

ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED

REPORT AND ACCOUNTS
For the year ended 31 December 1997

REGISTERED IN ENGLAND AND WALES No. 3053574



ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED

DIRECTORS' REPORT

The directors present their report and accounts of Abbey National American Investments Limited for the year ended 31 December 1997.

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

The profit for the year on ordinary activities after taxation amounted to £16,313,677 (1996: £15,177,036) and has been transferred to reserves. The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the period were:

D G Jones	Chairman
G M Batchelor	
I Harley	Resigned 1 March 1998
G S Long	Resigned 10 March 1998
S A Zins	Resigned 6 June 1997
A Merrick	Appointed 5 March 1998
R Garratt	Appointed 5 March 1998

In accordance with the Articles of Association of the company, the directors are no longer required to apply for re-election.

I Harley and D G Jones were also directors of Abbey National plc, the ultimate parent undertaking, at 31 December 1997 and their interests in the shares and share options of that company are disclosed in the accounts of that company.

G M Batchelor, G S Long and R Garratt were also directors of Abbey National Treasury Services plc, the immediate parent undertaking, at 31 December 1997. Their interests in the shares and share options of the ultimate parent undertaking are disclosed in the accounts of Abbey National Treasury Services plc. G S Long resigned from Abbey National Treasury Services plc on 31 December 1997.

The directors did not have any interest in the shares and debentures of the company or any other subsidiaries of Abbey National plc.

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.

ABBAY NATIONAL AMERICAN INVESTMENTS LIMITED

DIRECTORS' REPORT (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors of Abbey National American Investments Limited 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
Company Secretary**

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED**

We have audited the accounts on pages 4 to 10.

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 1997 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 AMERICAN INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1997

	Notes	1997 £	1996 £
Investment income	2	25,042,215	23,396,199
Interest payable		(12,578)	(12,613)
Administrative expenses		(12,027)	(2,500)
Profit on ordinary activities before tax	3	25,017,610	23,381,086
Tax on profit on ordinary activities	4	(8,703,933)	(8,204,050)
Profit for the financial year	10	<u>16,313,677</u>	<u>15,177,036</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.

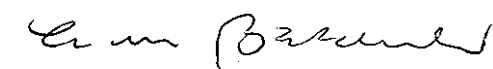
ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED

BALANCE SHEET

At 31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Investments	5	<u>252,955,169</u>	<u>252,967,748</u>
Current assets			
Debtors	6	37,465,026	20,796,928
Creditors: amounts falling due within one year	7	(604,645)	(262,803)
Net current assets		<u>36,860,381</u>	<u>20,534,125</u>
Total assets less current liabilities		<u>289,815,550</u>	<u>273,501,873</u>
Capital and reserves			
Called up share capital	8	253,005,000	253,005,000
Profit and loss account	9	<u>36,810,550</u>	<u>20,496,873</u>
Equity shareholders' funds	10	<u>289,815,550</u>	<u>273,501,873</u>

The accounts on pages 4 to 10 were approved by the Board of Directors on 19.6.98 and signed on its behalf by:



..... Director

ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED

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

Dividends from fixed rate preference share investments and interest income is recognised on an accruals basis. Other dividend income is recognised on a receipts basis.

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.

Fixed asset investments

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

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).

2. INVESTMENT INCOME

	1997 £	1996 £
Dividend income	251,104	209,354
Interest income	22,950,747	22,516,889
Interest receivable from parent company	<u>1,840,364</u>	<u>669,956</u>
	<u>25,042,215</u>	<u>23,396,199</u>

Dividend income represents income on investment in equity shares and other variable yield securities.

Interest income includes dividends on other unlisted investments of £22,862,872 (1996: £22,425,622).

ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after charging:

	1997 £	1996 £
Auditors' remuneration	<u>5,000</u>	<u>2,500</u>

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. However, I Harley and D G Jones received emoluments in respect of their services as directors of Abbey National plc, details of which can be found in the accounts of Abbey National plc.

G M Batchelor and G S Long received emoluments in respect of their services as directors of Abbey National Treasury Services plc, details of which can be found in the accounts of that company.

The company had no directly employed staff during the year (1996: nil).

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1997 £	1996 £
Group relief at 31.5% 1996 (33%)	599,639	257,803
UK corporation tax at 31.5% (33%)	7,272,162	7,510,351
Double tax relief	(7,272,162)	(7,510,351)
Overseas taxation payable	8,104,294	7,956,793
Deferred tax	<u>-</u>	<u>(10,546)</u>
	<u>8,703,933</u>	<u>8,204,050</u>

ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS

5. FIXED ASSET INVESTMENTS

	Listed	Equity shares and other variable yield securities	Unlisted Other unlisted investments	Total
	£	£	£	£
Cost				
As at 1 January 1997	890,000	3,000,000	249,000,000	252,890,000
Additions	-	-	-	-
Disposals	-	-	-	-
As at 31 December 1997	890,000	3,000,000	249,000,000	252,890,000
Unamortised premium				
As at 1 January 1997	77,748	-	-	77,748
Additions				
Profit and loss charge for the year	(12,579)	-	-	(12,579)
As at 31 December 1997	65,169	-	-	65,169
Net book value at 31 December 1997	<u>955,169</u>	<u>3,000,000</u>	<u>249,000,000</u>	<u>252,955,169</u>
Market value at 31 December 1997	<u>1,017,463</u>	<u>3,000,000</u>	<u>249,000,000</u>	<u>253,017,463</u>

Market values are based on market prices of investments where available. Where market prices are not available, the directors' valuation has been used.

As at 31 December 1997 the company owned 100% of the preference share capital in Sherwood Managed Investment Corporation, a company which is registered in the USA.

6. DEBTORS

	1997 £	1996 £
Amounts due from parent undertaking	37,310,882	20,679,202
Amounts due from group undertakings	46,053	28,504
Income tax recoverable	37,347	19,771
Accrued interest	70,744	69,451
	<u>37,465,026</u>	<u>20,796,928</u>

ABBEE NATIONAL AMERICAN INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	1996 £
Amounts due to fellow subsidiaries in respect of group relief	599,645	257,803
Other	<u>5,000</u>	<u>5,000</u>
	<u>604,645</u>	<u>262,803</u>

8. CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised		
253,005,000 ordinary shares of £1 each	<u>253,005,000</u>	<u>253,005,000</u>
Allotted, called up and fully paid		
253,005,000 ordinary shares of £1 each	<u>253,005,000</u>	<u>253,005,000</u>

9. PROFIT AND LOSS ACCOUNT

	1997 £	1996 £
As at 1 January	20,496,873	5,319,837
Profit for the year	<u>16,313,677</u>	<u>15,177,036</u>
At 31 December	<u>36,810,550</u>	<u>20,496,873</u>

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
As at 1 January	273,501,873	258,324,837
Profit for the year	<u>16,313,677</u>	<u>15,177,036</u>
Shareholders' funds at 31 December	<u>289,815,550</u>	<u>273,501,873</u>

ABBEY NATIONAL AMERICAN INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS

11. 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.

12. ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Abbey National Treasury Services plc which is registered in England and Wales. According to the register kept by the company, Abbey National Treasury Services plc has a 100% interest in the equity capital of Abbey National American Investments Limited at 31 December 1997.

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 December 1997.

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