ABBEY NATIONAL MORTGAGES plc

REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1997

REGISTERED NUMBER 1989335

ABBEY NATIONAL MORTGAGES plc

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DIRECTORS AND OFFICERS

Directors	D P Priest	
	P I Shama	appointed 1 March 1998
	A C Townsend	appointed 1 March 1998
Secretary	L Nagrecha	
Registered office	Abbey House Baker Street London NW1 6XL	
Auditors	Coopers & Lybrand 1 Embankment Place London WC2N 6NN	

ABBEY NATIONAL MORTGAGES plc

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31 December 1997.

1. Activity

The principal activity of the company throughout the year was in relation to the granting of mortgage loans secured on residential properties within the United Kingdom. No changes to this activity are likely for the foreseeable future.

2. Review of the business

The company has traded satisfactorily during the year.

3. Results

The profit and loss account for the year ended 31 December 1997 is set out on page 6. The directors do not recommend the payment of a dividend (Year to 31 December 1996 - nil). The profit for the year after taxation of £10,000,000 was transferred to reserves (Year to 31 December 1996 - £5,783,000 profit).

4. Payment Policy

The company deals with a large number of suppliers operating in a diverse range of industries and accordingly does not operate a single payment policy in respect of all classes of suppliers, however the company is responsible for agreeing terms and conditions under which business is transacted and for making the supplier aware of these before business is entered into. It is company policy to ensure payments are made in accordance with the terms and conditions agreed except where a supplier fails to comply with those terms and conditions.

The company's average creditor payment period at 31 December 1997 was 12 days.

5. Statement of directors' responsibilities

The following statement is made with a view to distinguishing for shareholders the respective responsibilities of the directors and the auditors in relation to the accounts, and should be read in conjunction with the auditors' statement on page 5.

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those accounts, the directors are required to :

- select suitable accounting policies and then apply them consistently ;
- make judgements and estimates that are reasonable and prudent ;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts ;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that the accounts comply with the above requirements.

6. Directors and Directors' Interests

The directors during the year were as follows -

Y. Jetha	resigned 1 March 1998
S. Zins	resigned 1 March 1998
G. Long	resigned 1 March 1998
M. Pain	resigned 1 March 1998
D. Priest	appointed 17 June 1997

The directors appointed in 1998 were as follows -

A Townsend	appointed 1 March 1998
P Shama	appointed 1 March 1998

None of the directors had any beneficial interest in the shares of the company during the year.

The directors and their immediate families had the following beneficial interests in the ultimate parent company, Abbey National plc (other than those disclosed in that company's, HMC Group Plc's or HMC Services Ltd's, other Abbey National plc subsidiary, report and accounts)

	As at 1 January 1997		Options granted	Options exercised	As at 31 December 1997	
	10p ord shares	Options	during the year	during the year	10p ord shares	Options
Y. Jetha	6,770	54,128	16,911	1,569	2,848	69,470
S. Zins	1,643	12,995	18,144	7,845	410	23,294
G. Long	5,421	34,031	15,941	3,185	4,216	46,787
M. Pain	4,343	28,867	15,135	3,138	5,581	40,864

Options granted to directors under the ultimate holding company's Sharesave Scheme are exercisable at prices between 149p and 668p per share within six months of the fifth or seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme and Employee Share Option Schemes are exercisable at prices between 254p and 722p per share after three or five years and before 10 years from the date of the grant.

The ultimate parent company has entered into an insurance policy indemnifying both the company and its directors and officers against any liability in respect of any negligence, breach of trust or breach of duty.

7. Auditors

A resolution in accordance with Section 385 of the Companies Act 1985 for the re-appointment of Coopers & Lybrand as auditors of the company will be proposed at the forthcoming annual general meeting.

By Order of the Board

L Nagrecha
Company Secretary
16 June 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF ABBEY NATIONAL MORTGAGES plc

We have audited the accounts on pages 6 to 10.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the 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 issued by the Auditing Practices Board. 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 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 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.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants
Registered Auditors

London

25 June 1998

ABBEY NATIONAL MORTGAGES plc

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	notes	Year to 31 Dec 1997 £000	Year to 31 Dec 1996 £000
Interest income		45,392	49,391
Interest expense	2	(33,624)	(38,197)
		11,768	11,194
Other operating income		1,099	1,017
		12,867	12,211
Operating expenses		(2,792)	(3,208)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	10,075	9,003
Taxation	5	(75)	(3,220)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		10,000	5,783
PROFIT AND LOSS ACCOUNT BROUGHT FORWARD		36,095	30,312
PROFIT AND LOSS ACCOUNT CARRIED FORWARD		46,095	36,095

All activities are continuing activities and no gains or losses have been recognised for the current or preceding financial year other than those stated in the profit and loss account and therefore no separate statement of total recognised gains and losses has been prepared.

The company results as reported are on a historical cost basis. Accordingly, no note of historical cost profits and losses has been presented.

The notes on pages 8 to 10 form part of these accounts.

ABBEY NATIONAL MORTGAGES plc

BALANCE SHEET AT 31 DECEMBER 1997

	notes	31 December 1997 £000	31 December 1997 £000	31 December 1996 £000	31 December 1996 £000 restated
FIXED ASSETS					
Investments	6		150		150
MORTGAGE ASSETS	7		524,892		605,320
CURRENT ASSETS					
Debtors	8	3,633		1,060	
Cash at bank		514		1,044	
			4,147		2,104
			529,189		607,574
Financed by :					
SHAREHOLDERS' FUNDS					
Called up share capital	9		250		250
Profit and loss account			46,095		36,095
Equity shareholders' funds	12		46,345		36,345
CREDITORS					
Amounts falling due within one year	10	34,144		29,629	
Amounts falling due after one year	11	448,700		541,600	
			482,844		571,229
			529,189		607,574

The notes on pages 8 to 10 form part of these accounts.

These accounts were approved by the board of directors on 16 June 1998 and signed on their behalf by A C Townsend.

A C [signature]

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company accounts.

1.1 Accounting convention

The accounts are prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom.

1.2 Basis of presentation

Certain captions such as turnover and cost of sales, as prescribed in the Companies Act 1985, do not have meaningful equivalents for the business of the company. The precise format requirements of the Companies Act 1985 have been varied as, in the opinion of the directors, it is necessary in order to show a more appropriate view of the company's position.

1.3 Interest

Interest receivable and payable are accounted for on an accruals basis. Interest is suspended where due but not received on mortgage accounts in arrears where recovery is doubtful. The amounts suspended less recoveries of amounts suspended in previous years are excluded from interest receivable.

1.4 Deferred Taxation

Deferred taxation is accounted for only where it is probable that a liability or asset will arise. Provision is calculated at rates expected to be applicable when the asset or liability crystallises.

1.5 Loan Loss and Loan Loss Provision

Specific provisions are made against mortgage advances when, as a result of regular appraisals of the assets, it is considered that recovery is doubtful. A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified but which are known from experience to be present in any portfolio of loans and advances. The specific and general provisions are deducted from mortgage advances. Provisions made during the year less amounts released and recoveries of amounts written off in previous years, are charged to the profit and loss account.

1.6 Cash Flow Statement

The company is a wholly owned subsidiary of Abbey National plc, a company registered in England and Wales. Accordingly, the company is not required to produce a cash flow statement as prescribed in paragraph 5(a) of Financial Reporting Standard 1 (Revised 1996), Cash Flow Statements.

1.7 Pensions

Pensions are provided by means of a funded defined benefit scheme covering the Abbey National plc group as a whole 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.

1.8 Investment in Subsidiary Undertakings

Investments in subsidiary undertakings are stated at cost less any permanent diminution in value.

1.9 Related Parties

The company has taken advantage of the exemption available under paragraph 3(c) of Financial Reporting Standard 8. This exemption permits the non - disclosure of transactions and balances with related parties that are consolidated in the financial statements of Abbey National plc.

2.0 Restatement of comparatives

In addition, as a result of a review of the treatment of certain items previously classified within the captions Debtors and Creditors - amounts falling due within one year, comparative figures have been restated as described in Notes 8 and 10.

2. INTEREST EXPENSE

Interest expense represents amounts payable on short term borrowings from a fellow subsidiary undertaking all of which are repayable within 5 years and not by instalments.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging / (crediting) the following -

	Year to 31 Dec 1997 £000	Year to 31 Dec 1996 £000
General provisions	1,000	(500)
Specific provisions for loan loss and non accruals	1,303	37

The charge for auditors' remuneration is borne by a fellow subsidiary undertaking. Auditors' remuneration for non-audit work amounted to nil (Year to 31 December 1996 - nil)

4. DIRECTORS AND EMPLOYEES

The directors of the company received no remuneration in respect of their services to the company for the year ended 31 December 1997 (Year ended 31 December 1996 - nil).

No employees were employed by the company during the year ended 31 December 1997 (Year ended 31 December 1996 - nil).

5. TAXATION

			31 December 1997 £000	31 December 1996 £000
Current year	group relief payable at 31.5%		3,414	2,799
	deferred tax		21	7
			3,435	2,806
Prior year adjustments	corporation tax charge	7,640		
	less capital contribution	(11,000)		
	prior year tax credit		(3,360)	
	group relief			414
			75	3,220

The capital contribution reflects tax paid on behalf of the company by the previous parent CIBC. The excess of the contribution over the liability reflects the terms of the purchase agreement entered into on the acquisition of the company from CIBC.

The movement on deferred taxation is set out below. In 1996 there was a deferred tax asset as depreciation was in excess of taxation allowances and is shown in note 8.

Deferred taxation at 1 January	21	28
Transfer to profit and loss (see above)	(21)	(7)
Deferred taxation at 31 December	0	21

6. INVESTMENTS

	31 December 1997 £000	31 December 1996 £000
Investments in subsidiaries	150	150

	Number	Par value	Nature of business
MAES (Holdings) Limited	50,100	£1 ordinary shares	holding company
MAES Funding No 1 plc	50,000	£1 ordinary shares	mortgage funding
MAES Funding No 2 plc	50,000	£1 ordinary shares	mortgage funding
	150,100		

The investments represent 100% of the authorised and issued share capital of the above companies, all of which are registered in England and Wales.

Consolidated financial statements have not been prepared because the company has taken advantage of the exception in s228(1) Companies Act 1985 because it is itself a wholly owned subsidiary of another company incorporated in Great Britain which publishes group accounts.

7. MORTGAGE ASSETS

Mortgage assets comprise loans secured on residential properties in the United Kingdom.

	31 December 1997 £000	31 December 1996 £000
As at 1 January 1997	597,643	680,963
Redemptions, repayments and realisation of security	(78,712)	(83,320)
As at 31 December 1997	518,931	597,643
Accrued interest	9,404	9,327
Mortgage assets (including accrued interest)	528,335	606,970
Provisions for non-accrual and loan loss	(3,443)	(1,650)
	524,892	605,320

Under pool insurance written in the UK 85% (Year to 31 December 1996 - 83%) of the company's mortgage advances are substantially protected against losses, save only for the self - insurance equal to 0.5% of the insured portfolio.

8. DEBTORS

	31 December 1997 £000	31 December 1996 £000 restated
Amounts due from parent company	3580	689
Other debtors, prepayments and accrued income	53	350
Deferred tax (see note 5)	0	21
	3,633	1,060

Following a review of the company's corporation tax balances during the year, an amount of £414,000 classified in the 1996 accounts as Group relief payable has been reclassified as corporation tax payable. As a consequence, the corporation tax recoverable of £111,000 shown in the 1996 accounts has become a liability of £303,000 and group relief payable has been reduced by £414,000. The comparative figures have been restated accordingly. See also Note 10.

NOTES TO THE ACCOUNTS

9. SHARE CAPITAL

	31 December 1997 £000	31 December 1996 £000
Authorised		
250,000 ordinary shares of £1 each	250	250
Allotted, called up and fully paid		
250,000 ordinary shares of £1 each	250	250

10. CREDITORS - Amounts falling due within one year

	31 December 1997 £000	31 December 1996 £000 restated
Amounts owed to fellow subsidiary undertakings	6,806	23,490
Amount due to subsidiary undertakings	21,874	2,974
Group relief payable	3,414	2,799
Corporation tax	303	303
Other creditors	1,747	63
	34,144	29,629

Amounts owed to fellow subsidiary undertakings which were previously shown as all being due within one year have now been analysed between amounts due within one year and after one year to reflect more accurately the nature of the funding. Comparatives have been restated to match this treatment. See also note 11.

The 1996 comparative figures for Group relief payable and Corporation tax have been restated as described in Note 8.

11. CREDITORS - Amounts falling due after one year

	31 December 1997 £000	31 December 1996 £000
Amounts owed to fellow subsidiary undertakings	448,700	541,600

Interest is payable on the amounts owed to fellow subsidiary undertakings based upon prevailing market rates.

There were no repayment obligations outstanding at 31 December 1997.

12. RECONCILIATION OF SHAREHOLDERS' FUNDS

	31 December 1997 £000	31 December 1996 £000
Equity shareholders funds at 1 January	36,345	30,562
Profit for financial year	10,000	5,783
Equity shareholders funds at 31 December	46,345	36,345

13. ULTIMATE PARENT COMPANY

The immediate parent company is Abbey National plc, a company incorporated in Great Britain. The ultimate parent company is Abbey National plc, a company incorporated in Great Britain. Group financial statements for Abbey National plc are available from the Company Secretary, Abbey National plc, Abbey House, Baker Street, London NW1 6XL.

The directors consider Abbey National plc to be the ultimate controlling party.