

**ABBHEY NATIONAL MORTGAGES plc**  
**REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31ST DECEMBER 1995**  
**Registered No. 1989335**



## **ABBEY NATIONAL MORTGAGES plc**

### **Contents**

	<b><u>Page</u></b>
1. Report of the Directors	2 - 4
2. Report of the Auditors	5
3. Profit and Loss Account	6
4. Balance Sheet	7
5. Notes to the Financial Statements	8 - 14

**ABBEY NATIONAL MORTGAGES plc**  
**DIRECTORS' REPORT**

The Directors present their annual report and audited financial statements for the year ended 31st December 1995

**PRINCIPAL ACTIVITIES**

The principal activity of the Company throughout the period 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.

**BUSINESS REVIEW**

On 5th July 1995 the Company repurchased £114m of mortgages from subsidiary undertakings.

**RESULTS AND DIVIDEND**

The results for the period are shown in the profit and loss account on page 6. The Directors do not recommend payment of a dividend (1994 : £Nil). The Directors propose to transfer an amount of £7,691,000 to the profit and loss account reserve.

**DIRECTORS AND DIRECTORS' INTERESTS**

The Directors who served during the period were :

R.F.Knighton	
Y. Jetha	
S. Hutchison	
G. Long	
O. O'Shea	( resigned 14th July 1995 )
M. Pain	( appointed 14th July 1995 )

**ABBEY NATIONAL MORTGAGES plc**  
**DIRECTORS' REPORT (continued)**

**DIRECTORS AND DIRECTORS' INTERESTS (continued)**

None of the Directors had a beneficial interest in the shares of the Company at the year end. The Directors' interests in the shares of the ultimate parent company, Abbey National plc, ( other than disclosed in that company's financial statements) were :

	As at 1st January 1995 (or date of appointment if later)		Options granted during the year or since appointment	Options exercised during the year or since appointment	As at 31st December 1995	
	10p Ord Shares	Options			10p Ord Shares	Options
Y. Jetha	3,477	40,433	21,418	7,248	8,087	54,603
G. Long	1,851	10,432	15,918	7,248	7,551	19,102
S. Hutchison	1,593	7,845	-	-	1,593	7,845
M. Pain	2,725	18,941	-	-	2,725	18,941

Options granted to Directors under the holding company's Sharesave Scheme are exercisable at prices between 232p and 428p per share within six months of the fifth or seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme are exercisable at prices between 314p and 483p per share after three years or five years and before 10 years from the date of the grant.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of its profit or loss for that year. In preparing those financial statements, 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 financial statements;

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue its business.

**ABBAY NATIONAL MORTGAGES plc**  
**DIRECTORS' REPORT (continued)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)**

The Directors are responsible for maintaining 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 safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

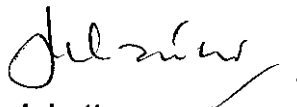
**DIRECTORS' LIABILITY INSURANCE**

During the period the Company arranged insurance cover for Directors' and officers' liability, as permitted by Section 310 (3) of the Companies Act 1985.

**AUDITORS**

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of Coopers & Lybrand as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

  
J. Latter  
Company Secretary

Registered Office  
Abbey House  
Baker Street  
London  
NW1 6XL  
21st February 1996

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

We have audited the financial statements on pages 6 to 14 in accordance with Auditing Standards.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As described on page 3 the Company's Directors are responsible for the preparation of financial statements. 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 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 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 affairs of the Company as at 31st December 1995 and of its profit, and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Coopers & Lybrand*

Coopers & Lybrand  
Chartered Accountants and  
Registered Auditors  
London

*21 February 1996*

**ABBEEY NATIONAL MORTGAGES plc**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**14 Months Ended**  
**31st December**

	<b><u>Note</u></b>	<b><u>1995</u></b> <b><u>£000</u></b>	<b><u>1994</u></b> <b><u>£000</u></b>
Interest income		56,079	64,768
Interest expense	2	<u>(42,408)</u>	<u>(36,208)</u>
<b>NET INTEREST INCOME</b>		13,671	28,560
Income from securitisation vehicles	3	-	12,635
Other income		<u>1,073</u>	<u>1,233</u>
<b>TOTAL OPERATING INCOME</b>		14,744	42,428
Operating expenses		<u>(4,003)</u>	<u>(9,191)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	4	10,741	33,237
Tax charge on profit on ordinary activities	6	<u>(3,050)</u>	<u>(11,297)</u>
<b>PROFIT FOR FINANCIAL PERIOD</b>		7,691	21,940
Retained profit brought forward		<u>22,621</u>	<u>681</u>
<b>RETAINED PROFIT CARRIED FORWARD</b>		<u><u>30,312</u></u>	<u><u>22,621</u></u>

These accounts have been prepared on the basis of all activities continuing.

There were no recognised gains or losses in the period (1994 : £Nil) other than those shown in the profit and loss account.

There is no difference between the loss on ordinary activities before tax and the retained loss for the period stated above and their historical cost equivalents.

The notes on pages 8 to 14 form part of these accounts.

**ABBHEY NATIONAL MORTGAGES plc**  
**BALANCE SHEET AS AT 31ST DECEMBER 1995**

		<u>1995</u>		<u>1994</u>	
	<u>Note</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
<b>FIXED ASSETS</b>					
Tangible assets	7		22		47
Investments	8		150		150
<b>MORTGAGE ASSETS</b>	9		693,074		658,358
<b>CURRENT ASSETS</b>					
Debtors	10	259,947		2,055	
Cash at bank and in hand		<u>699</u>		<u>1,048</u>	
			260,646		3,103
<b>CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	11		<u>(923,330)</u>		<u>(638,630)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			30,562		23,028
Provision for liabilities and charges	12		<u>-</u>		<u>(157)</u>
			<u>30,562</u>		<u>22,871</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	13		250		250
Profit and loss account			<u>30,312</u>		<u>22,621</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>			<u>30,562</u>		<u>22,871</u>

These accounts were approved by the Board of Directors on 21st February 1996  
and signed on its behalf by :

Y. Jetha (Director)

The notes on pages 8 to 14 form part of these accounts



**ABBEY NATIONAL MORTGAGES plc**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**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's financial statements :

**(a) Accounting Convention**

The financial statements are prepared under the historical cost convention in accordance with the Companies Act 1985, and applicable U.K accounting standards.

**(b) Turnover**

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.

**(c) 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.

**(d) Depreciation**

Depreciation is provided so as to write off the cost of tangible fixed assets, less their residual values, on a straight line basis over the expected economic lives of the assets concerned. The principal annual rates used for this purpose are :

Computer equipment	25.0%	per annum
Office Equipment	12.5%	per annum
Furniture	12.5%	per annum

**(e) 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.

**ABBEY NATIONAL MORTGAGES plc**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**1. PRINCIPAL ACCOUNTING POLICIES (continued)**

**(f) 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 period less amounts released and recoveries of amounts written off in previous years, are charged to the profit and loss account.

**(g) Cash Flow Statement**

The Company is a wholly owned subsidiary of Abbey National plc, a company incorporated in England and Wales. Accordingly, the Company is not required to produce a cash flow statement as prescribed in paragraph 8(c) of Financial Reporting Standard 1, Cash Flow statements.

**(h) 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.

**(i) Investment in subsidiary undertakings**

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

**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 not by instalments.

**3. SECURITISATION VEHICLES**

A substantial proportion of the mortgage portfolio originated by Abbey National Mortgages plc was securitised within the MAES group of companies (MAES (Holdings) Limited and its subsidiaries). The income from these mortgages comprised deferred consideration, origination fees and administration fees.

**ABBAY NATIONAL MORTGAGES plc**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

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

	<b><u>1995</u></b> <b><u>£000</u></b>	<b><u>1994</u></b> <b><u>£000</u></b>
(Profit) on disposal of fixed assets	-	(1)
Write off of fixed assets	-	58
Depreciation	25	191
Auditors remuneration	-	61
Specific provisions for loan loss and non accrual	941	(5,968)

Auditors remuneration for non audit work amounted to £Nil (1994 : £15,000). The charge for auditors' remuneration for the year ended 31st December 1995 is borne by a fellow subsidiary undertaking.

**5. DIRECTORS AND EMPLOYEES**

The Directors of the Company received no remuneration for the period ended 31st December 1995 (1994: £Nil).

The average number of persons (excluding Directors) employed within the Company during the period, analysed by category, was :

	<b><u>1995</u></b>	<b><u>1994</u></b>
Management	-	2
Operations	-	6
	<u>-</u>	<u>8</u>

The aggregate payroll costs of these persons were as follows :

	<b><u>1995</u></b> <b><u>£000</u></b>	<b><u>1994</u></b> <b><u>£000</u></b>
Wages and salaries	-	200
Social security costs	-	30
Other pension costs	-	10
	<u>-</u>	<u>240</u>

On 1st April 1994 all staff employed by the Company were transferred to Abbey National plc, and have been working for a fellow subsidiary undertaking on secondment to that company from that date. The above staff numbers and costs relate to staff employed by the Company until 1st April 1994.

**ABBAY NATIONAL MORTGAGES plc**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**6. TAXATION**

Taxation charge based on the profit for the period of the Company :

	<u>1995</u>		<u>1994</u>	
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
-Group relief	3,541		11,361	
-Deferred tax	4		(65)	
	<hr/>	3,545	<hr/>	11,296
Prior year and group relief adjustments				
-Corporation tax	(8,938)		1	
-Group relief	8,443		-	
	<hr/>	(495)	<hr/>	1
		<hr/>		<hr/>
		3,050		11,297
		<hr/>		<hr/>

The amounts of deferred taxation accounted for at the balance sheet date were as follows :

	<u>1995</u>	<u>1994</u>
	<u>£000</u>	<u>£000</u>
Capital allowances and depreciation (See note 10)	28	32
	<hr/>	<hr/>

**7. FIXED ASSETS**

	<u>Computer Equipment £000</u>	<u>Furniture &amp; Office machinery £000</u>	<u>Total £000</u>
<u>Cost :</u>			
As at 31st December 1995 and 1994	427	202	629
	<hr/>	<hr/>	<hr/>
<u>Accumulated depreciation :</u>			
As at 31st December 1994	427	155	582
Charge for the period	-	25	25
As at 31st December 1995	427	180	607
	<hr/>	<hr/>	<hr/>
<u>Net book value :</u>			
As at 31st December 1995	-	22	22
	<hr/>	<hr/>	<hr/>
As at 31st December 1994	-	47	47
	<hr/>	<hr/>	<hr/>

**ABBEY NATIONAL MORTGAGES plc**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**8. INVESTMENTS**

	<u>Number</u>	<u>Par Value</u>	<u>Nature of Business</u>
MAES (Holdings) Limited	50,100	£1	Holding Company
MAES Funding No 1 plc	50,000	£1	Mortgage Funding
MAES Funding No 2 plc	50,000	£1	Mortgage Funding
	<u>150,100</u>		

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

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.

**9. MORTGAGE ASSETS**

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

	<u>1995</u> <u>£000</u>	<u>1994</u> <u>£000</u>
At the beginning of the period	643,997	610,516
Redemptions, repayments and realisation of security	(76,548)	(94,085)
Purchases from subsidiary undertakings	113,514	166,737
Sales to former parent company	-	(39,171)
At the end of the period	<u>680,963</u>	<u>643,997</u>
Accrued interest	15,837	19,995
Mortgage assets (including accrued interest)	<u>696,800</u>	<u>663,992</u>
Provisions for non-accrual and loan loss	<u>(3,726)</u>	<u>(5,634)</u>
	<u>693,074</u>	<u>658,358</u>

In addition to the provisions shown above, further provisions are maintained in provisions for liabilities and charges (see note 12)

Under pool insurance written in the U.K. 80% (1994 : 68%) 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.

**ABBEY NATIONAL MORTGAGES plc**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**10. DEBTORS : AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<u>1995</u> <u>£000</u>	<u>1994</u> <u>£000</u>
Amounts due from parent company and fellow subsidiary undertakings	258,255	86
Amounts due from subsidiary undertakings	689	666
Other debtors, prepayments and accrued income	864	1,271
Corporation tax	111	-
Deferred Tax	28	32
	<u>259,947</u>	<u>2,055</u>

**11. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<u>1995</u> <u>£000</u>	<u>1994</u> <u>£000</u>
Amounts owed to parent company and fellow subsidiary undertakings	916,814	626,873
Amounts due to subsidiary undertakings	3,284	-
Group relief payable	3,157	11,361
Other creditors	75	396
	<u>923,330</u>	<u>638,630</u>

**12. PROVISIONS FOR LIABILITIES AND CHARGES**

Provisions for liabilities and charges include amounts in respect of the Company's liability for loan losses on the securitised mortgages (see note 3).

	<u>1995</u> <u>£000</u>	<u>1994</u> <u>£000</u>
At the beginning of the period	157	5,226
Movement in period	(157)	(5,069)
At the end of the period	<u>-</u>	<u>157</u>

**ABBAY NATIONAL MORTGAGES plc**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 1995**

**13. SHARE CAPITAL**

	<b><u>1995</u></b> <b><u>£000</u></b>	<b><u>1994</u></b> <b><u>£000</u></b>
Authorised :		
250,000 ordinary shares of £1 each	250	250
Allotted, called up and fully paid	250	250

**14. RECONCILIATION OF SHAREHOLDERS' FUNDS**

	<b><u>1995</u></b> <b><u>£000</u></b>	<b><u>1994</u></b> <b><u>£000</u></b>
Shareholders funds at 1 January	22,871	931
Profit for the financial period	7,691	21,940
Shareholders funds at 31 December	30,562	22,871

**15. IMMEDIATE AND ULTIMATE HOLDING COMPANIES**

The Company's ultimate holding company is Abbey National plc, a company registered in England. Group financial statements for Abbey National plc are available from Abbey House, Baker Street, London NW1 6XL.