

ABBEY NATIONAL BAKER STREET INVESTMENTS

REPORT AND ACCOUNTS

For the year ended 31 December 1996

Registered in England and Wales No. 2468307



ABBEY NATIONAL BAKER STREET INVESTMENTS

DIRECTORS' REPORT

The directors present their report and accounts of Abbey National Baker Street Investments for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Since incorporation the company has acted as an investment company. The directors foresee no change in its activities.

RESULTS FOR THE YEAR

Profit for the year on ordinary activities after taxation amounted to £6,217,789 (1995: £227,908,598 as restated) and has been transferred to reserves (1995: (£17,493,561) as restated). The directors do not recommend the payment of a dividend (1995: £245,402,159).

CHANGE IN PRESENTATION OF THE FINANCIAL STATEMENTS

The presentation of the financial statements has been adjusted following a change in the accounting policy for the recognition of income and expenses. Recognition is now on an accruals basis rather than on receipt.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the period were:

I Harley	Chairman
I K Treacy	
J King	
J M Fry	

J M Fry resigned as a director of the company on 17 April 1996. He was replaced as chairman by I Harley.

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.

I Harley was a director of Abbey National plc at 31 December 1996 and his interests in the shares and share options of that company are disclosed in the accounts of that company.

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

	Shares at 1 Jan 1996	31 Dec 1996	Options at 1 Jan 1996	Granted	Exercised	Options at 31 Dec 1996
I K Treacy	9,028	9,078	74,001	43,545	-	117,546
J King	16,406	18,378	78,871	37,260	1,616	114,515

ABBEY NATIONAL BAKER STREET 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 149p to 428p per share within six months of the fifth and seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme are exercisable at prices between 314p to 591p per share after three or five years and within ten years from the date of the grant. Options granted under the Employee Share Option Scheme are exercisable at a price of 591p after three years and within ten years from the date of the grant.

AUDITORS

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

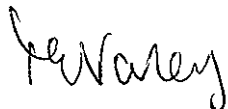
Coopers & Lybrand, the company's auditors, are therefore deemed to be reappointed as the company's auditors for each succeeding financial year, so long as such election remains in force.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of Abbey National Baker Street 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



18/9/97

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

REPORT OF THE AUDITORS TO THE MEMBERS OF ABBAY NATIONAL BAKER STREET INVESTMENTS

We have audited the accounts on pages 4 to 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 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 as at 31 December 1996 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

25 September 1997

ABBEEY NATIONAL BAKER STREET INVESTMENTS

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1996

	Notes	1996 £	1995 As restated £
Investment income and gains	3	9,453,152	271,007,965
Other income		1,208,779	-
Interest payable		(2,189,067)	(196)
Administrative expenses		(174,836)	(416,778)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	4	8,298,028	270,590,991
Taxation	5	(2,080,239)	(42,682,393)
		<hr/>	<hr/>
Profit for the year after taxation		6,217,789	227,908,598
Dividend paid	6	-	(245,402,159)
		<hr/>	<hr/>
Retained profit/(loss) for the financial year	11	<u>6,217,789</u>	<u>(17,493,561)</u>

All activities of the company are regarded as continuing. 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.

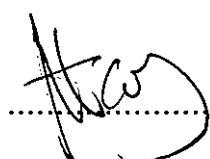
ABBEY NATIONAL BAKER STREET INVESTMENTS

BALANCE SHEET

as at 31 December 1996

	Notes	1996 £	1995 As restated £
Fixed assets			
Investments	7	<u>149,642</u>	<u>182,959</u>
Current assets			
Amounts due from fellow subsidiary undertakings		131,913,020	164,741,184
Indemnities	5	68,959,251	67,750,472
Other debtors		3,548	3,548
Cash at bank		64	5,000
		<u>200,875,883</u>	<u>232,500,204</u>
Creditors: amounts falling due within one year	8	<u>(73,562,090)</u>	<u>(111,408,244)</u>
Net current assets		<u>127,313,793</u>	<u>121,091,960</u>
Provision for liabilities and charges	9	-	(29,273)
Total assets less current liabilities		<u>127,463,435</u>	<u>121,245,646</u>
Capital and reserves			
Called up share capital	10	120,772,715	120,772,715
Profit and loss account	11	6,690,720	472,931
Equity shareholders' funds	12	<u>127,463,435</u>	<u>121,245,646</u>

The accounts on pages 4 to 11 were approved by the Board of Directors on 18/9/97 and were signed on its behalf by:


 Director

ABBEY NATIONAL BAKER STREET 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

Dividend income is recognised on a receipts basis. All other investment income is recognised on an accruals basis.

Fixed asset investments

Listed 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 asset or liability crystallises.

Change in accounting policy

The accounting policy for income and expenses has been changed from recognition on receipt to recognition on an accruals basis to provide a fairer presentation of the results. The comparative figures have been amended where necessary for the change.

As a result, comparative figures for the year ended 31 December 1995 have been adjusted as follows:

	Loss for the year after taxation
As previously reported	(10,344,981)
Effect of the change to accrual accounting	<u>(7,148,580)</u>
As restated	<u>(17,493,561)</u>

The effect of the change in accounting policy on the results of the current year is immaterial.

ABBEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

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 8(c) of Financial Reporting Standard 1, Cash Flow Statements.

3. INVESTMENT INCOME AND GAINS

	1996	1995
	£	As restated £
Income from listed investments	12,975	44,678
Income from unlisted investments	-	47,552,843
Bank interest	358	461
Interest received from group undertakings	9,439,819	77,652,105
Gains on redemption of unlisted fixed asset investments	-	<u>145,757,878</u>
	<u>9,453,152</u>	<u>271,007,965</u>

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 (1995: nil). However, I Harley received emoluments in respect of his services as a 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 (1995: nil).

The company paid a management charge of £174,836 (1995: £409,226) to a fellow subsidiary undertaking during the year.

ABBEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

5. TAXATION

	1996 £	1995 As restated £
Group relief - current	<u>3,087,773</u>	<u>41,169,370</u>
Corporation tax - current	983,494	66,805,388
- prior	<u>(1,963,782)</u>	<u>2,435,472</u>
	<u>(980,288)</u>	<u>69,240,860</u>
Deferred tax - current	<u>(29,273)</u>	<u>21,225</u>
Tax on FII	2,027	1,410
Indemnity amounts	<u>-</u>	<u>(67,750,472)</u>
	<u>2,080,239</u>	<u>42,682,393</u>

The provision for UK corporation tax (see note 8) in the sum of £68,260,572 (1995: £69,240,860) represents the potential UK tax resulting from the redemption of bonds in previous years if the Inland Revenue were to succeed in its contention that the bonds did not qualify for exemption as Qualifying Indexed Securities. However, if the Inland Revenue's challenge were to be successful, the issuers of the bonds would be liable to make a payment of £68,959,251 (1995: £67,750,472) to the Company under the terms of indemnity arrangements. These figures have been adjusted in 1996 to reflect changes in the rate of corporation tax. The Directors do not accept that UK tax is payable on redemption of the bonds and are vigorously disputing this liability.

6. DIVIDENDS

	1996 £	1995 £
<u>Ordinary</u>		
No interim dividend paid (1995: 18.76p per share)	<u>-</u>	<u>245,402,159</u>

7. INVESTMENTS

	Listed £
As at 1 January 1996	182,959
Disposals	<u>(33,317)</u>
As at 31 December 1996	<u>149,642</u>

All listed investments are quoted on a recognised stock exchange. The market value of the listed investments at 31 December 1996 was £210,819 (1995: £249,441).

ABBEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996	1995
	£	As restated £
Amounts due to group undertakings	3,112,451	42,167,384
Taxation	68,260,572	69,240,860
Interest payable	<u>2,189,067</u>	<u>-</u>
	<u>73,562,090</u>	<u>111,408,244</u>

9. PROVISION FOR LIABILITIES AND CHARGES

Deferred tax

Deferred taxation provided in the accounts and the total potential liability including the amount for which provision has been made, are as follows:

	Amount provided		Total potential liability	
	1996	1995	1996	1995
	£	as restated £	£	as restated £
Tax effect of short term timing differences	<u>-</u>	<u>29,273</u>	<u>-</u>	<u>29,273</u>
The movement for deferred taxation is as follows:				
				£
Provision at 1 January 1996				29,273
Transfer to profit and loss account				(29,273)
Provision at 31 December 1996				<u>-</u>

ABBEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

10. SHARE CAPITAL

	1996 £	1995 £
Authorised:		
1,361,702,250 ordinary shares of £0.092 each (1995: £0.092)	<u>125,753,104</u>	<u>125,753,104</u>
Allotted:		
1,333,772,715 ordinary shares of £0.092 each (1995: £0.092)	<u>123,173,813</u>	<u>123,173,813</u>
Called up and fully paid:		
As at 1 January 1,307,772,715 ordinary shares of £0.092 each (1995: £1)	120,772,715	1,307,772,715
Reduction in nominal value during the year	-	(1,187,000,000)
As at 31 December 1,307,772,715 ordinary shares of £0.092 each (1995: £0.092)	120,772,715	120,772,715
Called up and unpaid:		
26,000,000 Ordinary shares of £0.092 each (1995: £0.092)	<u>2,401,098</u>	<u>2,401,098</u>
	<u>123,173,813</u>	<u>123,173,813</u>

11. PROFIT AND LOSS ACCOUNT

	£
As at 1 January 1996 as previously reported	412,179
Prior year adjustment (as explained in Note 1)	<u>60,752</u>
As restated	472,931
Retained profit for the year	<u>6,217,789</u>
As at 31 December 1996	<u>6,690,720</u>

ABBEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 £	1995 as restated £
Profit/(loss) for the financial year	6,217,789	(17,493,561)
Reduction in share capital	-	(1,187,000,000)
	<hr/>	<hr/>
Net addition/(reduction) to shareholders' funds	6,217,789	(1,204,493,561)
Opening shareholders' funds (originally £121,184,894 before adding prior year adjustment of £60,752)	<u>121,245,646</u>	<u>1,325,739,207</u>
	<u>127,463,435</u>	<u>121,245,646</u>

13. 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.

14. 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 had a 100% interest in the equity capital of Abbey National Baker Street Investments at 31 December 1996.

The company's ultimate parent undertaking 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 December 1996.

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.