

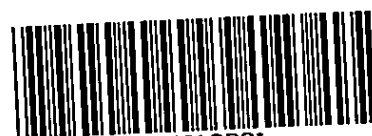
ABBAY NATIONAL HOMES LIMITED

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

REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2006**

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ABBEY NATIONAL HOMES LIMITED

Report of the directors

The Directors submit their report together with the financial statements for the year ended 31 December 2006

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4)(a) of the Companies Act 1985

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

Results and dividends

The loss for the year on ordinary activities after taxation amounted to £30,301 (2005 loss £133,461)

The Directors do not recommend the payment of a dividend (2005 £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 (IFRS). 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 assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies 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)

Financial Instruments

The Company's risks are managed on a group level by the ultimate UK parent company, Abbey National plc

The financial risk management objectives of and policies of the Group, the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and the exposure of the Group to price risk, credit risk, liquidity risk and cash-flow risk are outlined in the Group financial statements

Third Party Indemnities

During 2006, Abbey National plc applied the provisions of the Companies (Audit, Investigations and Community Enterprise) Act 2004 to provide enhanced indemnities to the Directors of the Company against liabilities and associated costs which they could incur in the course of their duties to the Company. The indemnities remain in force as at the date of this Annual Report & Accounts. A copy of each of the indemnities is kept at the registered office address of Abbey National plc

Auditors

In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information (as defined in s234ZA of the Companies Act 1985) of which the company's auditors are unaware, and
- each of the directors has taken all steps that he ought to have taken as director to make himself aware of any relevant audit information (as defined in s234ZA of the Companies Act 1985) and to establish that the company's auditors are aware of that information

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 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

2 March 2007

Registered Office Address: Abbey National House, 2 Triton Square, Regent's Place, London NW1 3AN

ABBEY NATIONAL HOMES LIMITED

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

We have audited the financial statements of Abbey National Homes Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 1 to 15. 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 law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Directors' Report.

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 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, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Separate opinion in relation to IFRSs

As explained in Note 1 to the financial statements, the company in addition to complying with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
2 March 2007

ABBEY NATIONAL HOMES LIMITED

Income Statement

For the year ended 31 December 2006

Continuing operations	Notes	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Revenue	3	205,873	23,953
Gross profit		205,873	23,953
Administrative expenses		(1,434)	(2,973)
Profit from operations	4	204,439	20,980
Investment income	5	89,079	111,924
Finance costs	6	(336,805)	(323,563)
Loss before tax		(43,287)	(190,659)
Tax	7	12,986	57,198
Loss attributable to equity holders of the company		(30,301)	(133,461)

Statement of Recognised Income and Expense

For the year ended 31 December 2006

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

ABBEY NATIONAL HOMES LIMITED

Balance Sheet

As at 31 December 2006

	Notes	2006 £	2005 £
Non-current assets			
Trade and other receivables	8	1,594,584	1,808,527
Deferred tax assets	9	487	865
Total non-current assets		1,595,071	1,809,392
Current assets			
Trade and other receivables	8	64,098	120,951
Cash and cash equivalents	-	4,255,195	4,164,916
Total current assets		4,319,293	4,285,867
Current liabilities			
Trade and other payables	10	(41,852,507)	(42,003,101)
Net current liabilities		(37,533,214)	(37,717,234)
Net liabilities		(35,938,143)	(35,907,842)
Equity			
Share capital	11	100	100
Accumulated losses	12	(35,938,243)	(35,907,942)
Total equity shareholders' deficit		(35,938,143)	(35,907,842)

The financial statements were approved by the board of directors and authorised for issue on 2 March 2007. They were signed on its behalf by *R. Jones*

R. Vernon Jones

Director

ABBEY NATIONAL HOMES LIMITED

Cash Flow Statement

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Net cash from operating activities	13	90,279	118,266
Net increase in cash and cash equivalents		90,279	118,266
Cash and cash equivalents at beginning of year		4,164,916	4,046,650
Cash and cash equivalents at end of year		4,255,195	4,164,916

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2006

1 Accounting Policies

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") as adopted for use in the European Union that are effective or available for early adoption at the company's reporting date. The company, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention.

The company has adopted the following new or revised IFRS:

- a) The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" relating to Financial Guarantee Contracts
- b) The company has decided to early adopt IFRS 7 "Financial Instruments: Disclosure" and the related amendments to IAS 1 "Presentation of Financial statements"

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.

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 Instruments

Financial assets and liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2006

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

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

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

Equity participation loans are secured by charges on properties in a spread of UK locations (see note 8)

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

	2006 £	2005 £
Increase in property values recovered from customers	205,838	12,200
Movement in provision for bad and doubtful debts	-	11,753
Other revenue	35	-
Total revenue	205,873	23,953

4 Profit from operations

Fees payable to the company's auditors for the audit of the company's annual accounts for the current year are £6,500 (2005 £6,500) and have been borne by the Company's immediate parent undertaking Abbey National plc, for which no recharge has been made in the current or prior year.

Directors' emoluments are borne by the immediate parent company, Abbey National plc. No emoluments were paid by the Company to Directors during the year (2005: £nil).

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

5 Investment income

	2006 £	2005 £
Interest on bank deposits	89,079	111,924

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2006

6 Finance costs

	2006 £	2005 £
Interest payable to group companies	336,805	323,563

7. Tax

	2006 £	2005 £
Current tax		
UK corporation tax		
Current year	13,148	57,198
Prior year	216	-
	13,364	57,198
Deferred tax		
Current year	(162)	-
Prior year	(216)	-
	(378)	-
	12,986	57,198

Corporation tax is calculated at 30% (2005 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

	2006 £	2005 £
Loss before tax		
Continuing operations	(43,287)	(190,659)
Tax at the UK corporation tax rate of 30% (2005 30%)	12,986	57,198
Tax credit for the year	12,986	57,198

8 Trade and other receivables

Amounts falling due within one year

	2006 £	2005 £
Amounts due from group companies – group relief receivable	13,148	57,486
Equity participation mortgages (see notes below)	50,950	62,775
Other receivables	-	690
	64,098	120,951

Amounts falling due after more than one year

	2006 £	2005 £
Equity participation mortgages	1,594,584	1,808,527

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. This fair value has been calculated by discounting the future cash flows at the market rate.

Total trade and other receivables

	2006 £	2005 £
Amounts falling due within one year	64,098	120,951
Amounts falling due after more than one year	1,594,584	1,808,527
	1,658,682	1,929,478

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

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2006

9 Deferred tax

The following are the deferred tax assets recognised by the company and the movements thereon during the current and prior year

	Accelerated tax depreciation £	Total £
At 1 January 2005	865	865
Charge to income	-	-
At 31 December 2005 and 1 January 2006	865	865
Charge to income	(378)	(378)
At 31 December 2006	487	487

10 Trade and other payables

	2006 £	2005 £
Amounts due to group companies	41,852,407	42,002,050
Other payables	100	1,051
	41,852,507	42,003,101

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

11 Share capital

	2006 £	2005 £
Authorised		
100 ordinary shares of £1 each	100	100
Issued and fully paid		
100 ordinary shares of £1 each	100	100

12 Accumulated losses

	£
Balance at 1 January 2005	(35,774,481)
Loss for the year	(133,461)
Balance at 31 December 2005 and 1 January 2006	(35,907,942)
Loss for the year	(30,301)
Balance at 31 December 2006	(35,938,243)

13 Notes to the cash flow statement

	2006 £	2005 £
Profit from operations	204,439	20,980
Operating cash flows before movements in working capital	204,439	20,980
Decrease in receivables	226,458	26,176
(Decrease)/increase in payables	(150,594)	252,042
Cash generated by operations	75,864	299,198
Interest received	89,079	118,967
Interest paid	(336,805)	(323,563)
Income tax repaid	57,702	23,664
Net cash flow from operating activities	90,279	118,266

Cash and cash equivalents comprise cash at bank

ABBEY NATIONAL HOMES LIMITED

Notes to the financial statements for the year ended 31 December 2006

14 Related party transactions

The following were the balances with related parties as at 31 December 2006 and 31 December 2005

Amounts due from group companies	2006 £	2005 £
Abbey National plc	13,148	57,486
Amounts due to group companies	2006 £	2005 £
Abbey National plc	41,852,407	42,002,050
Finance costs	2006 £	2005 £
Abbey National plc	336,805	323,563

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

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

15 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