

# **FIRST NATIONAL INVOICE FINANCE LIMITED**

**DIRECTORS' REPORT AND ACCOUNTS FOR THE YEAR ENDED  
31 DECEMBER 1999**



**FIRST NATIONAL INVOICE FINANCE LIMITED**  
**Directors and Secretary**

Directors : M G Blake  
P A George  
J R D Hayhow  
P R McCrostie  
N M Sanders  
J L Shulman  
J R Smart  
D H Stewart

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Secretary : Abbey National Secretariat Services Limited

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Registered office : First National House,  
College Road,  
Harrow,  
Middlesex  
HA1 1FB

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Auditors : Deloitte & Touche  
*Chartered Accountants*  
London

**FIRST NATIONAL INVOICE FINANCE LIMITED**  
**REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements for the year ended 31 December 1999.

**1. Principal activity and review of business**

The principal activity of the Company is the provision of debt factoring services and it is intended to continue in this activity in the future.

The profit for the year after taxation amounted to £219,967 (1998 : £389,165) which has been transferred to reserves. Further details are set out in the profit and loss account. The financial position of the Company is set out in the balance sheet.

First National Factors Limited, a fellow wholly owned subsidiary of First National Bank Plc, and First National Invoice Finance Limited are managed as a single operation by a common team. The directors are delighted with their combined performance. Details of the results of First National Factors Limited are set out in its audited financial statements for the year ended 31 December 1999.

On 31 December 1999 the fixed assets of First National Factors Limited were transferred to First National Invoice Finance Limited at net book value.

**2. Dividends**

The directors do not recommend that a preference or ordinary dividend be declared (1998: nil).

**3. Directors**

Messrs. M A Bartholomeusz, M G Blake, P A George, M Jerrard, P R McCrostie, N M Sanders, J S Scott, J L Shulman and D H Stewart served as directors throughout the year. Other directors who served were:

A J Gale	appointed 22.01.1999
M Forman	resigned 30.09.1999

Since the year end Messrs. Bartholomeusz, Gale, Jerrard and Scott resigned on 05.06.2000, 31.08.2000, 21.04.2000 and 01.04.2000 respectively and Messrs. J R D Hayhow and J R Smart were appointed as additional directors on 05.06.2000 and 01.04.2000 respectively.

**4. Directors' interests in the shares of group companies**

None of the directors or their families had any interests in the shares of the Company during the year.

The interests of Messrs. P A George and J S Scott in the shares of the ultimate parent undertaking, Abbey National plc, are disclosed in the accounts of First National Finance Corporation p.l.c., an intermediate parent undertaking; and those of Messrs. D H Stewart and M A Bartholomeusz are disclosed in the accounts of First National Bank Plc, the immediate parent undertaking.

The interests of the other directors in the shares of the ultimate parent undertaking, Abbey National plc, were:

**Ordinary Shares of 10 pence each**

	As at 1 January 1999	As at 31 December 1999
M G Blake	100	166
A J Gale	-	66
M Jerrard	-	66
P R McCrostie	-	58
N M Sanders	-	66
J L Shulman	350	416

**REPORT OF THE DIRECTORS**

**Options Schemes**

Options exercisable between 2002 and 2008 to subscribe for Ordinary Shares of 10 pence each

	As at 1 January 1999 (i)	Options granted during year	Options exercised during year	As at 31 December 1999	Type
M G Blake	-	890	-	890	Sharesave
A J Gale	1047 150	- -	- -	1047 150	Sharesave Employee
M Jerrard	-	1706	-	1706	Sharesave
P R McCrostie	-	1706	-	1706	Sharesave
N M Sanders	150	-	-	150	Employee
J L Shulman	-	341	-	341	Sharesave

(i) - or date of appointment if later

All the above interests are held beneficially.

Options granted to directors under the ultimate parent undertaking's Sharesave Scheme are exercisable at prices between 988 pence and 1088 pence per share within six months of the third, fifth or seventh anniversary of the contract start date. Options granted under the Employee Share Option Schemes are exercisable at 1154 pence after five years and before ten years from the date of grant.

Shares in respect of Executive Share Options granted in 1999 are held by the Abbey National ESOP Trust (the "Trust"). Whilst the directors' interests in these shares (if any) are included above, each of the directors of the Company is a potential beneficiary of the Trust and is therefore deemed to have an interest in the shares held by the Trust. At 31 December 1999 the Trust held 1,580,429 ordinary shares (1998 - 784,663 shares).

Shares awarded under the Abbey National Long Term Incentive Plan (the "Plan") are held by the Abbey National Employee Trust (the "Employee Trust"). Whilst the Plan is currently restricted to members of the Abbey National plc Executive Committee, each of the directors of the Company is a potential beneficiary of the Employee Trust and is therefore deemed to have an interest in the shares held by the Employee Trust. At 31 December 1999, the Employee Trust held 389,320 ordinary shares (1998 - 268,936 shares).

**5. Directors' Responsibilities in respect of the Preparation of Accounts**

The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 December 1999. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Company's system of internal control and for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE DIRECTORS**

**6. Payment Policy**

In the forthcoming year, the Company will continue to deal with a large number of suppliers operating in a diverse range of industries and so will not operate a single payment policy in respect of all classes of suppliers. It is the Company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions.

The Company's practice on payment of creditors has been quantified under the terms of the Companies Act 1985 (Directors' Report) (Statement Payment Practice) Regulations 1997. The number of days supplier invoices which are included in trade creditors at 31 December 1999 is 9 (1998: 33).

**7. Year 2000 and EMU**

Year 2000

Following the provision of management, technology and systems support by the immediate parent undertaking First National Bank Plc, and the ultimate parent undertaking, Abbey National plc, no material problems were encountered at the turn of the year. Costs of these plans are detailed in the consolidated accounts of the ultimate parent undertaking. The directors are continuing to monitor the situation with respect to the year 2000 issue.

EMU


The strategic and operational risks posed by Economic and Monetary Union (EMU) are being addressed by the ultimate parent undertaking, Abbey National plc, through a Group-wide steering committee further details of which are given in the consolidated accounts of that ultimate parent undertaking.

**8. Auditors**

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually.

During the year Coopers & Lybrand resigned as auditors of the Company and the directors resolved to appoint Deloitte & Touche as auditors of the Company in their place, in accordance with the resolution by Abbey National plc to appoint Deloitte & Touche as auditors of Abbey National plc and its subsidiaries.

By order of the board

  
.....  
Abbey National Secretariat Services Limited  
Secretary

9 October 2000

## **FIRST NATIONAL INVOICE FINANCE LIMITED**

### **AUDITORS' REPORT TO THE MEMBERS OF FIRST NATIONAL INVOICE FINANCE LIMITED**

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We have audited the financial statements on pages 5 to 15 which have been prepared under the historical cost convention and the accounting policies on pages 7 and 8.

#### **Respective responsibilities of directors and auditors**

As described on page 2, the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

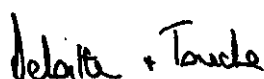
#### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company'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 financial statements 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 financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche**

#### **Chartered Accountants and Registered Auditors**

Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

9 October 2000

**FIRST NATIONAL INVOICE FINANCE LIMITED**

**PROFIT AND LOSS ACCOUNT**

**YEAR ENDED 31ST DECEMBER 1999**

	Note	1999	1998
		£	£
<b>Turnover</b>		5,793,231	5,122,328
Staff costs	3	2,666,397	1,995,808
Depreciation of tangible fixed assets	7	247,895	246,596
Operating charges		1,590,152	1,318,509
		<u>(4,504,444)</u>	<u>(3,560,913)</u>
Other operating income	2	<u>46,026</u>	<u>69,299</u>
		1,334,813	1,630,714
Interest payable	4	<u>(1,033,280)</u>	<u>(1,035,836)</u>
<b>Operating Profit</b>		<u>301,533</u>	<u>594,878</u>
<b>Profit on ordinary activities before taxation</b>	1	301,533	594,878
Tax on profit on ordinary activities	5	<u>(81,566)</u>	<u>(205,713)</u>
<b>Profit on ordinary activities after taxation</b>		219,967	389,165
Dividends	6	<u>-</u>	<u>-</u>
<b>Profit retained for the financial year</b>		219,967	389,165
Profit and loss account brought forward		<u>389,165</u>	<u>-</u>
<b>PROFIT AND LOSS ACCOUNT CARRIED FORWARD</b>		<u><u>609,132</u></u>	<u><u>389,165</u></u>

The notes on pages 7 to 15 form part of these financial statements.

There are no recognised gains or losses other than the result for the financial period.

**FIRST NATIONAL INVOICE FINANCE LIMITED**

**BALANCE SHEET**

AT 31ST DECEMBER 1999

		1999		1998	
	Note	£	£	£	£
<b>FIXED ASSETS</b>					
Tangible assets	7		948,999		435,580
<b>CURRENT ASSETS</b>					
Debtors	8	29,972,575		19,376,609	
Cash at bank and in hand		<u>543,607</u>		<u>360,214</u>	
		30,516,182		19,736,823	
<b>CREDITORS - amounts falling due within one year</b>					
	9	<u>28,606,049</u>		<u>17,533,238</u>	
<b>NET CURRENT ASSETS</b>			<u>1,910,133</u>		<u>2,203,585</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>2,859,132</u>		<u>2,639,165</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	10		2,250,000		2,250,000
Profit and loss account	11		<u>609,132</u>		<u>389,165</u>
Equity shareholders' funds		<u>2,159,132</u>		<u>1,939,165</u>	
Non equity shareholders' funds		<u>700,000</u>		<u>700,000</u>	
Shareholders' funds	11		<u>2,859,132</u>		<u>2,639,165</u>

Approved by the board on 9/10/00 and signed on its behalf by :

J H STEWART

Director

*David Stewart*

The notes on pages 7 to 15 form part of these accounts.



## **FIRST NATIONAL INVOICE FINANCE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES**

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#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom. The principal accounting policies of the company remain in line with last year.

#### **Turnover**

Turnover represents factoring charges earned on debts purchased and discount charges on prepayments to clients.

#### **Deferred income**

25% of service fee income at the end of each month is carried forward against future collection and other costs.

#### **Tangible fixed assets**

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are:

Office equipment	12.5%
Computer equipment - main frames	25.0%
Computer equipment - peripherals	20.0%
Motor vehicles	25.0%
Leasehold improvements	Period of lease

#### **Contributions to pension fund**

Pensions are provided by means of a funded defined benefits scheme and annual contributions are based on actuarial advice. The expected cost of providing pensions is recognised on a systematic basis over the expected average remaining service lives of members of the scheme. Further details are given in note 3.

#### **Cash flow statement**

The financial statements do not include a cashflow statement since the company has taken advantage of the exemption in paragraph 5 (a) of Financial Reporting Standard 1 (revised) as the company is a wholly owned subsidiary of a company which prepares consolidated financial statements that are publicly available.

## **FIRST NATIONAL INVOICE FINANCE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES**

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#### **Deferred taxation**

Deferred taxation is calculated at the anticipated rates of corporation tax applicable on timing differences which arise from the inclusion of items of income and expenditure in the taxation computations in periods different from those in which they are included in the accounts, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### **Foreign currency translation**

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period. Foreign exchange differences are taken to the profit and loss account in the period in which they arise.

#### **Operating leases**

Rentals under operating leases are charged on a straight line basis over the term of the lease in arriving at the operating result.

#### **Provision for bad and doubtful debts**

Specific provisions are made for amounts included within factored debts which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover losses that, although not specifically identified, are known from experience to be present at the year end in respect of commercial exposures. Such provisions are offset against factored debts within the balance sheet.

# FIRST NATIONAL INVOICE FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1999

### 1 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation has been arrived at after charging:

	1999 £	1998 £
Depreciation of fixed assets (note 7)	247,895	246,596
(Profit)/ loss arising on sale of fixed assets	(39,161)	(18,982)
Staff costs including pension cost £198,225 (1998: £144,949 )	2,666,397	1,995,808
Auditors' remuneration	14,498	12,750
Operating rentals - plant and machinery	-	-
- land and buildings	175,360	184,680

### 2 OTHER OPERATING INCOME

Other operating income is comprised of rental income on property amounting to £46,026 (1998: £69,299)

### 3 DIRECTORS AND EMPLOYEES

The average number of persons employed by the company during the period was 72 (1998: 61).

Staff costs, including executive directors, include the following:

	1999 £	1998 £
Wages and salaries	2,125,063	1,574,170
Social security costs	182,798	132,994
Other pension costs	198,226	144,949
	<u>2,506,087</u>	<u>1,852,113</u>

The emoluments of the directors were as follows:

	1999 £	1998 £
Aggregate directors' emoluments	<u>434,332</u>	<u>331,790</u>
Number of directors for whom retirement benefits are accruing	<u>11</u>	<u>10</u>

The aggregate emoluments of the highest paid director were £102,345 (1998: £107,553). This includes contributions of £8,237 (1998: £9,995) to a funded defined benefits scheme. The accrued pension of the highest paid director at the year end was £6,840 (1998: £4,815). The emoluments of the chairman amounted to £Nil (1998: £Nil).

# FIRST NATIONAL INVOICE FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1999

The Abbey National Group Pension Scheme is a funded defined benefits scheme. A formal actuarial valuation was carried out by an independent professionally qualified actuary as at 31 March 1999.

The main long term financial assumptions used in this valuation were:

Investment return	6.25% p.a.
Pension increases	3.0% p.a.
General salary increases	4.5% p.a.
General price inflation	3.0% p.a.

The market value of the scheme's assets at the date of valuation was £24m and the funding level 71%. This deficiency has been addressed by increasing the employer's contributions from 11.2% to 12.1% of members' pensionable salaries of all members who joined the Scheme before 1 April 1999. On the valuation basis adopted it was expected that this rate of employer's contributions would be required for a period of fourteen years. The scheme, at the valuation date, had 132% of the assets needed under the statutory minimum funding requirement. The rate of employer's contributions for all members who joined the Scheme after 1 April 1999 is 8%.

Formal actuarial valuations of the assets and liabilities of the scheme are carried out on a triennial basis and, in addition there is an annual review by the appointed actuary.

### 4 INTEREST PAYABLE

	1999 £	1998 £
On bank loans and overdrafts	7,431	15,059
Interest payable to group undertakings	1,025,849	775,277
Other loans	-	245,500
	<u>1,033,280</u>	<u>1,035,836</u>

### 5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £	1998 £
Corporation tax at 30.25% (1998: 31%)	81,566	205,713
	<u>81,566</u>	<u>205,713</u>

**FIRST NATIONAL INVOICE FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31ST DECEMBER 1999**

**6 DIVIDENDS**

	<b>1999 £</b>	<b>1998 £</b>
'A' 13% cumulative redeemable preference shares	-	-
Ordinary shares	-	-
	<u>-</u>	<u>-</u>

The holders of the 'A' 13% cumulative redeemable preference shares have formally waived the right to dividends for the years ended 31 December 1999 and 31 December 1998.

**7 TANGIBLE FIXED ASSETS**

	<b>Fixtures &amp; fittings £</b>	<b>Computer equipment £</b>	<b>Motor vehicles £</b>	<b>Leasehold improvements £</b>	<b>TOTAL £</b>
<b>Cost:</b>					
At 1 January 1999	305,644	499,335	327,010	8,671	1,140,660
Additions during the period	33,968	195,614	361,338	22,584	613,504
Inter group transfer	71,488	46,829	179,258	-	297,575
Disposals during the period	-	-	(166,110)	-	(166,110)
At 31 December 1998	<u>411,100</u>	<u>741,778</u>	<u>701,496</u>	<u>31,255</u>	<u>1,885,629</u>
<b>Depreciation:</b>					
At 1 January 1999	170,933	339,826	187,293	7,028	705,080
Charge during the period	28,330	103,386	111,344	4,835	247,895
Inter group transfer	27,333	29,398	72,719	-	129,450
Disposals during the period	-	-	(145,795)	-	(145,795)
At 31 December 1999	<u>226,596</u>	<u>472,610</u>	<u>225,561</u>	<u>11,863</u>	<u>936,630</u>
<b>Net book value:</b>					
At 31 December 1999	<u>184,504</u>	<u>269,168</u>	<u>475,935</u>	<u>19,392</u>	<u>948,999</u>
At 31 December 1998	<u>134,711</u>	<u>159,509</u>	<u>139,717</u>	<u>1,643</u>	<u>435,580</u>

On 31 December 1999 the fixed assets of First National Factors Ltd, a fellow subsidiary undertaking, were acquired for their net book value.

**FIRST NATIONAL INVOICE FINANCE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31ST DECEMBER 1999**

**8. DEBTORS**

	<b>1999</b>	<b>1998</b>
	<b>£</b>	<b>£</b>
Factored debts	29,823,670	18,918,817
Other debtors	35,243	336,543
Prepayments and accrued income	113,662	121,249
	<u>29,972,575</u>	<u>19,376,609</u>
Debtors due within one year		
	<u>29,972,575</u>	<u>19,376,609</u>
Gross factored debts	55,921,215	36,312,036
Due to clients on collection	(26,097,545)	(17,393,219)
	<u>29,823,670</u>	<u>18,918,817</u>

**9. CREDITORS - amounts falling due within one year**

	<b>1999</b>	<b>1998</b>
	<b>£</b>	<b>£</b>
Bank overdrafts	270,842	736,433
Amount due to First National Bank Plc	26,181,322	15,563,955
Amount due to Abbey National Plc	217,054	-
Amount due to First National Factors Ltd.	512,913	-
Group relief payable	147,763	207,394
Other taxes and social security costs	125,242	104,388
Other creditors	29,846	135,083
Accruals and deferred income	1,121,067	785,985
	<u>28,606,049</u>	<u>17,533,238</u>

Bank overdrafts are made up of:

Due to previous fellow subsidiary undertakings	-	736,433
Due to other banks	270,841	-
	<u>270,841</u>	<u>736,433</u>

Bank overdrafts are unsecured and repayable on demand.

# FIRST NATIONAL INVOICE FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1999

### 10. CALLED UP SHARE CAPITAL

	1999 £	1998 £
Authorised, issued and fully-paid share capital:		
700,000 "A" 13% cumulative redeemable preference shares of £1 each (non-equity)	700,000	700,000
1,550,000 ordinary shares of £1 each (equity)	1,550,000	1,550,000
	<u>2,250,000</u>	<u>2,250,000</u>

The holders of non-equity shares have the following rights:

preferential dividend at a rate of 13% per annum (see note 6).

on a return of assets the surplus assets of the company remaining after payment of its liabilities shall be applied first to repaying the amount paid up on each share plus any accrued dividend arrears.

fully paid up shares may be redeemed by the company at par with one month's notice.

the shares do not confer the right to receive notice of general meetings nor to attend or vote at such meetings.

### 11. RECONCILIATION OF SHAREHOLDERS' FUNDS

	1999 £	1998 £
Profit for the year	219,967	389,165
Opening shareholders funds	2,639,165	2,250,000
Shareholders funds at 31 December 1999	<u>2,859,132</u>	<u>2,639,165</u>

# **FIRST NATIONAL INVOICE FINANCE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31ST DECEMBER 1999**

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### **12. FINANCIAL COMMITMENTS**

Annual commitments under non-cancellable operating leases are as follows:

	<b>Land &amp; Buildings</b>	
	<b>1999</b>	<b>1998</b>
	<b>£</b>	<b>£</b>
Expire within 1 year	18,605	71,235
Expire between 2 and 5 years	68,750	64,000
Expire after 5 years	<u>25,277</u>	<u>-</u>
	<u><b>112,632</b></u>	<u><b>135,235</b></u>

The company has unprovided capital commitments at 31 December 1999 of £31,000 (1998: £168,000).

### **13. PROVISIONS FOR LIABILITIES AND CHARGES**

As at 31 December 1999 a deferred taxation asset amounting to £20,928 (1998: £48,685) exists in relation to excess depreciation over tax allowances claimed on fixed assets, but in accordance with Statement of Standard Accounting Practice No.15 no asset is recognised in the balance sheet.

### **14. CONTINGENT LIABILITIES**

There were no contingent liabilities at 31 December 1999 or at 31 December 1998.



## **FIRST NATIONAL INVOICE FINANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31ST DECEMBER 1999**

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#### **15. RELATED PARTY TRANSACTIONS**

Certain transactions with other group companies have not been disclosed as the company is a wholly-owned subsidiary of a group for which consolidated financial statements are publicly available.

#### **16. ULTIMATE PARENT COMPANY**

The ultimate parent company and controlling party is Abbey National plc, which is registered in England and Wales and which is the holding company of the only group for which group accounts are drawn up and of which First National Invoice Finance Limited is a member. Copies of the accounts are available to the public and may be obtained from its registered office at Abbey House, Baker Street, London NW11 6XL.