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ABBEY NATIONAL FRANCE HOLDINGS LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the audited accounts of Abbey National France Holdings Limited for the year ended 31 December 1996.

1. Principal activities

The Company was incorporated on 5 August 1994 and now has the status of a holding company. The Directors foresee no change in its activities.

2. Results for the year

The loss for the year on ordinary activities after taxation amounted to £112,381,000 and has been transferred to reserves. The Directors do not recommend the payment of a dividend.

3. Directors and their interests

The Directors who held office during the year were :

- C.N. Villiers, Chairman (Appointed 26 January 1996)
- T.C.W. Ingram (Resigned 25 January 1996)
- D.M. Smith (Resigned 19 December 1996)
- P. Haizet
- O. Vedrenne-Cloquet (Resigned 22 February 1996)
- M.A. Hackney (Appointed 19 December 1996)
- G. Lucken (Appointed 17 May 1996)

None of the Directors had a beneficial interest in the shares of the Company at 31 December 1996.

The interests of the Directors in the shares and share options in Abbey National plc (the ultimate parent undertaking) were as follows :

| Directors | At 1 January 1996 (or date of appointment if later) | | Options granted during the period | Options exercised during the period | At 31 December 1996 | |
|---------------|---|---------|---|--|---------------------|---------|
| | Shares | Options | | | Shares | Options |
| C.N. Villiers | 26 657 | 129 142 | 47 193 | 1 616 | 26 323 | 174 719 |
| P. Haizet | - | - | - | - | - | - |
| M.A. Hackney | - | 3 851 | - | - | - | 3 851 |
| G. Lucken | - | - | 150 | - | 50 | 150 |



ABBEY NATIONAL FRANCE HOLDINGS LIMITED

REPORT OF THE DIRECTORS (continued)

Options granted to Directors under the Sharesave Scheme of the ultimate parent undertaking are exercisable at prices between 149 p and 466 p per share within six months of the 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 254 p and 591 p per share after three years or five years and before ten years from the date of grant.

4. Statement of Directors responsibilities

The Directors of Abbey National France Holdings Limited are required by U.K. company law to prepare accounts for each financial year, 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 that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 December 1996. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking responsible steps for the prevention and detection of fraud and other irregularities.

5. Auditors

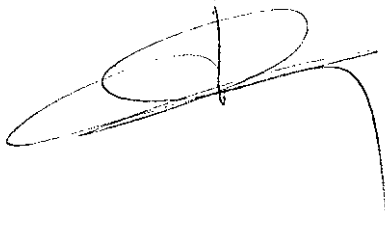
In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint Coopers & Lybrand as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

F. SCHAUFELBERGER
Company Secretary

Date :

21.2.97



REPORT OF THE AUDITORS TO THE MEMBERS OF ABBEY NATIONAL FRANCE HOLDINGS LIMITED

We have audited the accounts on pages 4 to 9.

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 December 1996 and of its loss 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
Date: 5 March 1997

ABBAY NATIONAL FRANCE HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1996

| | Notes | £,000 Year ended 31 Dec. 1996 | £,000 Period ended 31 Dec. 1995 |
|---|-------|-------------------------------------|---------------------------------------|
| Net Interest Income | | 50 | 87 |
| Other Operating Income | 3 | (112 409) | 77 552 |
| Net Operating Income | | (112 359) | 77 639 |
| Administrative Expenses | | (4) | (6) |
| (Loss)/Profit on ordinary activities before taxation | 4 | (112 363) | 77 633 |
| Taxation | 5 | (18) | (30) |
| RETAINED (LOSS)/PROFIT FOR THE YEAR | 9 | (112 381) | 77 603 |

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

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

ABBHEY NATIONAL FRANCE HOLDINGS LIMITED


BALANCE SHEET

As at 31 December 1996

| | NOTES | £,000 1996 | £,000 1995 |
|--|-------|----------------|----------------|
| ASSETS | | | |
| Loans and advances to Banks | | 1 | - |
| Investment in subsidiary | 6 | 651 132 | 763 339 |
| Debt securities | 7 | 1 187 | 1 406 |
| Other assets | | 9 | 3 |
| TOTAL ASSETS | | 652 329 | 764 748 |
| LIABILITIES | | | |
| Creditors : amounts falling due within one year : | | | |
| Other creditors | | 1 | 9 |
| Taxation | | - | 30 |
| | | 1 | 39 |
| Called up share capital | 8 | 687 106 | 687 106 |
| Reserves | 9 | (34 778) | 77 603 |
| Equity Shareholders' funds | 10 | 652 328 | 764 709 |
| TOTAL LIABILITIES & SHAREHOLDERS' FUNDS | | 652 329 | 764 748 |

The notes on pages 6 to 9 form part of these accounts.

The accounts on pages 4 to 9 were approved by the Board of Directors on 21st February 1997 and were signed on its behalf by :



Director

Date : 21.2.97

ABBHEY NATIONAL FRANCE HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

1. ACCOUNTING POLICIES

Basis of Accounting

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

Foreign Currency Translation

Income and expenses arising in foreign currencies are translated into sterling at the rate ruling at the transaction date. Assets and liabilities in foreign currencies are translated into sterling at the rate ruling at the balance sheet date. Translation differences are dealt with through the profit and loss account.

Debt Securities

Debt Securities held for investment purposes are stated at cost, adjusted for any amortisation of premium or discount over their estimated lives. Provision is made for any permanent diminution in value.

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 assets or liabilities crystallise.

Interest in Subsidiary Undertaking

The company's interest in its subsidiary undertaking is stated at cost less any provision for permanent diminution in value.

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

3. OTHER OPERATING INCOME

Other operating income includes unrealised exchange losses arising from the translation of the company's investment in its subsidiary which is denominated in French Francs.

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

During the period, none of the Directors received remuneration in respect of their services to the company. T.C.W. Ingram and C.N. Villiers received remuneration from the ultimate parent undertaking, Abbey National plc. All other Directors received remuneration from the subsidiary company, Abbey National France S.A.. No apportionment of Directors' remuneration has been made to the Company.

The auditors' remuneration was £500 for audit services and has been borne by the ultimate parent undertaking, Abbey National plc.

The company had no directly employed staff during the year.

ABBEY NATIONAL FRANCE HOLDINGS LIMITED

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 1996

| | £,000 Year ended 31 Dec.1996 | £,000 Period ended 31 Dec.1995 |
|---|------------------------------------|--------------------------------------|
| 5. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES | | |
| French corporation tax at 33,3 % | 16 | 27 |
| French corporation tax at 3,3 % | 2 | 3 |
| Tax on (loss)/profit on ordinary activities | 18 | 30 |

The company is tax resident in France and, in accordance with French tax law, no taxation is payable on unrealised foreign exchange gains in respect of investments quoted in domestic currency, ie : in French Francs.

6. INVESTMENT IN SUBSIDIARY

Investment in subsidiary is comprised wholly of a 100 % interest in the ordinary B shares of Abbey National France S.A., a finance company operating and incorporated in France. The investment amounts to Francs 5 790 000 000. The A shares are beneficially held by Abbey National.

| | £,000 1996 | £,000 1995 |
|----------------------------------|---------------|---------------|
| 7. DEBT SECURITIES | | |
| Certificates of Deposit | 1 136 | 1 319 |
| Other Securities and Investments | 51 | 87 |
| Debt Securities | 1 187 | 1 406 |
| Maturity Analysis | | |
| Due within 1 year | 1 187 | 1 406 |
| Due 1 year and over | - | - |

The securities and investments are not listed on a recognised stock exchange. The Directors estimate that the market value of the securities and investments is £1,189,000 at 31st December 1996.

The movement on debt securities held for investment purposes was as follows :

| | <u>£,000</u> |
|------------------------------|--------------|
| At 1st January 1996 | 1 406 |
| Exchange adjustments | (204) |
| Disposals | (102) |
| Acquisitions | 87 |
| At 31st December 1996 | 1 187 |

ABBAY NATIONAL FRANCE HOLDINGS LIMITED

NOTES TO THE ACCOUNTS (continued)

For the year ended 31 December 1996

| | £,000 1996 | £,000 1995 |
|-------------------------------------|---------------|---------------|
| 8. SHARE CAPITAL | | |
| Authorised : | | |
| Ordinary shares of £ 1 each | 1 000 000 | 1 000 000 |
| Alloted, called up and fully paid : | | |
| Ordinary shares of £ 1 each | 687 106 | 687 106 |

| | £,000 1996 | £,000 1995 |
|------------------------------|---------------|---------------|
| 9. RESERVES | | |
| As at 1 January | 77 603 | - |
| (Loss)/Profit for the period | (112 381) | 77 603 |
| As at 31 December | (34 778) | 77 603 |

| | £,000 1996 | £,000 1995 |
|--|---------------|---------------|
| 10. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS | | |
| As at 1 January | 764 709 | - |
| Issue of Share Capital | - | 687 106 |
| (Loss)/Profit for the period | (112 381) | 77 603 |
| As at 31 December | 652 328 | 764 709 |

11. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent and controlling 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.

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.