

ABBAY NATIONAL STERLING CAPITAL PLC

REPORT AND ACCOUNTS

For the year ended 31 January 1996

Registered in England and Wales No. 2588224



ABBEY NATIONAL STERLING CAPITAL PLC

DIRECTORS' REPORT

The directors present their report and accounts of Abbey National Sterling Capital plc for the year ended 31 January 1996.

PRINCIPAL ACTIVITIES

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

RESULTS FOR THE YEAR

The profit for the year on ordinary activities after taxation amounted to £354,777 (1995: £120,395) and has been transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were:

D G Jones (Chairman)
G M Batchelor
J C Nicholls

J C Nicholls resigned as a director of the company on 30 April 1996. A S Braun was appointed director of the company on 1 May 1996.

Following the adoption of new Articles of Association of the company on 1 June 1995, it is no longer a requirement for the directors to apply for re-election.

None of the directors had a service contract with the company or its parent undertaking which was terminable at more than 12 months' notice.

The beneficial interests in the shares of Abbey National plc of D G Jones who is also a director of Abbey National plc and G M Batchelor who is a director of Abbey National Treasury Services plc and J C Nicholls who was a director of Abbey National Treasury Services plc are disclosed in the accounts of the respective companies.

The directors did not have any interest in shares or debentures of any other group undertaking.

DIRECTORS' LIABILITY INSURANCE

The company maintains insurance cover for directors' and officers' liability, as permitted by Section 310(3) of the Companies Act 1985.

AUDITORS

A resolution reappointing Coopers & Lybrand as auditors of the company and giving the directors the power to decide their remuneration will be put before the members at the next Annual General Meeting.

ABBEY NATIONAL STERLING CAPITAL PLC


DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of Abbey National Sterling Capital plc 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

 24/7/96
Leena Nagrecha
Company Secretary

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ABBEY NATIONAL STERLING CAPITAL PLC**

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 at 31 January 1996 and of its profit and total recognised gains 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

24 July 1996

ABBEY NATIONAL STERLING CAPITAL PLC

PROFIT AND LOSS ACCOUNT

For the year ended 31 January 1996

| | Notes | 1996 £ | 1995 £ |
|--|-------|-----------------------|-----------------------|
| Interest receivable | 3 | 67,121,741 | 58,494,317 |
| Interest payable | 4 | (66,830,589) | (58,283,808) |
| | | <hr/> | <hr/> |
| | | 291,152 | 210,509 |
| Other income and charges | | (4,122) | (12,756) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | 5 | 287,030 | 197,753 |
| Taxation | 6 | 67,747 | (77,358) |
| | | <hr/> | <hr/> |
| PROFIT FOR THE YEAR AFTER TAXATION | 13 | <u><u>354,777</u></u> | <u><u>120,395</u></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 note of historical cost profits and losses has been presented.

ABBEY NATIONAL STERLING CAPITAL PLC

BALANCE SHEET
as at 31 January 1996

| | Notes | 1996 £ | 1995 £ |
|--|-------|--------------------|--------------------|
| FIXED ASSETS | | | |
| Investments | 7 | <u>550,000,000</u> | <u>550,000,000</u> |
| CURRENT ASSETS | | | |
| Debtors | 8 | 15,282,557 | 14,989,643 |
| CURRENT LIABILITIES | | | |
| Creditors: amounts falling due within one year | 9 | (15,068,812) | (16,814,034) |
| NET CURRENT ASSETS/(LIABILITIES) | | <u>213,745</u> | <u>(1,824,391)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 550,213,745 | 548,175,609 |
| Creditors: amounts falling due after one year | 10 | (545,894,816) | (545,782,719) |
| PROVISION FOR LIABILITIES AND CHARGES | | | |
| Deferred taxation | 11 | (3,525,048) | (1,953,786) |
| | | <u>793,881</u> | <u>439,104</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 50,000 | 50,000 |
| Profit and loss account | 13 | 743,881 | 389,104 |
| EQUITY SHAREHOLDERS' FUNDS | | <u>793,881</u> | <u>439,104</u> |

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

The accounts on pages 4 to 11 were approved by the Board of Directors on 23 July 1996 and were signed on its behalf by:


..... Director

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS

For the year ended 31 January 1996

1. ACCOUNTING POLICIES

Basis of accounting

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

Other financial instruments

Transactions are undertaken in interest rate swaps as a hedge to the company's activities.

Gains and losses arising from the hedging transactions are released to the profit and loss account over the life of the transaction against which the hedge is held. Any such hedges which remain outstanding at the balance sheet date are stated at the amortised cost.

Deferred taxation

Deferred taxation is recognised only where it is probable that a taxation asset or liability will arise. Recognition is made at rates expected to be applicable when the asset or liability crystallises.

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. INTEREST RECEIVABLE

| | 1996 £ | 1995 £ |
|---|-------------------|-------------------|
| Interest receivable from group undertakings | <u>67,121,741</u> | <u>58,494,317</u> |

ABBAY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 January 1996

4. INTEREST PAYABLE

| | 1996 £ | 1995 £ |
|---|-------------------|-------------------|
| Interest payable on subordinated debt with a maturity of more than 5 years | 66,830,589 | 58,217,828 |
| Interest payable to Abbey National plc on loans (note 10) | - | 65,980 |
| | <u>66,830,589</u> | <u>58,283,808</u> |

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

| | 1996 £ | 1995 £ |
|------------------------|--------------|--------------|
| Auditors' remuneration | <u>3,648</u> | <u>3,378</u> |

The auditors' remuneration for other services during the year was £nil (1995: £470).

During the year, the directors of the company were employed by the ultimate parent undertaking, Abbey National plc. No apportionment of directors' remuneration has been made by the parent undertaking to the company (1995: nil).

The company had no directly employed staff during the year (1995: nil).

6. TAXATION

| | 1996 £ | 1995 £ |
|--|---------------|-----------------|
| Amount receivable from group undertakings in respect of group relief surrendered | 1,639,009 | (1,386,481) |
| Deferred tax: | | |
| - current year | (1,642,507) | 1,359,473 |
| - prior year | <u>71,245</u> | <u>(50,350)</u> |
| | <u>67,747</u> | <u>(77,358)</u> |

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 January 1996

7. INVESTMENTS

| | 1996 £ | 1995 £ |
|-----------------------------|--------------------|--------------------|
| Loans to Abbey National plc | <u>550,000,000</u> | <u>550,000,000</u> |

In accordance with a loan agreement dated 30 December 1991, Abbey National Sterling Capital plc lent to Abbey National plc the amount of £150 million to be repaid on 4 January 2017 and bearing interest at 11.59% per annum.

In accordance with a loan agreement dated 12 March 1992, Abbey National Sterling Capital plc lent to Abbey National plc the amount of £100 million to be repaid on 31 December 2001 bearing interest at 10.512% per annum.

In accordance with a loan agreement dated 4 February 1993, Abbey National Sterling Capital plc lent to Abbey National plc the amount of £150 million to be repaid on 4 January 2023 bearing interest at 10.18% per annum.

In accordance with a loan agreement dated 24 May 1994, Abbey National Sterling Capital plc lent to Abbey National plc the amount of £150 million to be repaid on 24 May 2004 bearing interest at a rate linked to 3 month LIBOR.

All amounts are subordinated to the other creditors and depositors of Abbey National plc.

8. DEBTORS

| | 1996 £ | 1995 £ |
|--|-------------------|-------------------|
| Amounts falling due within one year: | | |
| Amounts due from group undertakings | | |
| - Abbey National Treasury Services plc | 9,911,216 | 5,912,664 |
| - Abbey National plc | 5,364,635 | 9,076,979 |
| Group relief receivable | 6,706 | - |
| | <u>15,282,557</u> | <u>14,989,643</u> |

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1996 £ | 1995 £ |
|---------------------------------------|-------------------|-------------------|
| Interest payable on subordinated debt | 13,505,970 | 13,448,734 |
| Amounts due to group undertakings | | |
| - Abbey National plc | 168,473 | 168,473 |
| Group relief payable | - | 1,632,303 |
| Other creditors | <u>1,394,369</u> | <u>1,564,524</u> |
| | <u>15,068,812</u> | <u>16,814,034</u> |

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 January 1996

10. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | 1996 £ | 1995 £ |
|---|--------------------|--------------------|
| Subordinated guaranteed bonds due 2002 | 99,245,528 | 99,158,196 |
| Subordinated guaranteed bonds due 2004 | 148,531,450 | 148,409,405 |
| Subordinated guaranteed bonds due 2017 | 148,874,001 | 148,859,201 |
| Subordinated guaranteed bonds due 2023 | 148,451,054 | 148,394,661 |
| Amounts due to Abbey National plc | <u>792,783</u> | <u>961,256</u> |
| | <u>545,894,816</u> | <u>545,782,719</u> |
| | Loans £ | Bonds £ |
| Due in more than one year but not more than two years | 168,473 | - |
| Due in more than two years but not more than five years | 624,310 | - |
| Due after five years | <u>-</u> | <u>545,102,033</u> |
| | <u>792,783</u> | <u>545,102,033</u> |

On 30 December 1991, the company issued £150 million subordinated bonds due 4 January 2017. Interest is payable annually in arrears, commencing 4 January 1993 at a rate of 11.5%.

On 12 March 1992, the company issued £100 million subordinated bonds due 29 January 2002. Interest is payable annually in arrears, commencing 29 January 1993 at a rate of 10.375%.

On 4 February 1993, the company issued £150 million subordinated bonds due 4 January 2023. Interest is payable annually in arrears, commencing 4 January 1994 at a rate of 10.125%.

On 24 May 1994, the company issued £150 million subordinated bonds due 24 May 2004. Interest is payable annually in arrears, commencing 24 May 1994 at a rate of 8.75%.

All bonds and notes are subordinated to the interests of the depositors and other creditors of Abbey National plc.

Amounts due to group undertakings includes £247,925 lent to Abbey National Sterling Capital plc by Abbey National plc. In accordance with a loan agreement dated 30 December 1991, the loan, with an original amount of £1,257,500, which is non-interest bearing, is repayable in 9 annual instalments commencing 30 December 1992 and ending 30 December 2000.

ABBHEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 January 1996

10. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR (continued)

Also included in amounts due to group companies is £713,331 lent to Abbey National Sterling Capital plc by Abbey National plc. In accordance with a loan agreement dated 12 March 1992, the loan, with an original amount of £1,070,000, which is non-interest bearing, is repayable in 9 equal annual instalments commencing 31 December 1993 and ending 31 December 2001.

11. DEFERRED TAXATION

| | Amount provided | | Total potential liability | |
|---|------------------|------------------|---------------------------|------------------|
| | 1996 | 1995 | 1996 | 1995 |
| | £ | £ | £ | £ |
| Tax effect of short term timing differences | <u>3,525,048</u> | <u>1,953,786</u> | <u>3,525,048</u> | <u>1,953,786</u> |
| The movement on deferred taxation is as follows:- | | £ | | |
| As at 1 February 1995 | | 1,953,786 | | |
| Transfer to profit and loss | | <u>1,571,262</u> | | |
| As at 31 January 1996 | | <u>3,525,048</u> | | |

12. SHARE CAPITAL

| | 1996 | 1995 |
|------------------------------------|---------------|---------------|
| | £ | £ |
| Authorised: | | |
| 50,000 ordinary shares of £1 each | <u>50,000</u> | <u>50,000</u> |
| Allotted, called up and fully paid | | |
| 50,000 ordinary shares of £1 each | <u>50,000</u> | <u>50,000</u> |

13. PROFIT AND LOSS ACCOUNT

| | £ |
|-----------------------|----------------|
| As at 1 February 1995 | 389,104 |
| Profit for the year | <u>354,777</u> |
| As at 31 January 1996 | <u>743,881</u> |

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued) For the year ended 31 January 1996

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 1996 £ | 1995 £ |
|-----------------------------------|----------------|----------------|
| Shareholders' funds at 1 February | 439,104 | 318,709 |
| Profit for the financial year | <u>354,777</u> | <u>120,395</u> |
| Shareholders' funds at 31 January | <u>793,881</u> | <u>439,104</u> |

15. GUARANTEES

Abbey National plc has given a full and unconditional guarantee in respect of the liabilities of Abbey National Sterling Capital plc under a Trust Deed dated 30 December 1991.

16. PARENT UNDERTAKING

The company's immediate parent undertaking is Abbey National Treasury Services plc which is registered in England and Wales.

The company's ultimate parent undertaking is Abbey National plc, which is registered in England and Wales. Copies of the consolidated accounts of Abbey National plc may be obtained from Abbey House, Baker Street, London, NW1 6XL.