

ABBAY NATIONAL HOMES LIMITED

**Registered in England and Wales
No. 2055102**

REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2005**



ABBEY NATIONAL HOMES LIMITED

Report of the directors

The Directors submit their report together with the accounts for the year ended 31 December 2005.

Principal activity and review of the year

The principal activities of the company continue to be the development and sale of residential properties.

The Directors do not expect any significant change in the level of business in the foreseeable future.

Dividend

The loss for the year on ordinary activities after tax amounted to £133,461 (2004: loss £55,215).

The Directors do not recommend the payment of a dividend (2004: £nil).

Directors and their interests

The Directors who served throughout the year, except as noted, were:

Mr D Y H Gilchrist
Mr R V Jones
Mr J F O'Mahoney

No Director of the Company has any interest in the shares of the Company, or of other Group Companies incorporated in Great Britain.

Directors' responsibility statement

The directors are responsible for preparing their report and financial statements. The directors have chosen to prepare accounts for the company in accordance with International Financial Reporting Standards (IFRSs). Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

ABBEY NATIONAL HOMES LIMITED

Report of the directors (continued)

Auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte & Touche LLP are therefore deemed to have been re-appointed as auditors of the Company.

By Order of the Board



For and on behalf of
Abbey National Secretariat Services Limited, Secretary

31 January 2006

Abbey National House, 2 Triton Square, Regent's Place, London NW1 3AN

ABBEEY NATIONAL HOMES LIMITED

Independent auditors' report to the members of Abbey National Homes Limited

We have audited the individual company financial statements (the "financial statements") of Abbey National Homes Limited for the year ended 31 December 2005, which comprise the income statement, the balance sheet, the cash flow statement and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you 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 and other members of the group is not disclosed.

We also report if, in our opinion, the directors' report is not consistent with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company 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 in accordance with those International Financial Reporting Standards as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

31 January 2006

ABBEY NATIONAL HOMES LIMITED

Primary statements

Income Statement

For the year ended 31 December 2005

	Notes	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Continuing operations			
Revenue	3	23,953	136,625
Gross Profit		23,953	136,625
Administrative expenses		(2,973)	(3,253)
Profit from operations	4	20,980	133,372
Investment income	5	111,924	102,226
Finance costs	6	(323,563)	(314,477)
Loss before tax		(190,659)	(78,879)
Tax	7	57,198	23,664
Net loss attributable to equity holders of the parent		(133,461)	(55,215)

The Company has no recognised income or expenses other than the results for the current and previous year as set out above.

All the activities of the Company are classed as continuing.

ABBEY NATIONAL HOMES LIMITED

Primary statements

Balance Sheet

As at 31 December 2005

	Notes	2005 £	2004 £
Current Assets			
Trade and other receivables	8	1,929,478	1,929,163
Tax assets	9	865	865
Cash and cash equivalents		4,164,916	4,046,650
		6,095,259	5,976,678
Current liabilities			
Trade and other payables	10	(42,003,101)	(41,751,059)
Net current liabilities		(35,907,842)	(35,774,381)
Net liabilities		(35,907,842)	(35,774,381)
Equity			
Capital and Reserves			
Share capital	12	100	100
Retained earnings	13	(35,907,942)	(35,774,481)
Total equity shareholders' deficit		(35,907,842)	(35,774,381)

The financial statements were approved by the board of directors and authorised for issue on 31 January 2006. They were signed on its behalf by: *J. O'Mahoney*.

L F O Mar
Director

ABBEY NATIONAL HOMES LIMITED

Primary statements

Cash Flow Statement

For the Year ended 31 December 2005

	Notes	Year ended 31 December 2005 £	Year ended 31 December 2004 £
Net cash from operating activities	14	118,266	102,792
Net increase in cash and cash equivalents		118,266	102,792
Cash and cash equivalents at beginning of year		4,046,650	3,943,858
Cash and cash equivalents at end of year		4,164,916	4,046,650

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2005

1. Accounting Policies

Adoption of International Accounting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The adoption of IFRS has not resulted in any differences from the financial statements as reported under UK GAAP that require disclosure under IFRS1.

The principal accounting policies applied in the preparation of financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Income taxes, including deferred income taxes

Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term investments in securities.

Financial liabilities

Financial liabilities are measured at amortised cost, except for trading liabilities, which are held at fair value through profit or loss.

Borrowings

Borrowings are recognised initially at fair value, being the proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2005

2. Financial risk factors

The company's activities expose it to a variety of financial risks: credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by the central risk management function of the Abbey Group. Authority flows from the Abbey National plc Board of Directors to the Chief Executive Office and from him to his direct reports. Delegation of authority is to individuals. Formal standing committees are maintained for effective management or oversight. Their authority is derived from the person they are intended to assist.

Credit risk

Maximum credit exposure amounts are disclosed in full in the following notes.

Equity participation loans are secured by charges on properties in a spread of UK locations.

Liquidity, cash flow and fair value interest rate risk

The Company has no liabilities other than with its immediate parent undertaking, Abbey National plc. The majority of its liabilities are currently non-interest bearing.

3. Revenue

An analysis of the Company's revenue is as follows:

	2005 £	2004 £
Continuing operations		
Increase in property values recovered from customers	12,200	136,625
Movement in provision for bad and doubtful debts	11,753	-
Total revenue	23,953	136,625

4. Profit from operations

Auditors' remuneration for the current and previous financial years has been borne by the Company's immediate parent undertaking, Abbey National plc.

Directors' emoluments are borne by the immediate parent undertaking, Abbey National plc. No emoluments were paid to the Directors in the current or previous financial year.

The Company had no employees in the current or previous financial year.

5. Investment income

	2005 £	2004 £
Interest on bank deposits	111,924	102,226

6. Finance costs

	2005 £	2004 £
Interest payable to group companies	323,563	314,477

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2005

7. Tax

	2005 £	2004 £
Current tax:		
UK corporation tax	57,198	23,952
Deferred tax:		
Current year	-	(288)
	57,198	23,664

Corporation tax is calculated at 30% (2004: 30%) of the estimated assessable loss for the year.

The credit for the year can be reconciled to the loss per the income statement as follows:

	2005 £	2004 £
Loss before tax:		
Continuing operations	(190,659)	(78,879)
Tax at the UK corporation tax rate of 30% (2004: 30%)	57,198	23,664
Capital allowances timing differences	-	288
Tax credit for the year	57,198	23,952

8. Trade and other receivables

Amounts falling due within one year:

	2005 £	2004 £
Group relief receivable	57,486	23,952
Equity participation mortgages (see notes below)	62,775	65,675
Other receivables	690	166
Accrued bank interest	-	7,043
	120,951	96,836

Other receivables are shown net of provisions of £9,298 (2004: £21,050) as shown in note 11 below.

Amounts falling due after more than one year:

	2005 £	2004 £
Equity participation mortgages	1,808,527	1,832,327

Equity participation mortgages are interest-free loans, made as incentives on certain property sales, repayable within a specified period. Mortgages on sheltered or non-sheltered schemes are generally secured by a first or second charge on the property respectively.

Total debtors

	2005 £	2004 £
Debtors: amounts falling due within one year	120,951	96,836
Debtors: amounts falling due after more than one year	1,808,527	1,832,327
	1,929,478	1,929,163

The directors consider that the carrying amount of trade receivables approximates to their fair value.

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2005

9. Deferred Tax

The following are the major deferred tax liabilities and assets recognised by the company and the movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £	Total £
At 1 January 2004	1,153	1,153
Charge to income	(288)	(288)
At 1 January 2005	865	865
Charge to income	-	-
At 31 December 2005	865	865

10. Trade and other payables

	2005 £	2004 £
Amounts due to group companies	42,002,050	41,750,781
Other payables	1,051	278
	42,003,101	41,751,059

The directors consider that the carrying amount of trade payables approximates to their fair value.

11. Provisions for bad and doubtful debts

	2005 £	2004 £
As at 1 January	(21,050)	(21,050)
Transfer to profit and loss account	11,752	-
As at 31 December	(9,298)	(21,050)

12. Share capital

	2005 £	2004 £
Authorised:		
100 ordinary shares of £1 each	100	100
Issued and fully paid:		
100 ordinary shares of £1 each	100	100

13. Retained earnings

	£
Balance at 1 January 2004	(35,719,266)
Net loss attributable to the parent	(55,215)
Balance at 1 January 2005	(35,774,481)
Net loss attributable to the parent	(133,461)
Balance at 31 December 2005	(35,907,942)

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2005

14. Notes to the cash flow statements

	2005 £	2004 £
Profit from operations	20,980	133,372
Operating cash flows before movements in working capital	20,980	133,372
Decrease in receivables	26,176	213,313
Increase/(decrease) in payables	252,042	(66,789)
Cash generated by operations	299,198	279,896
Interest received	118,967	99,271
Interest paid	(323,563)	(314,477)
Income tax repaid	23,664	38,102
Net cash flow from operating activities	118,266	102,792

Cash and cash equivalents comprise cash at bank.

15. Related party transactions

Transactions with related parties are primarily the settlement of group relief balances with the Company's immediate parent company and interest payable to the Company's immediate parent company.

The following were the balances with related parties as at 31 December 2005 and 31 December 2004.

	2005 £	2004 £
Amounts due to group companies		
Abbey National plc	42,002,050	41,750,781

There were no related party transactions during the year, or existing at the balance sheet date, with the Company or parent company's key management personnel.

16. Parent undertaking and controlling party

The Company's immediate parent company is Abbey National plc.

The Company's ultimate parent undertaking and controlling party is Banco Santander Central Hispano S.A., a company incorporated in Spain. Banco Santander Central Hispano, S.A. is the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Abbey National plc is the parent undertaking of the smallest group of undertakings for which the group accounts are drawn up and of which the Company is a member.

Copies of all sets of group accounts, which include the results of the Company, are available from Abbey Secretariat, Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN.