

ABBHEY NATIONAL STERLING CAPITAL PLC

REPORT AND ACCOUNTS

For the year ended 31 January 2001

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 (the "company") for the year ended 31 January 2001.

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 £380,582 (2000: £283,293) and has been transferred to reserves. The directors do not recommend the payment of a dividend for the year (1999:nil).

DIRECTORS AND THEIR INTERESTS

The directors who held office throughout the year were:

D G Jones Chairman
G M Batchelor
A S Braun

The beneficial interests of the directors in the ordinary shares of 10p each in Abbey National plc were as follows:-

	Shares at 1 Feb 2000	Shares at 31 Jan 2001	Options at 1 Feb 2000	Granted	Exercised / Cancelled	Options at 31 Jan 2001
D G Jones	31,189	38,152	70,262	1,052	2,418	68,896
G M Batchelor	42,919	60,168	40,550	21,052	6,055	55,547
A S Braun	4,857	17,916	56,684	25,940	2,622	80,002

Options granted to directors under the ultimate parent company's Sharesave Scheme are exercisable at prices between 322p and 1087p per share within six months of the third, fifth or 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 468p and 1306p per share after three years or five years and before ten years from the date of grant. The executive options are subject to the two performance conditions below, both of which must normally be satisfied before options can be exercised:

- the growth of earnings per ordinary share of Abbey National plc must exceed the average increase in the Retail Price Index by an average of at least 2% per annum over any three consecutive years prior to exercise;
- The total shareholder return performance of Abbey National plc must at least match the median performance of specified financial service companies.

Shares in respect of Executive Share Options granted in 2000 are held by the Abbey National ESOP 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 January 2001 the Trust held 4,280,721 ordinary shares (2000 - 1,580,429).

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 members of the Abbey National plc Executive Committee, each of the directors of the company is a potential beneficiary of the Employee Trust and is therefore deemed to have an interest in the shares held by the Employee Trust. At 31 January 2001, the Employee Trust held 604,362 ordinary shares (2000 - 389,320).

ABBEY NATIONAL STERLING CAPITAL PLC

DIRECTORS' REPORT (continued)

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

ECONOMIC AND MONETARY UNION

No material costs or issues arose during the year ended 31 January 2001 as a result of EMU.

AUDITORS

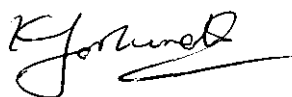
A resolution to reappoint Deloitte & Touche as auditors of the company will be proposed at the Annual General Meeting.

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



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

27 July 2001

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

We have audited the accounts on pages 4 to 11, which have been prepared under the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Report and Accounts including, as described on page 2, the accounts, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established primarily 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 1985. 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 whether it is consistent with the audited accounts. We 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 United Kingdom 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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
London

10 July 2001

ABBEY NATIONAL STERLING CAPITAL PLC

PROFIT AND LOSS ACCOUNT

For the year ended 31 January 2001

	Notes	2001 £	2000 £
Interest receivable	2	56,900,245	56,763,838
Interest payable	3	<u>(56,348,528)</u>	<u>(56,346,345)</u>
Net Interest income		551,717	417,493
Other income and charges		<u>(8,028)</u>	<u>(8,326)</u>
Profit on ordinary activities before taxation	4	543,689	409,167
Taxation on profit on ordinary activities	5	<u>(163,107)</u>	<u>(125,874)</u>
Profit for the financial year	12	<u><u>380,582</u></u>	<u><u>283,293</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 separate statement of historical cost profits and losses has been presented.

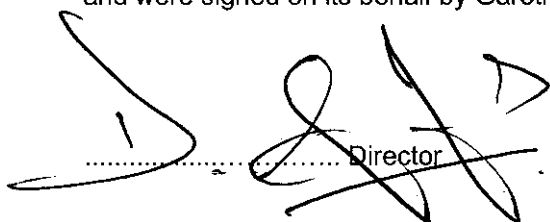
ABBEY NATIONAL STERLING CAPITAL PLC

BALANCE SHEET
as at 31 January 2001

	Notes	2001 £	2000 £
Fixed assets			
Investments	6	<u>450,000,000</u>	<u>550,000,000</u>
Current assets			
Investments	6	100,000,000	—
Debtors	7	<u>16,367,239</u>	<u>16,172,576</u>
		116,367,239	16,172,576
Current liabilities			
Creditors: amounts falling due within one year	8	<u>(114,058,604)</u>	<u>(14,476,338)</u>
Net current assets		2,308,635	1,696,238
Total assets less current liabilities		452,308,635	551,696,238
Creditors: amounts falling due after one year	9	(447,891,233)	(547,441,071)
Provision for liabilities and charges			
Deferred taxation	10	<u>(2,035,751)</u>	<u>(2,254,098)</u>
		<u>2,381,651</u>	<u>2,001,069</u>
Capital and reserves			
Called up share capital	11	50,000	50,000
Profit and loss account	12	<u>2,331,651</u>	<u>1,951,069</u>
Equity shareholders' funds		<u>2,381,651</u>	<u>2,001,069</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 27 July 2001 and were signed on its behalf by Gareth Jones:


..... Director

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS

For the year ended 31 January 2001

1. ACCOUNTING POLICIES

The principal accounting policies which are set out below have been applied consistently throughout the year and comply with applicable United Kingdom accounting standards.

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with all applicable UK accounting standards and the Statements of Recommended Accounting Practice issued by the British Bankers' Association. The order of the profit and loss account has been varied from the standard requirements set out in Schedule 4 of the Companies Act 1985. In the opinion of the directors, this is necessary in order to show a more appropriate view of the company's results.

Derivatives

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

Hedging transactions are accounted for on an accruals basis consistent with the assets or liabilities being hedged. Income and expenses on hedging transactions are recognised as they accrue over the life of the instruments as an adjustment to Interest Receivable or Interest Payable.

Subordinated bonds issued

Subordinated bonds issued are stated at net issue proceeds adjusted for amortisation. Premiums, discounts and expenses relating to the issue are amortised over the life of the underlying transactions. Where premiums, discounts and expenses are matched by swap fees, the related balances have been netted.

Deferred taxation

Deferred taxation is accounted for where it is probable that an asset or liability will arise. Provision is calculated 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 Financial Reporting Standard 8 "Related Party Disclosures", not to disclose transactions with entities that are part of the Abbey National group.

Cash Flow Statement

The cash flows of the company are included in the cash flow statement prepared by Abbey National plc. Accordingly, the group has taken advantage of the exemption in paragraph 5(a) of Financial Reporting Standard 1 (Revised 1996), "Cash Flow Statements", and not published its own cash flow statement.

2. INTEREST RECEIVABLE

	2001 £	2000 £
Interest receivable from group undertakings	53,509,925	52,381,806
Hedge Instruments with group undertakings	3,390,320	4,382,032
	<u>56,900,245</u>	<u>56,763,838</u>

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 January 2001

3. INTEREST PAYABLE

	2001 £	2000 £
Interest payable on subordinated debt with a maturity of:		
- more than 5 years	32,437,500	32,437,500
- less than 5 years	<u>23,911,028</u>	<u>23,908,845</u>
	<u>56,348,528</u>	<u>56,346,345</u>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2001 £	2000 £
Auditors' remuneration	<u>4,800</u>	<u>5,176</u>

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 (2000: nil).

The company had no directly employed staff during the year (2000: nil).

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2001 £	2000 £
Group relief payable at 30% (2000: 30.17%)	(381,454)	(320,159)
Deferred tax:		
- current year	<u>218,347</u>	<u>194,285</u>
	<u>(163,107)</u>	<u>(125,874)</u>

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

6. INVESTMENTS

	2001 £	2000 £
Loans to Abbey National plc		
Current	100,000,000	—
Non current	450,000,000	550,000,000
	<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. The variable interest income is converted into a fixed rate to match the fixed rate subordinated guaranteed bond funding via an interest rate swap.

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

The fair values of the loans to Abbey National plc amount to £733,084,798 (1999 : £685,127,336).

7. DEBTORS

	2001 £	2000 £
Amounts due from parent undertaking	11,011,230	11,042,634
Amounts due from ultimate parent undertaking	5,356,009	5,129,942
	<u>16,367,239</u>	<u>16,172,576</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Subordinated guarantee bond due 2002	99,841,461	—
Interest payable on subordinated debt	11,495,660	11,466,840
Amounts due to parent undertaking	2,384,560	2,495,427
Amounts due to ultimate parent undertaking	157,300	157,300
Amounts due to group undertakings in respect of group relief	174,823	351,771
Other creditors	4,800	5,000
	<u>114,058,604</u>	<u>14,476,338</u>

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%.

ABBEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

9. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2001 £	2000 £
Subordinated guaranteed bonds due 2002	—	99,697,251
Subordinated guaranteed bonds due 2004	149,325,882	149,138,736
Subordinated guaranteed bonds due 2017	148,978,090	148,952,473
Subordinated guaranteed bonds due 2023	148,832,761	148,740,811
Amounts due to ultimate parent undertaking	<u>754,500</u>	<u>911,800</u>
	<u>447,891,233</u>	<u>547,441,071</u>
Subordinated guaranteed bonds:		
due in more than one year but		
not more than two years	—	99,697,251
due in more than two years but		
not more than five years	149,325,882	149,138,736
due after five years	<u>297,810,851</u>	<u>297,693,284</u>
	<u>447,136,733</u>	<u>546,529,271</u>
Amounts due to ultimate parent undertaking:		
due in more than one year but		
not more than two years	50,300	157,300
due in more than two years but		
not more than five years	150,900	150,900
due after five years	<u>533,300</u>	<u>603,600</u>
	<u>754,500</u>	<u>911,800</u>
	<u>447,891,233</u>	<u>547,441,071</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 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.

The fair value of the subordinated guaranteed bonds detailed in note 8 and note 9 amount to £741,617,321 (1999: £691,665,000).

ABBNEY NATIONAL STERLING CAPITAL PLC

NOTES TO THE ACCOUNTS (continued)

10. DEFERRED TAXATION

	Amount provided		Total potential liability	
	2001	2000	2001	2000
	£	£	£	£
Tax effect of short term timing differences	<u>2,035,751</u>	<u>2,254,098</u>	<u>2,035,751</u>	<u>2,254,098</u>
The movement on deferred taxation is as follows:-				£
As at 1 February 2000				2,254,098
Transfer to profit and loss				<u>(218,347)</u>
As at 31 January 2001				<u>2,035,751</u>

11. CALLED UP SHARE CAPITAL

	2001	2000
	£	£
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>

12. PROFIT AND LOSS ACCOUNT

	£
As at 1 February 2000	1,951,069
Profit for the year	<u>380,582</u>
As at 31 January 2001	<u>2,331,651</u>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001	2000
	£	£
Shareholders' funds at 1 February	2,001,069	1,717,776
Profit for the financial year	<u>380,582</u>	<u>283,293</u>
Shareholders' funds at 31 January	<u>2,381,651</u>	<u>2,001,069</u>

14. GUARANTEES

Abbey National plc has given a full and unconditional guarantee on a subordinated basis in respect of the liabilities of Abbey National Sterling Capital plc under various Trust Deeds.

NOTES TO THE ACCOUNTS (continued)

15. 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 2001.

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 2001.

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

16. FINANCIAL INSTRUMENTS

The following disclosures are pursuant to FRS 13, 'Derivatives and other financial instruments: disclosures'.

The company has issued bonds to raise funds for its parent company at a competitive rate of interest. An interest rate swap has been entered into to remove the interest rate risk inherent in the bond issue.

Interest rate risk and currency risk:

As at 31 January 2001, after taking into account the effects of interest rate contracts, the company did not have any material interest rate exposures. The company does not have any currency exposures.

Fair values:

Fair value disclosures in respect of investments and bonds issued are provided in notes 6 and 9 to the accounts.

Derivatives:

The clean market value of the interest rate swap used for hedging is £10,909,277 (1999: £7,160,540).

Unrecognised gains and losses on financial assets and financial liabilities resulting from hedge accounting:

Gains and losses on financial instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The unrecognised gain on the instrument used for hedging is £11,475,527 (1999: £7,894,060) with £3,377,877 (1999: £1,799,020) expected to be realised within one year and £8,097,650 (1999: £6,095,040) expected to be realised in more than one year. The net clean book value of this contract is (£566,250) (1999: (£733,520)).