

# FIRST NATIONAL BANK Plc

DIRECTORS' REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2002



**first National**

Company registration number: 592986



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# FIRST NATIONAL BANK Plc

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**COMPANY INFORMATION**

for the year ended 31 December 2002

Directors:           B A Carte FCIB FCT FIMI  
                      P A George FCIB  
                      J D S Hall ACIB  
                      K W Horlock  
                      D G Milton  
                      D A Thornham FCIB  
                      C B Dixon  
                      J R D Hayhow  
                      M J Millington

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Secretary:           T E Varley ACIB ACIS

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Registered  
office:               First National House  
                         College Road  
                         Harrow  
                         Middlesex  
                         HA1 1FB

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Auditors:            Deloitte & Touche  
                         Chartered Accountants and Registered Auditors  
                         London

## **REPORT OF THE DIRECTORS**

for the year ended 31 December 2002

The directors have pleasure in presenting their report for First National Bank Plc for the year ended 31 December 2002.

### **Principal activities**

The principal activity of First National Bank plc ("the Company") continues to be the provision of finance and banking services.

In April 2002, First National Vehicle Holdings and its subsidiaries were sold to Chartered Trust Group. In September 2002 the Business Finance unit (branded Abbey National business and comprising 22 subsidiary companies and a number of loan portfolios) was sold to Abbey National plc.

On 1 February 2003, the Company transferred its motor finance and litigation funding business to subsidiaries of Abbey National plc named First National Motor plc and First National Litigation Funding plc respectively. The Company also transferred a number of leasing subsidiaries involved in the motor finance business to Abbey National plc. In addition, the Company transferred its shareholding in PSA Finance plc, and its holding of subordinated debt in that entity, to Abbey National plc on the same day.

On 4 February 2003, Abbey National plc agreed to sell the Company (excluding its former motor finance, litigation funding businesses) to GE Consumer Finance UK LLC, the consumer credit business of General Electric Company, for a cash consideration of £848m. This sale is expected to complete in April 2003.

A list of the principal subsidiaries is given in note 15 to the accounts.

### **Future activities**

The Company will continue its present activities in point of sale consumer finance.

### **Results and dividends**

The loss on ordinary activities after taxation for the year ended 31 December 2002 amounted to £94.9 million (2001: profit of £45.9 million). An interim dividend of £50.04 million was paid on 27 June 2002. (2001: £130m). A final dividend is not proposed (2001: £nil). The loss for the year has been deducted from reserves.

### **Share Capital**

Details of the share capital of the Company are set out in note 28 to the accounts.

**REPORT OF THE DIRECTORS** continued  
for the year ended 31 December 2002

**Directors and directors' interests**

The directors who served throughout the year, except as noted were:

B A Carte	
P A George	
J D S Hall	
K W Horlock	
D G Milton	
D A Thornham	
J R Smart	
C B Dixon	appointed 19 March 2002
J R D Hayhow	appointed 15 April 2002
M J Millington	appointed 28 February 2002
T C W Ingram	resigned 28 February 2002
M A Bartholomeusz	resigned 12 April 2002
G Hockey-Morley	resigned 3 December 2002
M A Pain	resigned 27 June 2002
S A Zins	resigned 28 February 2002

J R Smart resigned as a director on 13 March 2003.

None of the Directors had any beneficial interests in the shares of the Company at the year end.

The Directors' interests in the shares of the ultimate holding company, Abbey National plc, (other than those for Mr M J Millington which are disclosed in that company's annual report) were as follows:

**Ordinary Shares of 10 pence each**

	Ord Shares 1 <sup>st</sup> Jan 2002 (i)	Ord Shares 31 <sup>st</sup> Dec 2002
J R D Hayhow	4,185	4,185
D G Milton	3,768	3,916
P A George	4,576	1,497
C B Dixon	5,844	4,656
B A Carte	500	500
D A Thornham	41	41
J R Smart	11,077	11,739

(i) Or date of appointment if later

No Directors have shareholdings in other group companies.

**REPORT OF THE DIRECTORS** continued  
for the year ended 31 December 2002

**Options Schemes – Ordinary shares of 10 pence each**

	As at 1 January 2002 (i)	Options granted during year (i)	Options cancelled during year (i)	Options exercised during year (i)	As at 31 December 2002	Type
J R D Hayhow	-	2,132	-	-	<b>2,132</b>	Sharesave
	625	-	-	-	<b>625</b>	Employee
	<u>4,959</u>	<u>18,981</u>	-	-	<b>23,940</b>	Executive
	<u>5,584</u>	<u>21,113</u>			<b>26,697</b>	
B A Carte	<u>450</u>	-	(ii) <u>450</u>	-	<b>Nil</b>	Employee
	<u>450</u>		<u>450</u>		<b>Nil</b>	
P A George	1,862	2,132	1,862	-	<b>2,132</b>	Sharesave
	150	-	-	-	<b>150</b>	Employee
	<u>80,645</u>	<u>31,481</u>	-	-	<b>112,126</b>	Executive
	<u>82,657</u>	<u>33,613</u>	<u>1,862</u>		<b>114,408</b>	
J D S'Hall	2,923	-	-	-	<b>2,923</b>	Sharesave
	150	-	-	-	<b>150</b>	Employee
	<u>38,654</u>	<u>22,222</u>	-	-	<b>60,876</b>	Executive
	<u>41,727</u>	<u>22,222</u>			<b>63,949</b>	
C B Dixon	3,795	926	-	1,822	<b>2,899</b>	Sharesave
	925	-	-	-	<b>925</b>	Employee
	<u>29,214</u>	<u>12,860</u>	-	-	<b>42,074</b>	Executive
	<u>33,934</u>	<u>13,786</u>		<u>1,822</u>	<b>45,898</b>	
K W Horlock	-	-	-	-	-	Sharesave
	150	-	-	-	<b>150</b>	Employee
	<u>62,025</u>	<u>24,691</u>	-	-	<b>86,716</b>	Executive
	<u>62,175</u>	<u>24,691</u>			<b>86,866</b>	
D G Milton	1,862	2,132	1,862	-	<b>2,132</b>	Sharesave
	925	-	-	-	<b>925</b>	Employee
	<u>19,670</u>	<u>12,654</u>	-	-	<b>32,324</b>	Executive
	<u>22,457</u>	<u>14,786</u>	<u>1,862</u>		<b>35,381</b>	
J R Smart	2,287	-	568	-	<b>1,719</b>	Sharesave
	-	-	-	-	-	Employee
	<u>54,486</u>	<u>38,065</u>	-	-	<b>92,551</b>	Executive
	<u>56,773</u>	<u>38,065</u>	<u>568</u>		<b>94,270</b>	
D A Thornham	<u>475</u>	-	(ii) <u>475</u>	-	<b>Nil</b>	Employee
	<u>475</u>		<u>475</u>		<b>Nil</b>	

(i) – or date of appointment if later

(ii) – option issued in error, lapsed

**REPORT OF THE DIRECTORS** continued  
for the year ended 31 December 2002

Options granted to Directors under the ultimate holding company's Sharesave Scheme are exercisable at prices between 513 pence and 989 pence 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 590 pence and 1306 pence per share after three years or five years and before ten years from the date of grant.

Shares in respect of Executive Share Options granted in 2002 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 December 2002 the Trust held 8,639,158 ordinary shares (2001 - 5,890,235 shares).

Abbey National also operates a Share Matching Scheme and a Partnership Share Scheme under its Employee Share Option Scheme.

Under the Share Matching Scheme all eligible employees who are invited to participate can choose to use all or part of their annual bonus to buy shares under the Scheme. Abbey National grants matching awards over shares ("matching shares") equal in value to the amount of the bonus before tax that the employee uses to buy the shares. These will normally vest on the third anniversary of the date on which they are granted, as long as specified performance conditions are met. The matching awards are included, where applicable, in the options shown for the Directors above. The shares automatically transfer to the individual as and when they vest.

The Partnership Share Scheme is available to all eligible employees, including the Directors named above. Under this scheme, participants may make 12 monthly contributions up to a maximum of £1,500 per annum, to acquire shares in Abbey National. These shares may be purchased within 30 days from 31 May 2003 at their market value on 1 June 2002 or, if lower, their market value on or shortly after 31 May 2003. The number of shares, which may be acquired under this scheme, calculated on the basis of the maximum contribution and the share price on 1 June 2002 (1021 pence per share), is 146 shares. If the share price at 31 May 2003 (or shortly after) is lower than 1021 pence per share, then the number of shares, which may be acquired, may be more than 146 shares. On the basis of the share price at 31 December 2002 (518 pence per share), 289 shares would be the maximum number of shares that could be acquired under the scheme.

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 December 2002, the Employee Trust held 1,559,738 ordinary shares (2001 - 604,362 shares).

## **Employees**

Employee communications are vital to the success of the Company and a comprehensive approach using a variety of media is adopted. Through the intranet, regular publications, team briefings and conferences the Company aims to ensure that employees are fully informed of news and developments including information on the Company's performance and welcomes feedback. In addition, the Company conducts staff opinion surveys and holds focus groups from time to time specifically to obtain feedback and to help communication. The Company also runs schemes to encourage and reward employees for their ideas and suggestions to improve the business. Employee consultation and negotiation takes place through the Abbey National Group Union.

The Company is fully committed to working towards the principles of Investors in People, with over 80% of the Company accredited.

The Company's commitment to involve employees as financial stakeholders in the business continued this year with an invitation for eligible employees to participate in the Abbey National plc Sharesave and Abbey National AESOP schemes. A bonus scheme is in operation linked directly to the profitability of the Company.

The Company provides both contributory and non-contributory pension arrangements under the Abbey National Group Pension Scheme. The Abbey National Group Pension Scheme operates under a trust set up by Abbey National plc and is administered by trustees. Funds are invested and managed independently. Further details of the scheme can be found in the financial statements of the ultimate parent company, Abbey National plc.

The Company is committed to equality of opportunity and continues to offer the same employment opportunities to people with disabilities and to take all practical steps to assist the recruitment, retention and development of disabled persons. The Company continues to support and work within the guidelines of the Disability Discrimination Act 1995.

## **Directors' Responsibility in respect of the Preparation of Financial Statements**

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss 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 financial statements for the year ended 31 December 2002. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Company's system of internal control and for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



### **Payment Policy**

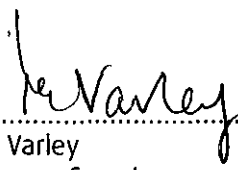
In the forthcoming year, the Company will continue to deal with a large number of suppliers operating in a diverse range of industries and so will not operate a single payment policy in respect of all classes of suppliers. It is the Company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions.

The Company's practice on payment of creditors has been quantified under the terms of the Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997. The number of days supplier invoices, which are included in trade creditors at 31 December 2002, is 26 days (2001: 31).

### **Auditors**

At the forthcoming Annual General Meeting of the Company it will be proposed that Deloitte & Touche be appointed (re-appointed) as auditors of the Company, in accordance with the resolution by Abbey National plc to appoint Deloitte & Touche as auditors of Abbey National plc and its subsidiaries.

By Order of the Board

  
.....  
T. E. Varley  
Company Secretary  
9<sup>th</sup> April 2003  
for the year ended 31 December 2002

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRST NATIONAL BANK PLC

We have audited the financial statements of First National Bank Plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 40. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, 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 with the Company is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements.

### Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements 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 financial statements 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 financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of its loss 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

9 April 2003

# Profit and loss account for the year ended 31 December 2002

Notes	2002 Before Exceptional Items £000	2002 Exceptional Items £000	2002 Total £000	2001 Restated Total £000
Interest receivable on debt securities	924	-	924	1,213
2 Other interest receivable and similar income	752,490	-	752,490	768,213
3 Interest payable	(379,330)	-	(379,330)	(405,924)
<b>Net interest income</b>	<b>374,084</b>	<b>-</b>	<b>374,084</b>	<b>363,502</b>
Dividends receivable	71,532	-	71,532	-
Fees and commissions receivable	71,041	-	71,041	71,076
Fees and commission payable	(185,423)	-	(185,423)	(161,660)
4 Other operating income	5,231	-	5,231	7,591
<b>Total operating income</b>	<b>336,465</b>	<b>-</b>	<b>336,465</b>	<b>280,509</b>
5 Administrative expenses	(128,595)	-	(128,595)	(145,393)
7 Depreciation and amortisation on fixed assets	(10,472)	-	(10,472)	(9,198)
8 Provisions for bad and doubtful debts	(50,785)	-	(50,785)	(41,314)
15 Amounts written off fixed asset investments	-	(73,496)	(73,496)	-
7 Impairment of intangible fixed assets	-	(143,161)	(143,161)	-
<b>Operating (loss)/profit and (loss)/profit on ordinary activities before tax</b>	<b>146,613</b>	<b>(216,657)</b>	<b>(70,044)</b>	<b>84,604</b>
10 Tax on (loss)/profit on ordinary activities	(24,816)	-	(24,816)	(38,729)
<b>(Loss)/profit on ordinary activities after tax</b>	<b>121,797</b>	<b>(216,657)</b>	<b>(94,860)</b>	<b>45,875</b>
40 Dividends paid	(50,040)	-	(50,040)	(130,000)
<b>(Loss)/profit retained for the financial year</b>	<b>71,757</b>	<b>(216,657)</b>	<b>(144,900)</b>	<b>(84,125)</b>

An analysis of the Company's activities showing amounts attributed to continuing and discontinued operations is shown below:

	Continuing Operations £000	Discontinued Operations £000	Total £000
<b>2002</b>			
Total operating income	313,706	22,759	336,465
Operating (loss)/profit and (loss)/profit on ordinary activities before tax	(74,633)	4,589	(70,044)
	Continuing Operations £000	Discontinued Operations £000	Total £000
<b>2001</b>			
Total operating income	260,009	20,500	280,509
Operating profit and profit on ordinary activities before tax	77,105	7,499	84,604

The Company's results as reported are in all material respects on a historical cost basis. Accordingly, no note of historical cost profits and losses has been presented.

A full analysis of the Company's activities showing amounts attributable to continuing and discontinued operations is set out in note 9.

# Statement of Total Recognised Gains and Losses for the year ended 31 December 2002

	Notes	2002 £'000	2001 Restated £'000
(Loss)/profit attributable to the shareholders of the company		(94,860)	45,875
Total recognised (losses)/profit relating to the year		(94,860)	45,875
Prior year adjustment relating to the adoption of FRS 19 – deferred tax	26	10,074	-
<b>Total (losses)/profits recognised since last annual report</b>		<b>(84,786)</b>	<b>45,875</b>

Balance sheet as at 31 December 2002

Notes	2002 £000	2002 £000	2001 Restated £000	2001 Restated £000
<b>Assets</b>				
		10,849		10,120
11		22,926		78,277
12		7,017,439		7,679,168
13		20,500		20,500
14		30,747		30,747
15		170,038		306,807
16		-		148,833
17		13,005		14,555
18		281,455		316,239
19		25,773		33,958
		<b>7,592,732</b>		<b>8,639,204</b>
<b>Liabilities</b>				
20		6,645,588		7,353,562
21		184,329		222,571
22		3,333		5,026
23		91,797		118,388
24		26,899		43,971
27		-		110,000
		<b>6,951,946</b>		<b>7,853,518</b>
28	Called up share capital - ordinary shares	601,100	601,100	
28	Share premium account	74,300	74,300	
29	Profit and loss account	(34,614)	110,286	
30	Equity shareholders' funds	<b>640,786</b>		<b>785,686</b>
		<b>7,592,732</b>		<b>8,639,204</b>
<b>Memorandum items</b>				
<b>Contingent liabilities</b>				
31	Guarantees and assets pledged as collateral security	458		1,056
31	Other contingent liabilities	38		38
31	Commitments	-		400,000
		<b>496</b>		<b>401,094</b>

The accounts on pages 10 to 32 were approved by the Board on

9th April

2003 and signed on its behalf by:



PA George Managing Director



CB Dixon Finance Director

## Accounting policies

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### Basis of presentation

The financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to banking companies and banking groups.

The company is itself a subsidiary Company and is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

### Accounting convention

The Company prepares its financial statements under the historical cost convention, modified by the revaluation of certain assets. They are prepared in accordance with applicable accounting standards of the Accounting Standards Board and pronouncements of its Urgent Issues Task Force and with the Statements of Recommended Accounting Practice issued by the British Bankers' Association and the Irish Bankers' Federation. Accounting policies are reviewed regularly to ensure they are the most appropriate to the circumstances of the Company for the purposes of giving a true and fair view.

### Interests in subsidiary undertakings and associated undertakings

The Company's interests in subsidiary undertakings and associated undertakings are stated at cost less any provisions for impairment.

### Goodwill

Goodwill arising as a result of the purchase of businesses after 1 January 1998 is capitalised under the heading Intangible fixed assets and amortised on a straight line basis over its expected useful economic life. Such goodwill is subject to review for impairment in accordance with FRS 11, 'Impairment of fixed assets and goodwill' (see below). The useful economic life is calculated using a valuation model which determines the period of time over which returns are expected to exceed its cost of capital, subject to a maximum period of 20 years.

### Impairment of fixed assets and goodwill

Tangible fixed assets, other than investment properties, and goodwill are subject to review for impairment in accordance with FRS 11. The carrying values of tangible fixed assets and goodwill are written down by the amount of any impairment, and the loss is recognised in the profit and loss account in the year in which this occurs. Should an external event reverse the effects of a previous impairment, the carrying value of the tangible fixed assets and goodwill may be written up to a value no higher than the original depreciated cost.

### Depreciation

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives. The following periods are used:

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Premises and equipment:	
Freehold buildings	100 years
Long and short leasehold premises: Over the remainder of the lease, with a maximum of 100 years	
Acquisition premiums are depreciated over the year to the next rent review	
Office fixtures, equipment and furniture	5 - 8 years
Computer equipment	3 - 5 years
No depreciation is provided on freehold land.	

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**Interest receivable**

Interest is suspended where due but not received on loans and advances in arrears where recovery is doubtful. The amounts suspended are excluded from interest receivable on loans and advances until recovered. Interest earned on fixed rate instalment credit agreements is calculated on the sum of the digits basis whereby this income is allocated over the duration of each agreement in proportion to the capital balance as reduced by each monthly payment required by the agreement.

**Fees, commissions and dividends receivable**

Fees and commissions receivable in respect of services provided are taken to the profit and loss account when the related services are performed. Where fees, commissions and dividends are in the nature of interest, these are taken to the profit and loss account on a systematic basis over the expected life of the transaction to which they relate and are included under the heading, Interest receivable.

**Lending-related fees and commissions payable**

Commissions payable to introducers in respect of obtaining certain lending business, where this is the primary form of distribution, are charged to the profit and loss account over the anticipated life of the loans on a systematic basis. The profit and loss account charge for such commissions is included under the heading, Fees and commissions payable.

**Securities**

Debt securities, equity shares and other variable yield securities (securities) held for investment purposes are stated at cost, adjusted for any amortisation of premium or discount on an appropriate basis over their estimated remaining lives. Provision is made for any impairment. Investment securities are intended for use on a continuing basis by the Company and have been identified as such.

**Derivatives**

Transactions are undertaken in derivative financial instruments ('derivatives') which include interest rate swaps and options for non-trading purposes.

Non-trading derivatives are those entered into for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Company's non-trading assets, liabilities and positions. Non-trading assets, liabilities and positions are those intended for use on a continuing basis in the activities of the Company.

A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates on the derivative and designated non-trading asset, liability or position being hedged. Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Non-trading derivatives are initially recorded at cost and accounted for on an accruals basis, consistent with the assets, liabilities, or positions being hedged. Income and expense on non-trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to interest receivable.

**Provisions for bad and doubtful debts**

The Company's provisioning policy is in accordance with UK Industry best practice as expressed in the British Bankers' Association (BBA) Statement of Recommended Practice (SORP) on Advances. Specific provisions are made against loans and advances when, as a result of regular appraisals of the assets, it is considered that recovery is doubtful. A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified but which are known from experience to be present in any portfolio of loans and advances. The specific and general provisions are deducted from loans and advances. Provisions made during the year, less amounts released and recoveries of amounts written off in previous years, are charged to the profit and loss account.

**Pensions**

Where pensions are provided by means of a funded defined benefits scheme, annual contributions are based on actuarial advice. The cost of pension contributions payable in respect of each accounting period is charged to the profit and loss account, as it is not practicable to determine the share of scheme assets attributable to members of the various schemes who are employees or part-employees of First National Bank.

**Deferred taxation**

The company adopted Financial Reporting Standard 19 'Deferred Tax' with effect from 1 January 2002. Deferred taxation is provided on all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

The 2001 comparative amounts have been restated to reflect this accounting policy change and as a consequence shareholders' funds have been increased by £10.074 million. The effect for the current year is that shareholders' funds have increased by £0.704 million.



## Notes to the accounts

### 1. Segmental analysis

In the opinion of the directors there is only one material class of business for the purposes of the Statement of Standard Accounting Practice 25 and this business is conducted in the United Kingdom.

	2002 £000	2001 £000
<b>2. Other interest receivable and similar income</b>		
On secured advances	346,053	353,756
On unsecured advances	405,300	414,457
On finance leases	1,137	-
	<b>752,490</b>	<b>768,213</b>

Interest due but not received on loans and advances in arrears has not been recognised in interest receivable where collectability is in doubt, but has been suspended. A table showing the movements on suspended interest is included in Note 8.

	2002 £000	2001 £000
<b>3. Interest payable</b>		
On retail funds	3	177
On bank loans	66	54
On debt securities	5,180	7,153
On loans from group companies	374,081	398,540
	<b>379,330</b>	<b>405,924</b>

	2002 £000	2001 £000
<b>4. Other operating income</b>		
Profits less losses on disposal of investment properties	(41)	(64)
Income from operating leases	47	-
Other	5,225	7,655
	<b>5,231</b>	<b>7,591</b>

## Notes to the accounts continued

	2002 £000	2001 £000
<b>5. Administrative expenses</b>		
Staff costs:		
Wages and salaries	97,674	84,363
Social security costs	6,658	6,565
Other pension costs	14,008	11,564
	118,340	102,492
Property and equipment expenses:		
Rents payable	11,921	10,880
Rates payable	1,592	1,676
Hire of equipment	120	172
Other property and equipment expenses	978	1,667
	14,611	14,395
Other administrative expenses	105,839	129,594
Administrative expenses recharged to subsidiary undertakings	(110,195)	(101,088)
	(4,356)	28,506
	128,595	145,393

An analysis of fees paid to auditors is shown below:  
All amounts stated net of VAT

Audit services	239	434
Other services	22	66
	261	500

	2002 £000	2001 £000
<b>6. Directors and employee information</b>		
<b>a) Emoluments of directors</b>		
All Directors:		
Aggregate emoluments	1,387	1,719
Compensation for loss of office	313	329

The following Directors of FNB were also Directors of Abbey National plc: M J Millington, M A Pain (resigned 27 June 2002) and T C W Ingram (retired 28 February 2002). The total emoluments of these Directors are disclosed in the accounts of Abbey National plc, and are not included in the disclosures in this note.

S A Zins (up to 28 February 2002) and J R Smart (from 1 March 2002) were non-executive directors of FNB, but their emoluments were borne by Abbey National plc during this period, and are therefore not included in the above. Their total emoluments amounted to £261,690 in 2002 and £204,383 in 2001.

Details of share options exercised by the Directors are disclosed in the Directors' report and in the accounts of Abbey National plc, the ultimate parent company. The above emoluments include employers' pension contributions.

Seven Directors (2001: Eight) received shares under the executive share option scheme. Retirement benefits are accruing to nine (2001: Nine) Directors under the pension scheme referred to in Note 34.

	2002 £000	2001 £000
Highest paid Director:		
Aggregate emoluments	237	242
Defined benefit pension scheme:		
Accrued pension at end of year	101	84

## Notes to the accounts continued

### 6. Directors and employee information continued

	2002	2001
b) Average number of persons employed (including Directors)	No.	No.
	2,461	3,733

7. Depreciation and amortisation on fixed assets excluding operating lease assets	2002 £000	2001 £000
Amortisation of intangible fixed assets – purchased goodwill (see Note 16)	5,672	5,292
Depreciation of tangible fixed assets (see Note 17)	4,800	3,906
Impairment of intangible fixed assets (see Note 16)	143,161	-
	153,633	9,198

8. Provisions for bad and doubtful debts	Total £000
<b>General</b>	
At 1 January 2002	24,492
Charge for the year	1,056
At 31 December 2002	25,548
<b>Specific</b>	
At 1 January 2002	90,604
Charge for the year	49,729
Recoveries	(6,730)
Write offs	(65,151)
At 31 December 2002	68,452
Total provisions (see note 12)	94,000
Total charge for the year	50,785

Capital provisions as a percentage of loans and advances to customers:

	On advances secured on residential properties %	On other secured advances %	On unsecured advances %	Total %
At 31 December 2002	1.27	1.70	3.33	2.08
At 31 December 2001	1.45	2.32	3.70	2.56

## Notes to the accounts continued

### 8. Provisions for bad and doubtful debts continued

Analysis of movements on suspended interest:

	On advances secured on residential properties £000	On other secured advances £000	On unsecured advances £000	Total £000
At 1 January 2002	787	3,120	3,567	7,474
At 31 December 2002	921	2,816	3,309	7,046

The value of loans and advances at 31 December 2002 on which interest is suspended is as follows:

	On advances secured on residential properties £000	On other secured advances £000	On unsecured advances £000	Total £000
Loans and advances to customers	72,660	95,998	91,901	260,559
Provisions on these amounts	7,337	23,018	37,333	67,688

### 9. Operating (loss)/profit

	Continuing Operations 2002 £000	Discontinued Operations 2002 £000	Total 2002 £000
Interest receivable on debt securities	924	-	924
Other interest receivable and similar income	707,571	44,919	752,490
Interest payable	(358,080)	(21,250)	(379,330)
Net interest income	350,415	23,669	374,084
Dividends receivable	71,532	-	71,532
Fees and commissions receivable	68,729	2,312	71,041
Fees and commission payable	(182,154)	(3,269)	(185,423)
Other operating income	5,184	47	5,231
Total operating income	313,706	22,759	336,465
Administrative expenses	(113,028)	(15,567)	(128,595)
Depreciation and amortisation on fixed assets	(10,130)	(342)	(10,472)
Provisions for bad and doubtful debts	(48,524)	(2,261)	(50,785)
Amounts written off fixed asset investments	(73,496)	-	(73,496)
Impairment of intangible fixed assets	(143,161)	-	(143,161)
Operating (loss)/profit and (loss)/profit on ordinary activities before tax	(74,633)	4,589	(70,044)

## Notes to the accounts continued

9. Operating loss continued	Continuing Operations	Discontinued Operations	Total
	2001	2001	2001
	£000	£000	£000
Interest receivable on debt securities	1,213	-	1,213
Other interest receivable and similar income	732,008	36,205	768,213
Interest payable	(393,177)	(12,747)	(405,924)
Net interest income	340,044	23,458	363,502
Fees and commissions receivable	70,990	86	71,076
Fees and commission payable	(158,764)	(2,896)	(161,660)
Other operating income	7,739	(148)	7,591
Total operating income	260,009	20,500	280,509
Administrative expenses	(134,936)	(10,457)	(145,393)
Depreciation and amortisation on fixed assets	(8,484)	(714)	(9,198)
Provisions for bad and doubtful debts	(39,484)	(1,830)	(41,314)
Operating profit	77,105	7,499	84,604

	2002	2001 Restated
	£000	£000
<b>10. Tax on loss on ordinary activities</b>		
<b>UK corporation tax:</b>		
Current year at 30%	24,390	24,133
Prior years	1,130	14,927
<b>Deferred tax:</b>		
Current year at 30%	(704)	(331)
Prior years	-	-
	24,816	38,729

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK Corporation Tax is as follows:

Factors affecting the charge for taxation for the year		
(Loss)/profit on ordinary activities before tax	(70,044)	84,604
Taxation at UK standard rate of 30% (2001: 30%)	(21,013)	25,381
Adjustment to prior year provisions	1,130	14,927
Provisions and short-term timing differences	704	(3,650)
Impairment of goodwill	65,664	1,588
Non taxable income	(22,727)	-
Non allowable expenditure	1,762	814
Current tax charge for the year	25,520	39,060

11. Loans and advances to banks	2002	2001
	£000	£000
Loans and advances to banks, comprising current accounts and deposits	22,926	78,277

Loans and advances to banks are at variable interest rates and are repayable on demand.

## Notes to the accounts continued

	2002 £000	2001 £000
<b>12. Loans and advances to customers</b>		
Advances secured on residential properties	802,962	660,875
Other secured advances	2,466,629	2,562,943
Unsecured advances	1,236,774	1,158,099
Amounts owed by group companies	2,511,074	3,297,251
	<b>7,017,439</b>	<b>7,679,168</b>
<b>Repayable:</b>		
On demand or at short notice	53,366	270,682
In not more than 3 months	2,898,010	3,561,418
In more than 3 months but not more than 1 year	1,031,071	1,127,177
In more than 1 year but not more than 5 years	2,409,632	2,282,219
In more than 5 years	719,360	552,768
Less: provisions (see Note 8)	(94,000)	(115,096)
	<b>7,017,439</b>	<b>7,679,168</b>

The loans and advances to customers included in the above table have the following interest rate structures:

	2002 £000	2001 £000
Fixed rate	2,350,259	2,137,466
Variable rate	4,761,180	5,656,798
Provisions (see note 8)	(94,000)	(115,096)
	<b>7,017,439</b>	<b>7,679,168</b>

	2002		2001	
	Book Value £000	Market Value £000	Book Value £000	Market Value £000
<b>13. Debt securities</b>				
Investment securities	20,500	20,500	20,500	20,500

Investment securities comprise subordinated unsecured loan stock issued by PSA Finance plc (see Note 14).  
The Company held no securities for purposes other than investment.

	2002 £000	2001 £000
<b>Book value analysed by maturity:</b>		
Due in more than 1 year but not more than 5 years	20,500	20,500

## Notes to the accounts continued

### 14. Interests in associated undertakings and joint ventures

	2002 £000	2001 £000
Interest in associated undertaking	30,747	30,747

The principal associated undertaking at 31 December 2002 is:

Name and nature of business	Issued share capital	Group interest
		%
PSA Finance plc, Personal finance	40,000,000 £1 ordinary shares	50

The United Kingdom is the principal area of operation of PSA Finance plc. PSA Finance plc is registered in England and Wales.

The associated undertaking is unlisted and has a year end of 31 December 2002.

	2002 Cost & Book Value £000	2001 Cost & Book Value £000
<b>15. Interests in subsidiary undertakings</b>		
Subsidiary undertakings:		
Banks	-	-
Others	170,038	306,807
	170,038	306,807

The movement in share in Company undertakings was as follows:

	£000	£000
At 1 January 2002	306,807	306,807
Write offs	(73,496)	-
Disposals	(63,273)	-
At 31 December 2002	170,038	306,807

The principal subsidiaries of First National Bank plc at 31 December 2002 are shown below, all of which are held and unlisted.

	Nature of business
Household Mortgage Corporation plc	Mortgage Lending
HMC Group plc	Mortgage Lending
First National Tricity Finance Limited	Retail Finance

The Company holds directly or indirectly 100% of the issued ordinary share capital of its principal subsidiaries. The Company and these subsidiary undertakings are registered in England and Wales and operate in Great Britain.

## Notes to the accounts continued

	Purchased goodwill £000
<b>16. Intangible fixed assets</b>	
<b>Cost</b>	
At 1 January 2002	168,556
Disposals	-
At 31 December 2002	168,556
<b>Amortisation</b>	
At 1 January 2002	19,723
Charge for the year	5,672
Amortisation on disposals	-
Impairment	143,161
At 31 December 2002	168,556
<b>Net book value</b>	
At 31 December 2002	-
At 31 December 2001	148,833

Goodwill included above in respect of all material acquisitions was amortised over a period of 20 years prior to impairment.

	Equipment £000	Leasehold Improvements £000	Total £000
<b>17. Tangible fixed assets excluding operating lease assets</b>			
<b>Cost or valuation</b>			
At 1 January 2002	28,785	3,278	32,063
Additions	2,515	911	3,426
Disposals	(1,548)	-	(1,548)
At 31 December 2002	29,752	4,189	33,941
<b>Depreciation</b>			
At 1 January 2002	16,529	979	17,508
Charge for the year	4,306	494	4,800
Disposals	(1,372)	-	(1,372)
At 31 December 2002	19,463	1,473	20,936
<b>Net book value</b>			
At 31 December 2002	10,289	2,716	13,005
At 31 December 2001	12,256	2,299	14,555

	2002 £000	2001 Restated £000
<b>18. Other assets</b>		
Debtors	21,458	68,899
Development properties	-	120
Introducer fees	246,632	234,559
Deferred Taxation (see Note 25)	13,365	12,661
	281,455	316,239



## Notes to the accounts continued

	2002 £000	2001 £000
<b>19. Prepayments and accrued income</b>		
Accrued interest owed by subsidiaries	16,304	27,244
Other accrued interest	246	137
Prepayments and other accruals	9,223	6,577
	25,773	33,958

	2002 £000	2001 £000
<b>20. Deposits by banks</b>		
Amounts owed to group companies	6,617,642	7,327,763
Other deposits	27,946	25,799
	6,645,588	7,353,562
<b>Repayable:</b>		
On demand	27,946	25,799
In not more than 3 months	6,617,642	7,327,763
	6,645,588	7,353,562

	2002 £000	2001 £000
<b>21. Customer accounts</b>		
Retail deposits	1,388	1,302
Amounts due to parent companies	182,941	221,269
	184,329	222,571
<b>Repayable:</b>		
On demand	1,302	1,006
In not more than 3 months	86	296
In more than 5 years	182,941	221,269
	184,329	222,571

	Book and Market value	
	2002 £000	2001 £000
<b>22. Debt securities in issue</b>		
Bonds and medium term notes	3,333	5,026

	2002 £000	2001 £000
<b>Bonds and medium term notes are repayable:</b>		
In more than 3 months but not more than 1 year	-	5,026
In more than 1 year but not more than 5 years	3,333	-
	3,333	5,026

## Notes to the accounts continued

	2002 £000	2001 £000
<b>23. Other liabilities</b>		
Creditors and accrued expenses	58,715	81,912
Taxation	33,082	36,476
	91,797	118,388

	2002 £000	2001 £000
<b>24. Accruals and deferred income</b>		
Accrued interest on borrowings	25,450	42,899
Other accrued interest	-	390
Other deferred income	1,449	682
	26,899	43,971

	2002 £000	2001 Restated £000
<b>25. Deferred taxation</b>		
At 1 January	12,661	2,256
Prior year restatement	-	10,074
At 1 January (as restated)	12,661	12,330
Transfer from profit and loss account	704	331
Restated deferred taxation	13,365	12,661

	2002 £000	2001 Restated £000
The amounts provided and total potential liability is:		
Tax effect of timing differences due to:		
Capital allowances	5,701	5,314
Provisions	7,664	7,347
	13,365	12,661

Deferred taxation assets are included in other assets.

## Notes to the accounts continued

### 26. Prior year adjustment

The Company's policy for accounting for deferred tax has changed to comply with Financial Reporting Standard 19 "Deferred Tax". Previously deferred tax was not provided for in respect of all timing differences. The statement of accounting policies describes the deferred tax policy in full.

The comparative figures for the preceding period in the primary statements and the notes to the accounts have been restated on the basis of the new policy, and the opening balance of reserves has been adjusted for the cumulative effect. The cumulative effect of the adjustments is also noted at the foot of the statement of total recognised gains and losses and included in the reconciliation of shareholders' funds.

The effects of the change in policy are summarised below:

	2001 £000
<b>Profit and loss account</b>	
Amounts credited to reserves in respect of movements in deferred tax position in all years prior to 2001	10,074
<b>Balance sheet</b>	
Recognition of deferred tax asset at 1 January 2001	10,074

	2002 £000	2001 £000
<b>27. Subordinated liabilities</b>		
Dated subordinated liabilities:		
Subordinated floating rate note 2023	-	110,000
	-	110,000

The subordinated floating rate note attracted a rate of interest related to LIBOR. This represented the on-lending to the Company, on a subordinated basis, by the ultimate parent company. During the year, the subordinated loan was fully paid off.

	Ordinary shares of £1 each £000
<b>28. Called up share capital and share premium account</b>	
<b>Authorised share capital</b>	
At 1 January 2002	701,100
At 31 December 2002	701,100
<b>Issued and fully paid share capital</b>	
At 1 January 2002	601,100
At 31 December 2002	601,100
<b>Share premium account</b>	
At 1 January 2002	74,300
At 31 December 2002	74,300

## Notes to the accounts continued

### 29. Profit and loss account and reserves

£000

At 31 December 2001	100,212
Prior year restatement (see note 26)	10,074
At 1 January 2002 as stated	110,286
Loss retained for the financial year	(144,900)
At 31 December 2002	(34,614)

### 30. Reconciliation of movements in shareholders' funds

2002  
£000

2001  
£000

(Loss)/profit attributable to the shareholders of First National Bank Plc	(94,860)	45,875
Dividends	(50,040)	(130,000)
Net reduction in shareholders' funds	(144,900)	(84,125)
Equity shareholders' funds at 1 January	785,686	859,737
Equity shareholders' funds at 31 December	640,786	775,612
Prior year restatement	-	10,074
Restated Equity shareholders' funds at 31 December	640,786	785,686

### 31. Memorandum items: Guarantees and assets pledged as collateral security

2002  
£000

2001  
£000

Guarantees given by First National Bank Plc of subsidiaries' liabilities	420	518
Guarantees given to third parties	38	538
	458	1,056

Contingent liabilities arise in the ordinary course of business from which it is not anticipated that any material loss will arise.

### Memorandum items: Other contingent liabilities

2002  
£000

2001  
£000

Other contingent liabilities	38	38
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### Memorandum items: Commitments

Formal standby facilities and credit lines:

Less than 1 year	-	400,000
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## Notes to the accounts continued

### 32. Financial instruments

In accordance with FRS 13, 'Derivatives and other financial instruments; disclosures', interest rate repricing gap information is shown in the tables below, as at 31 December 2002. It provides an estimate of the repricing profile of the Company's assets, liabilities and off-balance sheet exposures for non-trading activities. For the major categories of assets and liabilities, these 'gap' tables show the values of interest earning assets and interest bearing liabilities, which reprice within selected time bands. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

#### Interest rate sensitivity gap as at 31 December 2002

	Not more than 3 months	In more than 3 months but not more than 6 months	In more than 6 months but not more than 12 months	In more than 1 year but not more than 5 years	In more than 5 years	Non- interest bearing amounts	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Assets:</b>							
Cash and balances at central banks	-	-	-	-	-	10,849	10,849
Loans and advances to banks	22,926	-	-	-	-	-	22,926
Loans and advances to customers	2,998,282	309,445	722,038	2,406,761	580,913	-	7,017,439
Securities and investments	20,500	-	-	-	-	-	20,500
Other assets	-	-	-	-	-	521,018	521,018
<b>Total assets</b>	<b>3,041,708</b>	<b>309,445</b>	<b>722,038</b>	<b>2,406,761</b>	<b>580,913</b>	<b>531,867</b>	<b>7,592,732</b>
<b>Liabilities:</b>							
Deposits by banks	6,645,588	-	-	-	-	-	6,645,588
Customer accounts	184,329	-	-	-	-	-	184,329
Debt securities in issue	-	-	-	3,333	-	-	3,333
Other liabilities	-	-	-	-	-	118,696	118,696
Shareholders' funds	-	-	-	-	-	640,786	640,786
<b>Total liabilities</b>	<b>6,829,917</b>	<b>-</b>	<b>-</b>	<b>3,333</b>	<b>-</b>	<b>759,482</b>	<b>7,592,732</b>
Off-balance sheet items (1)	1,704,772	(352,022)	(466,750)	(886,000)	-	-	-
Interest rate repricing gap	(2,083,437)	(42,577)	255,288	1,517,428	580,913	(227,615)	-
2002 cumulative gap	(2,083,437)	(2,126,014)	(1,870,726)	(353,298)	227,615	-	-
2001 cumulative gap	(2,451,657)	(2,308,615)	(1,811,963)	(346,986)	201,882	-	-

(1) Off-balance sheet items are classified in the table above according to the interest terms contained in the contracts.

Negative gaps are liability sensitive and, all other things being equal, would indicate a benefit if interest rates decline.

A positive gap is asset sensitive and, all other things being equal, would indicate a benefit if interest rates increase.

Fixed rate assets and liabilities are hedged in line with a broadly risk neutral management objective. Gap positions within the interest rate repricing table are attributable to the anticipated maturity date of assets and liabilities being different from the legal maturity date. The table does not purport to measure market risk exposure.

### 33. Derivatives

Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement. Derivatives are used for non-trading purposes. These terms are defined in Accounting policies: Derivatives on page 14.

The only derivatives used are interest rate contracts including swaptions, which are used to hedge the Company's exposures to interest rates inherent in non-trading assets, liabilities and positions, including fixed rate lending.

The following table summarises activities undertaken by the Company, the related risks associated with such activities and the types of derivatives used in managing such risks. Such risks may also be managed using on-balance sheet instruments as part of an integrated approach to risk management.

<u>Activity</u>	<u>Risk</u>	<u>Type of Hedge</u>
Fixed rate lending to customers and subsidiaries	Sensitivity to increases in interest rates	Pay fixed interest rate swaps
Management of other net interest income	Sensitivity of returns to changes in interest rates	Interest rate swaps, swaptions and caps/floors according to type of risk identified

Derivatives used for non-trading activities are accounted for on an accruals basis consistent with the assets, liabilities or positions being hedged.

#### Quantitative disclosures

The table below shows the contract or underlying principal amounts and positive and negative market values of non-trading derivatives analysed by type of contract. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The market value represents the amount at which a contract could be exchanged in an arm's length transaction, calculated at market rates current at the balance sheet date.

	<b>Contract or underlying principal amounts</b>	<b>Positive market values</b>	<b>Negative market values</b>
	<b>2002</b>	<b>2002</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Interest rate contracts:</b>			
Interest rate swaps	2,234,967	26	(27,484)
	<b>Contract or underlying principal amounts</b>	<b>Positive market values</b>	<b>Negative market values</b>
	<b>2001</b>	<b>2001</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Interest rate contracts:</b>			
Interest rate swaps	2,303,299	1,292	(29,300)

Positive market values arise where gross positive market values exceed gross negative market values on a contract by contract basis. This equates to net replacement cost. Negative market values arise where gross negative market values exceed gross positive market values on a contract by contract basis.

The totals of positive and negative market values as at 31 December 2002 have been netted where the Company has a legal right of offset with the relevant counterparty.

## Notes to the accounts continued

### 33. Derivatives continued

The following table analyses the derivatives held for non-trading purposes by remaining maturity:

	Contract or underlying principal amounts 2002 £000	Net replacement cost 2002 £000	Contract or underlying principal amounts 2001 £000	Net replacement cost 2001 £000
Derivatives maturing:				
In not more than 1 year	558,667	(5,902)	749,772	(5,876)
In more than 1 year but not more than 5 years	1,676,300	(21,582)	1,540,327	(21,929)
In more than 5 years	-	-	13,200	(203)

All of the Company's derivatives activity is contracted with group companies.

### Unrecognised gains and losses on financial assets 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.

	Gains 2002 £000	Losses 2002 £000	Total net gains/(losses) 2002 £000
Gains and losses expected to be recognised:			
In not more than 1 year	26	(5,902)	(5,876)
In more than 1 year	-	(21,582)	(21,582)
	26	(27,484)	(27,458)

	Gains 2001 £000	Losses 2001 £000	Total net gains/(losses) 2001 £000
Gains and losses expected to be recognised:			
In not more than 1 year	86	(10,189)	(10,103)
In more than 1 year	1,206	(19,111)	(17,905)
	1,292	(29,300)	(28,008)

### 34. Retirement benefits

Pensions are provided by means of various defined benefit schemes in operation throughout the Group. Details of the schemes appear in the accounts of Abbey National Plc. It has not been possible to identify the Group's shares of the underlying assets and liabilities of these schemes and the contributions have been accounted for as if they were defined contribution schemes.

### 35. Directors' loans

Details of loans, quasi loans and credit transactions entered into or agreed by the Company or its subsidiaries with persons who are or were directors and connected persons and officers of the Company during the year were as follows:

	Number of persons	Aggregate amount outstanding £000
<b>Directors</b>		
Loans	3	17
Quasi loans	-	-
Credit transactions	2	50
<b>Officers</b>		
Loans	4	191
Quasi loans	-	-
Credit transactions	5	187

No Director had a material interest in any contract of significance, other than a service contract, with the Company or any of its subsidiaries at any time during the year. The Directors did not have any interest in shares or debentures of subsidiaries.

### 36. Related party disclosures

#### a) Secured and unsecured loans

Secured and unsecured loans are made to Directors, executive officers and their close family members on the same terms and conditions as applicable to other employees within the Company.

#### b) Transactions with associated undertakings

First National Bank Plc holds a 50% share in PSA Finance plc (PSA). This is a finance organisation providing financial services to the Peugeot-Citroen car dealership network. The income receivable from the Company's interest in PSA amounted to £28.1m (2001: £12.7m).

#### c) Transactions with other Group companies

Certain transactions with other Group companies which are 90% or more owned within the same group have not been disclosed as the Company is a wholly owned subsidiary of a Group for which consolidated accounts are publicly available.

### 37. Ultimate parent company

The Company's ultimate parent company and ultimate controlling party is Abbey National plc, a company incorporated in Great Britain. Abbey National plc is the parent undertaking of the largest group which includes the Company for which accounts are prepared.

Copies of the Company financial statements of First National Bank Plc and Abbey National plc are available from Abbey National House, Triton Square, Regents Place, London, NW1 3AN. The Company has taken advantage of the exemption from preparing, and delivering to the Registrar of Companies, consolidated accounts.

### 38. Cash flow statement

A cash flow statement has not been prepared as the Company is a member of a group, which prepares a consolidated cash flow statement.



## Notes to the accounts continued

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### 39. Post balance sheet events

On 1 February 2003, First National Bank plc sold its motor finance and litigation funding business to subsidiaries of Abbey National plc (the ultimate parent company of First National Bank plc), named First National Motor plc and First National Litigation Funding plc respectively, at book value. First National Bank plc also transferred a number of leasing subsidiaries involved in the motor finance business to Abbey National plc at net asset value.

In addition, First National Bank plc transferred its shareholding in PSA Finance plc, and its holding of subordinated debt in that entity, to Abbey National plc on the same day, at the book value of First National Bank's consolidated interest in that entity.

On 4 February 2003, Abbey National plc agreed to sell First National Bank plc (excluding its motor finance and litigation funding businesses and two other subsidiaries) to GE Consumer Finance, UK LLC, the consumer credit business of General Electric Company, for a cash consideration of £848m. The sale is scheduled to complete in early April 2003.

40. Dividends payable	2002 £000	2001 £000
Equity shares		
Interim dividend of 8.30p (2001: 26.63p) per ordinary share	50,040	130,000