

ABBEY NATIONAL STERLING CAPITAL PLC

REPORT AND ACCOUNTS

For the year ended 31 January 1998

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 1998.

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 £498,176 (1997: £234,907) 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	
A S Braun	

D G Jones was also a director of Abbey National plc, the ultimate parent undertaking, at 31 January 1998 and his interest in the shares and share options of that company are disclosed in the accounts of that company. G M Batchelor and A S Braun were directors of Abbey National Treasury Services plc, the immediate parent undertaking at 31 January 1998 and their interests in the shares and share options of Abbey National plc are disclosed in the accounts of that company.

None of the directors had any interests in the shares or debentures of the company or any subsidiary of Abbey National plc.

Options granted to directors under the ultimate parent undertaking's Sharesave Schemes are exercisable at prices between 149p and 668p 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 Schemes are exercisable at prices between 254p and 722p per share after three or five years and within ten years from the date of the grant.

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.

ABBAY 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


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 1998 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 June 1998

ABBEY NATIONAL STERLING CAPITAL PLC

PROFIT AND LOSS ACCOUNT

For the year ended 31 January 1998

	Notes	1998 £	1997 £
Interest receivable	3	67,524,863	66,793,627
Interest payable	4	(67,183,893)	(66,459,313)
		<hr/>	<hr/>
		340,970	334,314
Other income and charges		(9,693)	(8,676)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	5	331,277	325,638
Taxation	6	166,899	(90,731)
		<hr/>	<hr/>
Profit for the financial year after taxation	13	<u>498,176</u>	<u>234,907</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

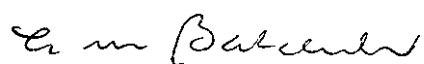
BALANCE SHEET

as at 31 January 1998

	Notes	1998 £	1997 £
Fixed assets			
Investments	7	<u>550,000,000</u>	<u>550,000,000</u>
Current assets			
Debtors	8	15,634,940	15,479,910
Current liabilities			
Creditors: amounts falling due within one year	9	<u>(15,282,961)</u>	<u>(5,367,012)</u>
Net current assets		351,979	112,898
Total assets less current liabilities		550,351,979	550,112,898
Creditors: amounts falling due after one year	10	(546,204,601)	(546,034,530)
Provision for liabilities and charges			
Deferred taxation	11	(2,620,414)	(3,049,580)
		<u>1,526,964</u>	<u>1,028,788</u>
Capital and reserves			
Called up share capital	12	50,000	50,000
Profit and loss account	13	<u>1,476,964</u>	<u>978,788</u>
Equity shareholders' funds		<u>1,526,964</u>	<u>1,028,788</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 19.6.98 and were signed on its behalf by:


..... Director

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS

For the year ended 31 January 1998

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.

Related party disclosures

The company's ultimate parent and controlling undertaking is Abbey National plc. 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. INTEREST RECEIVABLE

	1998 £	1997 £
Interest receivable from group undertakings	<u>67,524,863</u>	<u>66,793,627</u>

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 January 1998

4. INTEREST PAYABLE

	1998 £	1997 £
Interest payable on subordinated debt with a maturity of:		
- more than 5 years	56,701,959	55,652,593
- less than 5 years	10,481,734	10,471,547
Interest payable to group undertakings	-	335,173
Other interest payable	<u>200</u>	<u>-</u>
	<u>67,183,893</u>	<u>66,459,313</u>

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	1998 £	1997 £
Auditors' remuneration	<u>5,728</u>	<u>4,820</u>

The auditors' remuneration for other services during the year was £nil (1997: £nil).

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 (1997: nil).

The company had no directly employed staff during the year (1997: nil).

6. TAXATION

	1998 £	1997 £
Group relief (payable)/receivable at 31.3% (1997: 33%)	(262,267)	(566,199)
Deferred tax:		
- current year	<u>429,166</u>	<u>475,468</u>
	<u>166,899</u>	<u>(90,731)</u>

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

7. INVESTMENTS

	1998 £	1997 £
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

	1998 £	1997 £
Amounts due from parent undertaking	10,038,358	10,317,406
Amounts due from ultimate parent undertaking	5,596,582	5,162,504
Amounts due from parent undertaking in respect of group relief	<u>-</u>	<u>-</u>
	<u>15,634,940</u>	<u>15,479,910</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Interest payable on subordinated debt	11,495,660	11,495,660
Amounts due to parent undertaking	3,343,983	3,125,010
Amounts due to ultimate parent undertaking	168,473	168,473
Amounts due to group undertakings in respect of group relief	262,267	566,199
Other creditors	<u>12,578</u>	<u>11,670</u>
	<u>15,282,961</u>	<u>15,367,012</u>

ABBAY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

10. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	1998 £	1997 £
Subordinated guaranteed bonds due 2002	99,448,810	99,342,075
Subordinated guaranteed bonds due 2004	148,809,195	148,664,390
Subordinated guaranteed bonds due 2017	148,908,948	148,890,517
Subordinated guaranteed bonds due 2023	148,581,811	148,513,238
Amounts due to ultimate parent undertaking	<u>455,837</u>	<u>624,310</u>
	<u>546,204,601</u>	<u>546,034,530</u>
	Loans £	Bonds £
Due in more than one year but not more than two years	455,837	-
Due in more than two years but not more than five years	-	99,448,810
Due after five years	<u>-</u>	<u>446,299,954</u>
	<u>455,837</u>	<u>545,748,764</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 ultimate parent undertaking includes £148,755 lent to Abbey National Sterling Capital 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.

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

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

Also included in amounts due to ultimate parent undertaking is £475,555 lent to Abbey National Sterling Capital 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	
	1998 £	1997 £	1998 £	1997 £
Tax effect of short term timing differences	<u>2,620,414</u>	<u>3,049,580</u>	<u>2,620,414</u>	<u>3,049,580</u>
The movement on deferred taxation is as follows:-				£
As at 1 February 1997				3,049,580
Transfer to profit and loss				<u>(429,166)</u>
As at 31 January 1998				<u>2,620,414</u>

12. SHARE CAPITAL

	1998 £	1997 £
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 1997	978,788
Profit for the year	<u>498,176</u>
As at 31 January 1998	<u>1,476,964</u>

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Shareholders' funds at 1 February 1997	1,028,788	793,881
Profit for the financial year	<u>498,176</u>	<u>234,907</u>
Shareholders' funds at 31 January 1998	<u>1,526,964</u>	<u>1,028,788</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. According to the register kept by the company, Abbey National Treasury Services plc owned 100% of the equity capital of Abbey National Sterling Capital plc at 31 January 1998.

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 Treasury Services plc according to the register kept by the latter company at 31 January 1998.

Consolidated accounts for Abbey National plc and Abbey National Treasury Services plc are available from Abbey House, Baker Street, London, NW1 6XL.