capital for long-term or permanent funds still exists today, and the need for the market has not diminished. The market satisfies the investor's desire to change investments or move into cash quickly and at little cost if he so wishes; it also allows investments to be spread, so reducing the overall risk, and provides the investor with a competitive return on his investment.

For the fund raiser the market offers a different set of advantages and attractions. Most of the funds raised on The International Stock Exchange are used for long-term capital investment, whether it is machinery, vehicles or plant

owned by companies, or schools, hospitals etc, provided by the government. The pooling of short-term savings allows companies to invest in long-term projects which may require large sums of capital. The comparatively low cost to the company of raising these long-term funds is also another reason for their continued use of the market as a source of funds.

Today there are nearly 7,000 securities of nearly 3,000 companies bought and sold on The International Stock Exchange.

The System of Equity Trading

The system of trading which had distinguished The Stock Exchange for many years – namely the split between brokers and jobbers – was replaced in Autumn 1986 by a new system of dealing.

Broker/Dealers and Competing Market Makers

Today, all member firms of The International Stock Exchange are broker/dealers. This means that they are able to act both in the capacity of agent (broker) and dealer (principal). In the latter case, they may take a client's stock on to their own book or sell the client stock from their inventory.

At the heart of the trading system is a group of broker/dealers who specialise in the dealing function. They are called market makers and they compete with one another for the business of other broker/dealers. These competing market makers perform a function similar to that which used to be provided by the jobbers. They actively *make* markets, rather than just matching orders, and they *compete* with one another for business in the stocks in which they deal. Unlike jobbers, however, they are permitted to deal with clients direct.

SEAQ

The broker/dealer system gives the investors the protection they seek by the provision of information about the state of the market and dealings in it. The system, called SEAQ – which stands for Stock Exchange Automated Quotations – is a screen-based system of information and surveillance driven by computer. The competing market-makers are under an obligation in the equity market to enter into SEAQ their bid and ask prices – the prices at which they are prepared to buy and sell securities. These price quotations, together with information on how many shares they are prepared to buy and to sell at these prices are entered into the computer which transmits them via screens to brokers' offices in the City of London and throughout the country, as well as overseas.

When a deal is done, the market maker is obliged to enter details of the deal – the time, the price and the number of shares involved – into the computer system within five minutes of the time of execution.

Normal Market Size (NMS)

With the introduction of the Stock Exchange Automated Quotations system (SEAQ), securities were classified into alpha, beta and gamma categories; alpha being the largest, most actively traded stocks, through beta, to gamma stocks which are the least actively traded.

It has been agreed that this system be abandoned, as these classifications do not necessarily reflect the quality or liquidity of the shares. This system is to be replaced by a "normal market size" (NMS) classification, in which all shares will be arranged into a series of 12 "bands". These are bands of the "normal market size" in which it is possible to deal and will reflect the average turnover in the share during the past twelve months.

Every UK equity quoted on SEAQ will have an NMS and each security will be reviewed on a quarterly basis, with adjustments made where necessary. The new arrangements will not affect the constituents or calculation of the FTSE index.

Dealing with Investors

Broker/dealers continue to act for investors, large and small in an advisory capacity. Broker/dealers acting as agents compete for client business both on price and quality of service and advice. The minimum they offer is an efficient dealing and settlement service. Brokers also actively give advice and research services to clients on developments and opportunities both in this country and abroad. Broker/dealers, especially the larger ones, offer portfolio valuations, investment strategy advice, help with tax problems and services for clients living abroad with their particular tax considerations in mind. Investment advice is not confined to securities' dealing but can also include advice on a wide range of investment opportunities.

There has also been a move by many firms into areas not traditionally part of the broker/dealer's role. Fund management is one of these and many broker/dealers now run their own unit trusts. These allow investors to pool their savings and so invest in a far wider range of securities than they could otherwise have done individually.

A growing number of broker/dealers are also becoming more involved in helping companies to raise new capital. Many listed companies maintain close contact with a broking firm which will act on their behalf when they have to approach the Quotations Department of The International Stock Exchange in relation to corporate finance. Where smaller companies are concerned, the broker/dealer may advise on sources and types of finance and the terms under which the new issue should be made. In this case the broker/dealer is filling a role which often accrues to a merchant bank and ensures a close working relationship with the company.

Other areas in which broker/dealers are now specialising include overseas broking (which provides a two way service – advising clients on overseas markets while attracting new business to London), money and sterling broking, arbitrage dealing and trading in both traditional and traded options.

The System in the Gilt-edged Market

In the gilt-edged market around 20 companies are recognised by the Bank of England as primary dealers, through which gilt issues are sold by the Government and which subsequently act as market makers in government stocks. Other broker/dealers deal with the primary dealers and help distribute stock to investors.

Firms of Inter-Dealer Brokers exist to facilitate the unwinding of market makers' positions on a confidential basis, without exposure of the market makers' books. In addition, there is a group of Stock Exchange Money Brokers whose role is to support liquidity in the market by providing borrowed stock or funds to the market makers to finance long or short positions.

Types of Company Security

There are many types of security which a company may offer to investors when it wishes to raise new capital. A broad division into share capital and loan capital exists. Investment in the former gives the investor part ownership of the capital of the company and so has a risk-bearing element. Some shares may be termed preference shares and have a priority over others when dividends are paid (or in capital repayment in the event of a liquidation).

Loan capital, on the other hand, consists of borrowing which in the event of a liquidation

must be repaid in full before the equity shareholders receive any payment.

This division is a very broad one and each category can be further subdivided. Share capital can be categorised into equity and preference capital.

Equity Capital

There are a number of securities which constitute the equity capital of a company. The real risk capital of the company is the ordinary share. The holders of these own the company and so bear the greatest risk, having neither security of income nor capital. They have, however, the right to appoint and dismiss directors, receive dividends as recommended by the directors and share in any surplus funds when creditors have been paid in the event of the company being liquidated. Some companies issue 'A' shares which have no, or restricted, voting rights. Deferred shares are also issued in some instances. These defer dividend payments until some point which has been predetermined by the company, such as a particular date or a specified profit level. They do not necessarily affect the voting rights or return of capital if the company is liquidated.

Raising finance by means of equity capital has implications for both the company and the investor. Having a sound equity base generally makes it easier for companies to raise loans because the shareholders are bearing a sufficient amount of the risk. If profits are low, there is no obligation to pay a dividend although paying dividends is expensive because, unlike interest payments, they cannot be offset against profits assessed for tax.

Investors find equity capital attractive because when profits are high, the return can also be high. The corollary also holds so that share prices may fluctuate more than the prices of other securities.

Loan Capital

Loan capital appears in many forms. One of the commonest is the debenture which, in its simplest form, is an agreement to pay a fixed rate of interest on certain dates and to repay the capital by a fixed day. Most debentures are secured against the assets of the company so that, in the event of the company being liquidated, the debenture holder can appoint a receiver. On the sale of the company's assets, the debenture holder receives payment in full before other creditors' claims are met. One variation of the debenture is the perpetual or irredeemable debenture. In this instance the company does not repay the loan except if it goes into liquidation. Another variation is the mortgage debenture which has property backing as security.

Some debentures, however, may not be secured against the assets of the company. These may take two forms. Guaranteed loan stock rests on the security of assets outside the company, usually those of the parent company. In the case of unsecured loan stocks, and bonds and notes (usually short-term), no security may be offered and in the event of a liquidation the holders are treated in the same manner as the trade creditors. Convertible loan stocks are also normally unsecured but give the holder the right to convert into ordinary shares at a stated price on some specified date. This kind of stock is very often offered when a takeover is underway because the dilution of the equity capital then does not occur until well after the takeover has occurred and, hopefully, the benefits have accrued. In all of the above instances, the loans may be issued with a variable rate of interest, calculated on the basis of some formula.

One of the great advantages to a company in raising loan capital is that interest payments are made before tax is calculated and that, in real

terms, the cost of payments may be eroded if inflation continues. The disadvantage is that dividend payments and capital repayment must be made at the agreed times irrespective of whether the company is making sufficient profit to cover the payments. The Companies Act, however, allows a company to repurchase its loan stock which can be advantageous if the price has fallen due to rising interest rates.

The investor often finds loan stock attractive because it assures him of fixed cash inflows on known dates. If his loan is secured he also knows that he will receive his repayments before the shareholders if the company is liquidated. The convertible loan stock provides him with the opportunity to have the best of both worlds. He has the security of capital and interest until conversion whereupon he can then participate in the benefits.

Capital Raising

When a company does come to The International Stock Exchange to raise capital, it must fulfil certain stringent minimum requirements. It must have a market capitalisation of at least £700,000, although in practice this is usually several million pounds. At least 25% of the company's issued shares should be in the hands of the public and the company has to show a trading record for three years, (prior to 1990, the period had been five years). An application for listing commits the issuer to ensure the continuing obligations covering disclosure of information, the directors' code of dealing and compliance with the City Code on Take-Overs and Mergers, and other matters.

Unlisted Securities Market

In 1980 the Exchange introduced the Unlisted Securities Market (USM), allowing growing companies to come to the stock market to raise new capital without having to meet the more stringent requirements applied to listing. At present these companies need only place 10% of their share capital on the market, and they need have only a two year trading record (reduced from three years in 1990). There is no minimum size of company on the USM, and since its beginning more than 800 companies have had their shares traded on the USM.

The Third Market

Introduced in 1987 to provide for the needs of companies not qualifying either for USM or Listing. However, in the reform of the procedures, the Third Market was abolished at the end of 1990.

SEAQ International

Over the past few years, foreign equities (i.e., securities which are listed on overseas exchanges but not in London) have become increasingly important business for securities firms based in London, whether or not those firms were members of the Exchange. In June 1985 the Exchange set up an electronic price information system called SEAQ International to provide a marketplace for those equities which were previously traded in London on an informal basis. Open to firms which were not Stock Exchange members, SEAQ International has grown rapidly. It now has more than 50 market makers quoting prices for more than 700 foreign stocks from 17 countries.

Taking full advantage of London's geographical location and time zone position between the New York and Tokyo stock markets, the market in foreign equities in London is expanding rapidly.

Options

In addition to the company securities already described, it is also possible to take out options either to buy or sell underlying securities at close to the present market price before a specified future date.

'Traditional' options are available, either 'puts' (the option to sell) or 'calls' (the option to buy) for many securities. They can generally only be exercised by the original taker of the option and if the taker does not choose to exercise, the option will simply expire. 'Traded' options, introduced in 1978, are the subject of another article elsewhere in this volume.

Government Stocks - 'Gilt-edged'

There are over 100 stocks issued by the British Government which are listed on The International Stock Exchange. Some of them were issued many years ago, others quite recently; indeed new government issues are being made all the time. These stocks carry different 'coupons' (rate of interest) and they may have just a few months to run now before they are repaid by the Government or they may not be due for repayment until well into the next century. Some, the so-called 'undated' issues, may never be repaid at all.

Stocks issued some time ago when interest rates were much lower than they are now carry a fixed rate of interest much lower than on stock issued recently. (For example, Funding Stock

repayable between 1999 and 2004 was originally issued in 1954 with a 'coupon' of only 3½%. Stocks issued more recently have carried rates of up to 15½%.)

In addition to the issue of fixed-rate stocks, which always pay the same rate of interest, the Government has in recent years experimented with floating rate issues, the interest on which varies according to a formula based on the level of short-term interest rates and 'index-linked' stocks, which carry only a low rate of interest, but which are topped-up by a payment based on changes in the retail price index.

This range of stocks, together with issues by local authorities and other public bodies, gives investors a wide choice of stocks which will suit their own requirements for either high-income or capital growth.

The Changing Pattern of Share Ownership

After the Second World War, the number of individuals owning shares decreased steadily, due to the post-war tax structure and the increase of indirect investment through financial institutions such as pension funds and insurance companies.

But in the 1980's this trend began to reverse — it is estimated that the number of people owning stocks and shares rose from about 3 million in 1979, to nearly 11 million in 1990.

The first factor contributing to the new growth of share ownership was the introduction of tax incentives for employee share schemes in 1978 and subsequently increased and improved. It is now estimated that at least 1.5 million people own shares in the company they work for, through one of these schemes. Secondly, public awareness of direct investment in stocks and shares has been vastly increased by the Government's privatisation programme. Flotations of major public utilities continue to attract millions of new investors.

At the beginning of 1987 the Government introduced Personal Equity Plans — funds managed by professional fund managers, into which individuals can contribute up to £4,800 per year. This is invested in the shares of UK companies, and attracts various tax reliefs if the P.E.P. is held for a minimum qualifying period.

These changes in the level of share ownership, and the amount of business consequently being done in the market, illustrate the flexibility of the market offered by the International Stock Exchange. Although it is in the process of undergoing fundamental changes, it is adapting well, and continues to provide one of the cheapest, most efficient, and competitive capital markets in the world.



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The International Stock Exchange Member Firms and Companies September 1990

Readers should note that this section no longer contains certain information previously shown. These amendments reflect the changes in the regulatory structure brought about by the implementation of the Financial Services Act on 29 Apr 1988.

Information with regard to the following Firms and Companies will be found listed under the alternative name as detailed below:

for Ashton Tod McLaren
see Quilter Goodison Company Ltd
for Enskilda Securities
see Skandinaviska Enskilda Ltd
for S.G. Warburg, Akroyd, Rowe & Pitman, Mullens Securities Ltd
see Warburg Securities
for S.G. Warburg, Akroyd, Rowe & Pitman, Mullens Securities (Gilt-Edged) Ltd
see Warburg Securities (Gilt-Edged) Ltd
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see Greenwell Montagu Stockbrokers
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