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**ABBHEY NATIONAL MORTGAGES PLC**

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**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 DECEMBER 2001**



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**ABBAY NATIONAL MORTGAGES PLC**

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**COMPANY INFORMATION**

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**DIRECTORS**

I N Camp  
D G Milton

**SECRETARY**

Abbey National Secretariat Services Limited

**COMPANY NUMBER**

1989335

**REGISTERED OFFICE**

First National House  
College Road  
Harrow  
Middlesex  
HA1 1FB

**AUDITORS**

Deloitte & Touche  
Chartered Accountants & Registered Auditors  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

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# ABBAY NATIONAL MORTGAGES PLC

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## **ABBAY NATIONAL MORTGAGES PLC**

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### **DIRECTORS' REPORT** **For the year ended 31 December 2001**

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The directors present their report and the financial statements for the year ended 31 December 2001.

#### **PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS**

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, and it is expected that this will continue for the foreseeable future.

The results for the year are set out in the profit and loss account on page 4. The financial position of the Company is set out in the balance sheet. During the year, the Company has traded satisfactorily.

#### **RESULTS AND DIVIDENDS**

The profit for the year, after taxation, amounted to £7.9m (2000 - £9.2m).

An interim dividend of £33 million was paid during the year (2000 - £nil).

#### **DIRECTORS**

The directors who served throughout the year were:

I N Camp  
D G Milton

Further information relating to the directors' interest can be found in the note 4 to the accounts.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom 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 the profit or loss of the Company for that period. 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; and
- prepare the financial statements 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **AUDITORS**

At the forthcoming Annual General Meeting of the Company it will be proposed that Deloitte & Touche be re-appointed as auditors of the Company, in accordance with the resolution by Abbey National plc to appoint Deloitte & Touche as auditors of Abbey National plc and its subsidiaries.

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**ABBAY NATIONAL MORTGAGES PLC**

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**DIRECTORS' REPORT**  
**For the year ended 31 December 2001**

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This report was approved by the Board of Directors on  
behalf.

25 July 2002

and signed on its



**Abbey National Secretariat Services Limited**  
Secretary

Registered Office  
First National House  
College Road  
Harrow  
Middlesex  
HA1 1FB

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## ABBEY NATIONAL MORTGAGES PLC

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### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABBEY NATIONAL MORTGAGES PLC

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We have audited the financial statements of Abbey National Mortgages plc for the year ended 31 December 2001 which comprise the profit and loss account, balance sheet and related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards. We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

#### 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 as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

**Deloitte & Touche**  
Chartered Accountants and  
Registered Auditors  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

*29 July 2002*

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**ABBAY NATIONAL MORTGAGES PLC**

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**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2001**

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	Note	2001 £000	2000 £000
<b>Net interest receivable</b>		<b>22,184</b>	<b>25,611</b>
Interest payable		(10,672)	(16,182)
<b>GROSS PROFIT</b>		<b>11,512</b>	<b>9,429</b>
Operating expenses		98	(379)
Operating income	2	191	648
Provision for doubtful debts		(339)	2,354
<b>OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3	<b>11,462</b>	<b>12,052</b>
<b>TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	5	<b>(3,514)</b>	<b>(2,893)</b>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>7,948</b>	<b>9,159</b>
<b>DIVIDENDS</b>	6	<b>(33,000)</b>	<b>-</b>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED FOR THE YEAR</b>	13	<b>(25,052)</b>	<b>9,159</b>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2001 or 2000 other than those included in the profit and loss account.

The notes on pages 6 to 11 form part of these financial statements.

**ABBAY NATIONAL MORTGAGES PLC**

**BALANCE SHEET**  
**As at 31 December 2001**

	Note	2001 £000	2000 £000
<b>FIXED ASSETS</b>			
Investments in subsidiaries	7	150	150
Long term mortgage advances	8	233,955	295,854
		<u>234,105</u>	<u>296,004</u>
<b>CURRENT ASSETS</b>			
Debtors	9	84	94
Cash at bank		1,304	811
		<u>1,388</u>	<u>905</u>
<b>CREDITORS:</b> amounts falling due within one year	10	(36,670)	(32,009)
<b>NET CURRENT LIABILITIES</b>		<u>(35,282)</u>	<u>(31,104)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>198,823</u>	<u>264,900</u>
<b>CREDITORS:</b> amounts falling due after more than one year	11	(188,017)	(229,042)
<b>NET ASSETS</b>		<u><u>10,806</u></u>	<u><u>35,858</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	250	250
Profit and loss account	13	10,556	35,608
<b>SHAREHOLDERS' FUNDS - All Equity</b>	14	<u><u>10,806</u></u>	<u><u>35,858</u></u>

The financial statements were approved by the Board of Directors on *25<sup>th</sup> July 2002* and signed on its behalf.

  
Director  
*I. N. CAMP.*

The notes on pages 6 to 11 form part of these financial statements.



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## ABBNEY NATIONAL MORTGAGES PLC

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### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2001

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#### 1. 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 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and are prepared in accordance with applicable United Kingdom accounting standards.

##### 1.2 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 are excluded from interest receivable on mortgage until recovered.

##### 1.3 Deferred taxation

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

##### 1.4 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.

##### 1.5 Long term mortgage advances

Long term mortgage advances are stated at cost, less any provision for impairment, as a result of regular appraisals of the assets.

##### 1.6 Value added tax

Value added tax is largely irrecoverable by the Company and is normally included with its related cost.

#### 2. OPERATING INCOME

	2001 £000	2000 £000
Other operating income	191	648

#### 3. OPERATING PROFIT

There is no charge in this year's financial statements for auditors' remuneration as the fee is to be charged in the financial statements of another Abbey National plc group undertaking (2000 - £nil).

# **ABBNEY NATIONAL MORTGAGES PLC**

## **NOTES TO THE FINANCIAL STATEMENTS** For the year ended 31 December 2001

### **4. DIRECTORS' INTERESTS**

Neither of the director had a beneficial interest in the shares of the Company at the year end. The interests of I N Camp and D G Milton in the shares of the ultimate parent undertaking, Abbey National plc were as follows:

#### **Ordinary Shares of 10 pence each**

	<i>As at 01 January 2001</i>	<i>As at 31 December 2001</i>
	<i>(i)</i>	
I N Camp	66	66
D G Milton	67	3,768

#### **Options Schemes - Ordinary shares of 10 pence each**

	<i>As at</i> <i>01 January 2001</i>	<i>Options</i> <i>granted</i> <i>during year</i>	<i>Options</i> <i>exercised</i> <i>during year</i>	<i>As at</i> <i>31 December 2001</i>	
	<i>(i)</i>	<i>(i)</i>	<i>(i)</i>	<i>(i)</i>	Type
I N Camp	300	625	-	925	Employee
	3,289	-	-	3,289	Sharesave
	<u>3,589</u>	<u>625</u>	<u>-</u>	<u>4,214</u>	
D G Milton	3,701	1,862	3,701	1,862	Sharesave
	300	625	-	925	Employee
	14,247	5,423	-	19,670	Executive
	<u>18,248</u>	<u>7,910</u>	<u>3,701</u>	<u>22,457</u>	

(i) or date of appointment if later

Options granted to Directors under the Abbey National Sharesave Schemes are exercisable between 466 and 906 pence per share within six months of the third, fifth or seventh anniversary of the contract start date. Options granted under the Executive Share Options and Employee Share Option Schemes are exercisable at prices between 590 pence and 1306 pence per share after three years or five years and before ten years from the date of grant.

Shares in respect of Executive Share Options granted in 2001 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 2001, the Trust held 5,890,235 ordinary shares (2000 - 4,323,411 shares).

Abbey National also operates a Partnership Share Scheme under its Employee Share Option Scheme. This is available to all eligible employees, including the directors named above. Under this scheme, participants may make 12 monthly contributions up to a maximum of £1,500 per annum, to acquire shares in Abbey National. These shares may be purchased within 30 days from 31 May 2002 at their market value on 1 June 2001 or, if lower, their market value on or shortly after 31 May 2002. The number of shares which may be acquired under the scheme, calculated on the basis of the maximum contribution and the share price on 1 June 2001 (£12.35), is 121 shares. If the share price at 31 May 2002 (or shortly after) is lower than £12.35, then the number of shares which may be acquired, may be more than 121 shares. On the basis of the share price at 31 December 2001 (£9.80), 153 shares would be the maximum number of

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 December 2001

the shares that could be acquired under the scheme.

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 2001, the Employee Trust held 604,362 ordinary shares (2000 - 604,362 shares).

There were no employees of the Company during the year (2000 - nil). Other group undertakings hold the contracts of service of the directors and are responsible for their remuneration. During the year, neither directors received emoluments in respect of services rendered to the Company (2000 - £nil).

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £000	2000 £000
<b>UK corporation tax</b>		
Current tax on income	3,499	2,864
Adjustments in respect of prior year	15	29
	<u>3,514</u>	<u>2,893</u>

6. DIVIDENDS

	2001 £000	2000 £000
Total dividends paid	<u>33,000</u>	<u>-</u>

During the year, the Company paid an interim dividend (2000 - £nil).

7. Investments in subsidiaries

	£000
<b>Cost</b>	
At 1 January 2001 and 31 December 2001	<u>150</u>
<b>Depreciation</b>	
At 1 January 2001 and 31 December 2001	<u>-</u>
<b>Net book value</b>	
At 31 December 2001	<u>150</u>
At 31 December 2000	<u>150</u>

The following were subsidiary undertakings of the Company:

Maes (Holding) Limited	Not trading
Maes Funding No 1 Limited	Not trading

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**ABBAY NATIONAL MORTGAGES PLC**

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2001**

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Maes Funding No 2 Limited

Not trading

All of the above companies have a year end of 31 December and were registered in England and Wales. The Company owns 100% interest in the ordinary shares of all the companies mentioned above.

The aggregate of the share capital and reserves as at 31 December 2001 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	Nature of business	Aggregate of share capital and reserves £000	Profit/(loss) £000
Maes (Holdings) Limited	holding company	50	(185)
Maes Funding No 1 Limited	mortgage funding	50	-
Maes Funding No 2 Limited	mortgage funding	50	-
		<hr/>	<hr/>

Group accounts have not been prepared as the Company is itself a subsidiary of a company for which group accounts have been prepared. Accordingly, the accounts present information about the Company alone.

**8. LONG TERM MORTGAGE ADVANCES**

	£000
<b>Cost</b>	
At 1 January 2001	296,517
Accrued interest	15,833
Less-redemptions and removals during the year	(77,922)
	<hr/>
At 31 December 2001	234,428
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<b>Provisions for non-accruals and loan loss</b>	
At 1 January 2001	663
Charge for the year	(190)
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At 31 December 2001	473
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<b>Net book value</b>	
At 31 December 2001	233,955
	<hr/>
At 31 December 2000	295,854
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**ABBNEY NATIONAL MORTGAGES PLC**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2001

**9. DEBTORS**

	2001 £000	2000 £000
<b>Due within one year</b>		
Other debtors	98	94
Prepayments and accrued income	(14)	-
	<u>84</u>	<u>94</u>

**10. CREDITORS:**  
**Amounts falling due within one year**

	2001 £000	2000 £000
Amounts owed to group undertakings	31,526	25,908
Corporation tax	1,522	2,419
Other creditors	3,123	2,120
Accruals and deferred income	499	1,562
	<u>36,670</u>	<u>32,009</u>

**11. CREDITORS:**  
**Amounts falling due after more than one year**

Creditors include amount wholly repayable within 1-2 years as follows:

	2001 £000	2000 £000
Amounts owed to group undertakings	<u>188,017</u>	<u>229,042</u>

Interest is payable on the loans due to fellow subsidiary undertakings based upon prevailing market rates. There were no repayment obligations outstanding at 31 December 2001.

**12. SHARE CAPITAL**

	2001 £000	2000 £000
<b>Authorised, allotted, called up and fully paid:</b>		
250,000 Ordinary shares of £1 each	<u>250</u>	<u>250</u>

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**ABBNEY NATIONAL MORTGAGES PLC**

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**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2001**

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**13. RESERVES****Profit and loss account**

At 1 January 2001	35,608
Loss retained for the year	(25,052)
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At 31 December 2001	10,556
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**14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2001 £000	2000 £000
Profit for the year	7,948	9,159
Dividends	(33,000)	-
	<hr/>	<hr/>
	(25,052)	9,159
Opening shareholders' funds	35,858	26,699
	<hr/>	<hr/>
Closing shareholders' funds	10,806	35,858
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**15. RETIREMENT BENEFITS**

The Company is unable to identify its share of the underlying assets and liabilities of the various pension schemes in operation throughout the Abbey National Group and has, therefore, accounted for its contributions to the pension schemes as if they were defined contribution schemes. Details of the pension schemes appear in the accounts of Abbey National plc.

**16. CASH FLOW STATEMENTS**

A cash flow statement has not been prepared as the Company is a member of a group which prepares a consolidated cash flow statement.

**17. RELATED PARTY TRANSACTIONS**

Certain transactions with other group companies which are 90% or more owned within the same group have not been disclosed as the Company is a wholly owned subsidiary undertaking of a group for which consolidated accounts are publicly available.

**18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The Company's ultimate parent company and ultimate controlling party is Abbey National plc, a company incorporated in Great Britain. Abbey National plc is the parent undertaking of the smallest and largest group which includes the Company and for which group accounts are prepared. The Company's immediate parent is Abbey National Bank plc.

Copies of the group financial statements of Abbey National plc are available from the Company Secretary, Abbey National House, 2 Triton Square, Regent's Place, London NW1 3AN.