

ABBHEY NATIONAL INDEPENDENT INVESTMENTS

REPORT AND ACCOUNTS

For the year ended 31 March 1999

Registered in England and Wales No. 2468305



ABBNEY NATIONAL INDEPENDENT INVESTMENTS

DIRECTORS' REPORT

The directors present the report and accounts of Abbey National Independent Investments for the year ended 31 March 1999.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Since incorporation the company has acted as an investment company. Following the disposal of the investment portfolio it is the directors' current intention that the company cease business.

RESULTS FOR THE YEAR

The profit for the year on ordinary activities after taxation amounted to £87,240 (1998: £10,817) and has been transferred to reserves. The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were:

I K Treacy
J King
M A Pain Chairman

In accordance with the Articles of Association of the company the directors are not required to apply for re-election.

The directors did not have any interest in the shares and debentures of the company or any other subsidiaries of Abbey National plc.

M A Pain and I K Treacy were directors of Abbey National plc, the ultimate parent undertaking at 31 March 1999 and their interests in the shares and share options of that company are disclosed in the accounts of that company.

The interests of J King in the ordinary shares of 10p each of Abbey National plc are shown below:

	Shares at 1 April 1998	At 31 March 1999	Options at 1 April 1998	Granted	Exercised	At 31 March 1999
J. King	19,265	36,501	104,781	349	60,357	44,773

ABBAY NATIONAL INDEPENDENT INVESTMENTS

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS (continued)

Options granted to directors under the ultimate parent undertaking's Sharesave Schemes are exercisable at prices between 232p to 1087p per share within six months of the fifth and seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme and Employee Share Option Scheme are exercisable at prices between 254p to 1195p per share after three or five years and within ten years from the date of the grant.

Shares in respect of Executive Share Options granted in 1998 are held by Abbey National Executive Share Option Plan 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 March 1999, the Trust held 1,535,964 ordinary shares (1998: 784,806).

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 the members of the Abbey National plc Executive Committee, 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 March 1999, the Trust held 389,320 ordinary shares (1998: 268,936).

YEAR 2000 AND ECONOMIC AND MONETARY UNION

The company is aware of the significant compliance and operational risks faced in connection with Year 2000 and the strategic and operational risks posed by Economic and Monetary Union (EMU). These issues are being addressed by the ultimate parent undertaking, Abbey National plc, through the provision of management, technology and systems support and through a group-wide steering committee.

Further disclosures in respect of both Year 2000 and EMU, including details of the impact on business, risks and uncertainties, general plans to address these issues and estimated costs of these plans are detailed in the consolidated accounts of the ultimate parent undertaking.

AUDITORS

In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually.

The Board of the ultimate parent company, Abbey National plc, announced on 10 November 1998 its intention to nominate Deloitte & Touche for appointment as auditors of Abbey National plc and its subsidiaries. Deloitte & Touche have expressed their willingness to accept this appointment. Accordingly, Coopers & Lybrand will retire following approval of the 1999 accounts, and Deloitte & Touche will be appointed.

ABBNEY NATIONAL INDEPENDENT INVESTMENTS

DIRECTORS' REPORT (continued)

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The directors of Abbey National Independent Investments are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the year. They are also responsible for ensuring that proper and adequate accounting records have been maintained, and that reasonable procedures have been followed for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities. In respect of the accounts, the directors are required to:

- ensure that appropriate accounting policies, which follow generally accepted accounting practice, have been applied consistently;
- ensure that reasonable and prudent judgements and estimates have been used in the preparation of the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the group will continue in business; and
- state whether applicable accounting standards have been followed and to disclose and explain any material departures in the accounts.

By Order of the Board



**For and on behalf of
Abbey National Secretariat Services Limited
Company Secretary**

Registered office:

Abbey House
Baker Street
London
NW1 6XL
England

REPORT OF THE AUDITORS TO THE MEMBERS OF ABBEY NATIONAL INDEPENDENT INVESTMENTS

We have audited the accounts on pages 5 to 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Report and Accounts including, as described on page 3, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 is not disclosed.

We read the other information contained in the Report and Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

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 the company's affairs at 31 March 1999 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 and Registered Auditors
London**

14 September 1999

ABBAY NATIONAL INDEPENDENT INVESTMENTS

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1999

	Notes	1999 £	1998 £
Investment income	3	14,861	14,285
Gain on sale of investments		76,941	123
Administrative expenses		(56)	(321)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	4	91,746	14,087
Taxation	5	(4,506)	(3,270)
		<hr/>	<hr/>
Profit for the financial year	9	<u>87,240</u>	<u>10,817</u>

All activities of the company are discontinued. The company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

The company's results as reported are on an historical cost basis. Accordingly, no separate statement of historical cost profits and losses has been presented.

ABBEY NATIONAL INDEPENDENT INVESTMENTS

BALANCE SHEET as at 31 March 1999

	Notes	1999 £	1998 £
Fixed assets			
Investments	6	-	<u>195,891</u>
Current assets			
Amounts due from fellow subsidiary undertakings		348,660	81,004
Called up share capital not paid	8	2	2
Sundry debtors		45	48
Cash at bank and in hand		30,698	13,643
		<hr/>	<hr/>
		379,405	94,697
Creditors: amounts falling due within one year	7	(4,760)	(3,183)
		<hr/>	<hr/>
Net current assets		<u>374,645</u>	<u>91,514</u>
Total assets less current liabilities		<u>374,645</u>	<u>287,405</u>
Capital and reserves			
Called up share capital	8	181,736	181,736
Profit and loss account	9	192,909	105,669
		<hr/>	<hr/>
Equity shareholders' funds	10	<u>374,645</u>	<u>287,405</u>

The accounts on pages 5 to 10 were approved by the Board of Directors on 7/9/99 and were signed on its behalf by:

M.D.P. Director

ABBEY NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Investment income

Investment income is recognised upon receipt.

Fixed asset investments

Fixed asset investments are shown at cost less provision for any permanent diminution in value.

Deferred taxation

Deferred taxation is provided only where it is probable that a taxation asset or liability will arise. Provision is made at rates expected to be applicable when the assets or liabilities crystallise.

Related party disclosures

The company has taken advantage of the exemption allowed by paragraph 3(c) of the Financial Reporting Standard 8, "Related Party Disclosures", not to disclose transactions with entities that are part of the Abbey National Group.

2. 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, Cash Flow Statements (Revised).

3. INVESTMENT INCOME

	1999 £	1998 £
Income from listed investments	7,931	9,731
Interest income from group undertakings	6,480	3,578
Other interest	<u>450</u>	<u>976</u>
	<u>14,861</u>	<u>14,285</u>

ABBAY NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

No emoluments were paid to the directors by the company during the year and no apportionment of directors' remuneration has been made by the ultimate parent undertaking to the company (1998: nil). However M Pain and I K Treacy received emoluments in respect of their services as director of Abbey National plc, details of which can be found in the accounts of Abbey National plc.

The auditors' remuneration has been borne by the immediate parent undertaking, Abbey National Investments Holdings Limited.

The company had no directly employed staff during the period (1998: nil).

The company paid a management charge of £56 (1998: £321) to a fellow subsidiary undertaking during the year.

5. TAXATION

	1999 £	1998 £
Group relief payable at 31% (1998: 31%)	2,919	1,329
Tax on franked investment income	1,587	1,924
Corporation tax	-	17
Double taxation relief	-	(17)
Overseas taxation	-	17
	<u>4,506</u>	<u>3,270</u>

6. INVESTMENTS

Investments listed on a recognised stock exchange:

	£
As at 1 April 1998	195,891
Disposals	(195,891)
	<u>-</u>
As at 31 March 1999	<u>-</u>

The market value of the listed investments at 31 March 1999 was £nil (1998: £257,761).

ABBAY NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Amounts due to parent and subsidiary undertakings	<u>4,760</u>	<u>3,183</u>

8. CALLED UP SHARE CAPITAL

	1999 £	1998 £
Authorised: 186,000 ordinary shares of £1 each	<u>186,000</u>	<u>186,000</u>
Allotted: 181,736 ordinary shares of £1 each	<u>181,736</u>	<u>181,736</u>
Called up	<u>181,736</u>	<u>181,736</u>
Paid up	181,734	181,734
Called up not yet paid	2	2
	<u>181,736</u>	<u>181,736</u>

9. PROFIT AND LOSS ACCOUNT

	£
As at 1 April 1998	105,669
Retained profit for the year	<u>87,240</u>
As at 31 March 1999	<u>192,909</u>

ABBEY NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Shareholders' funds at 1 April	287,405	276,588
Profit for the financial year	<u>87,240</u>	<u>10,817</u>
Shareholders' funds at 31 March	<u>374,645</u>	<u>287,405</u>

11. ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Abbey National Investments Holdings Limited which is registered in England and Wales. According to the register kept by the company, Abbey National Investments Holdings Limited has a 100% interest in the equity capital of Abbey National Independent Investments at 31 March 1999.

The company's ultimate parent undertaking and controlling party is Abbey National plc which is registered in England and Wales. Abbey National plc has a 100% interest in the equity capital of Abbey National Investments Holdings Limited according to the register kept by the latter company at 31 March 1999.

Consolidated accounts for Abbey National plc and the accounts of Abbey National Investments Holdings Limited are available from Abbey House, Baker Street, London, NW1 6XL.