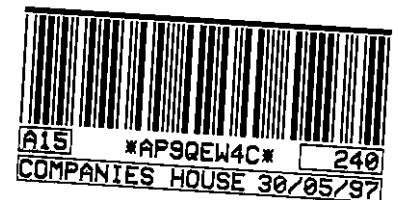


FIRST NATIONAL COMMERCIAL BANK Plc

REPORT AND ACCOUNTS

31 DECEMBER, 1996



Registered in England and Wales No. 383994

First National Commercial Bank Plc
DIRECTORS AND SECRETARY

Directors

G D Cracknell FCIB **Chairman**
J W Lawson FCA **Managing**
M A Bartholomeusz BSc ACA MCT
M J Carrick FCIS
A W Elliott FCIB
B D Gillett ACIB
C G Honeywill FRICS FSVA
K W Horlock
T C W Ingram MBA FCIB
J S Scott FCA

Secretary

M J Carrick FCIS

Registered Office

First National House
15-19 Dyke Road
Brighton
Sussex
BN1 3FX
Telephone 01273 329711

First National Commercial Bank Plc
REPORT OF THE DIRECTORS

The directors present their report and the audited accounts for the year ended 31 December, 1996.

Review of business activities

The principal activity is the provision of commercial banking services. First National Commercial Bank Plc is authorised under the Banking Act 1987.

The entire share capital of the Company was acquired by First National Bank Plc from its immediate parent company, First National Finance Corporation p.l.c., on 31 December, 1996.

On 31 December, 1996 the Company acquired a portfolio of secured commercial loans from First National Bank Plc, for a net consideration of £136,780,000.

The loss for the year after taxation amounts to £1,517,000, which has been added to the deficit. No dividends are proposed. Further details are set out in the profit and loss account. The financial position of the Company at 31 December, 1996 is set out in the balance sheet. The accounts of the Company's subsidiaries have not been consolidated (see note 8).

Directors

Messrs. G D Cracknell, T C W Ingram, J W Lawson, M J Carrick, B D Gillett, M A Bartholomeusz, J S Scott, A W Elliott and C G Honeywill were directors throughout the year. Other directors who held office during the year were as follows:-

	<u>Date appointed</u>	<u>Date resigned</u>
M A Hackney		9 October, 1996
K W Horlock	18 July, 1996	

Directors' interests in shares and debentures of group companies

The interests of Messrs. G D Cracknell, T C W Ingram, J S Scott and K W Horlock are disclosed in the accounts of First National Finance Corporation p.l.c. The interests of Mr M A Bartholomeusz are disclosed in the accounts of First National Bank Plc. The interests of the other directors and their immediate families were as follows:

Share Options

	<u>1.1.96</u>	<u>Granted</u>	<u>Exercised</u>	<u>Lapsed</u>	<u>At 31.12.96</u>
J W Lawson	14540	3851	-	8482	9909
M J Carrick	10905	3851	-	4847	9909
B D Gillett	10905	3851	-	3635	11121
A W Elliott	58180	19442	3232	-	74390
C G Honeywill	NIL	-	-	-	NIL

REPORT OF THE DIRECTORS

continued

Directors' interests in shares and debentures of group companies (continued)

Shares

	No of Shares at 1.1.96	No of Shares at 31.12.96
B D Gillett	175	175
A W Elliott	3042	4657

The interests in respect of shares and share options, as set out above, all relate to 10p Ordinary Shares of Abbey National plc. The share options are exercisable between 1997 and 2006, at prices ranging from £3.14 to £9.4058.

Employees

Employees are provided with relevant information which enables them to be aware of the progress of the Company's activities.

A non-contributory pension scheme operates under a trust set up by First National Finance Corporation p.l.c. and administered by trustees. Funds are invested and managed independently. An actuarial valuation as at 1 May, 1996 disclosed a surplus.

It is the Company's policy to offer the same employment opportunities to disabled persons as to other employees.

Directors' and officers' liability insurance

The Company has maintained liability insurance cover in respect of the directors and officers of the Company, as permitted by Section 310 of the Companies Act 1985.

Donations

During the year the Company made charitable donations of £100.

Auditors

Coopers and Lybrand have signified their willingness to remain in office as registered auditors and a resolution to re-appoint them will be proposed at the next Annual General Meeting.

Statement of directors' responsibilities

The directors 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 for the year.

First National Commercial Bank Plc

REPORT OF THE DIRECTORS

continued

Statement of Directors' responsibilities (continued)

The directors confirm that suitable 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 to 31 December, 1996. The directors also confirm that applicable accounting standards have been followed and that the accounts 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 reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

M J Carrick
Secretary

20 February, 1997

First National Commercial Bank Plc

REPORT OF THE AUDITORS

TO THE MEMBERS OF FIRST NATIONAL COMMERCIAL BANK Plc

We have audited the accounts on pages 6 to 17.

Respective responsibilities of directors and auditors

As described on page 3 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 Company's state of 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

21 February, 1997

First National Commercial Bank Plc

PROFIT AND LOSS ACCOUNT

for the year ended 31 December, 1996

		Year ended 31 December 1996	14 months ended 31 December 1995
	Note	£000	£000
Interest receivable	3	3,949	11,955
Interest payable	3	(3,269)	(16,864)
Net interest		<u>680</u>	<u>(4,909)</u>
Other operating income		<u>112</u>	<u>252</u>
		792	(4,657)
Administrative expenses		(1,925)	(2,837)
Depreciation and amortisation		(104)	(39)
Other operating charges		(943)	(844)
Provisions for bad and doubtful debts (including in 1995 an exceptional provision of £31,500,000)	7	(6,718)	(34,791)
Loss on ordinary activities before taxation	3	<u>(8,898)</u>	<u>(43,168)</u>
Tax credit on loss on ordinary activities	4	<u>7,381</u>	<u>3,915</u>
Loss on ordinary activities after taxation		<u>(1,517)</u>	<u>(39,253)</u>

Movements in reserves are shown in note 17.

For the purposes of Financial Reporting Standard No. 3, all of the Company's activities are regarded as continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December, 1996

Total recognised losses since last annual report	<u>(1,517)</u>	<u>(39,253)</u>
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The Company has no recognised gains or losses other than those included in the Profit and Loss Account above.


First National Commercial Bank Plc


BALANCE SHEET

31 December, 1996

	Note	31 December 1996 £000	31 December 1995 £000
Assets			
Cash and balances at central banks		6	7
Loans and advances to banks	6	955	1,637
Loans and advances to customers	7	200,074	95,621
Investments in subsidiary undertakings	8	350	350
Tangible fixed assets	9	942	1,089
Other assets	10	7,450	5,091
Prepayments and accrued income		93	81
Total assets		209,870	103,876
Liabilities			
Deposits by banks	11	174,071	66,165
Customer accounts	12	2,168	2,425
Amounts owed to group undertakings		342	348
Other liabilities	13	238	282
Accruals and deferred income	14	969	1,057
Total liabilities		177,788	70,277
Equity shareholders' funds			
Called up share capital	16	98,965	98,965
Revaluation reserve	17	916	916
Profit and loss account	17	(67,799)	(66,282)
Total shareholders' funds	18	32,082	33,599
Total liabilities and shareholders' funds		209,870	103,876
Memorandum items			
Contingent liabilities:			
Guarantees and assets pledged as collateral security		991	640
Other contingent liabilities		663	800
		1,654	1,440

The accounts on pages 6 to 17 were approved by the board of directors on 20 February 1997 and were signed on its behalf by:

T C W Ingram 

J W Lawson 

NOTES ON THE ACCOUNTS

31 December, 1996

1. STATEMENT OF ACCOUNTING POLICIES

The accounts of the Company are prepared in compliance with Section 255 of, and Schedule 9 to, the Companies Act 1985 (Special Provisions for Banking Companies and Groups).

A summary of the more important accounting policies is set out below.

(a) Basis of Accounting

These accounts are prepared in accordance with the historical cost convention, as modified for the revaluation of certain assets, and in accordance with applicable accounting standards.

(b) Loans and advances to customers

Provision is made against loans, advances and outstanding interest where, in the opinion of the directors, their ultimate recovery is considered doubtful. Provisions are derived by considering the likely recoveries in the loans and advances portfolio. Where there are significant uncertainties regarding the timing and/or value of security realisations, the provisions have been characterised as general as they are not applied against individual loans. All other provisions are categorised as specific. Bad debts are written off when all reasonable steps to recover them have been taken.

(c) Investments in subsidiary undertakings

Shares in the subsidiary undertakings are valued by the directors on the basis of their underlying net assets. In their opinion the shares are worth not less than such valuations. Where such valuations give rise to any excess over historical cost any net surplus is accounted for through the revaluation reserve. Valuation deficits are written off against revaluation reserve where the write-off is not expected to be permanent.

Where applicable, provision is made against investments in, and amounts owing by, subsidiary undertakings to the Company.

(d) Tangible fixed assets

Depreciation charges in respect of property (excluding land) and other assets are calculated on cost at annual rates estimated to write off the assets over their normal expectation of life. The rate applicable to freehold buildings is 1% per annum, and that applicable to all other assets between 12½% and 25% per annum, each on a straight line basis.

(e) Deferred taxation

Deferred taxation is calculated at the anticipated future rates of corporation tax on timing differences which arise from the inclusion of items of income and expenditure in the taxation computations in periods different from those in which they are included in the accounts, to the extent that it is probable that a liability or asset will crystallize in the foreseeable future.

(f) Foreign currencies

Assets, liabilities and trading results in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising in the ordinary course of trading are dealt with in the profit and loss account.

(g) Interest receivable on loans and advances to customers

All interest receivable is accrued on a day-to-day basis. Interest is suspended on advances which are subject to provisions and no credit is taken in the profit and loss account until such interest is paid.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(h) Pension contributions

Annual profits are charged with pension contributions at rates calculated by an independent actuary to cover retirement benefits based on projected final salaries. Such contributions are paid to a separate non-contributory pension fund which operates under a trust set up by First National Finance Corporation p.l.c. and administered by trustees. Funds are invested and managed independently (note 20).

2. ULTIMATE PARENT COMPANY

The ultimate parent company is Abbey National plc, registered in England and Wales, which is the holding company of the only group for which group accounts are drawn up and of which First National Commercial Bank Plc is a member. The consolidated accounts of the ultimate parent company are available to the public and may be obtained from its registered office at Abbey House, Baker Street, London NW1 6XL.

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) Segmental analysis

In the opinion of the directors there is only one material class of business and geographical segment for the purposes of Statement of Standard Accounting Practice 25.

(b) Loss on ordinary activities before taxation is stated after crediting:

	Year ended 31 December 1996 £000	14 months ended 31 December 1995 £000
Interest receivable		
Loans and advances to customers	3,931	6,639
Fellow subsidiary undertakings	7	5,316
	<u>3,938</u>	<u>11,955</u>

Interest due but not received on loans and advances to customers in arrears has not been recognised in interest receivable where collectability is in doubt. The movements on suspended interest are:

At 1 January, 1996	40,079	65,165
Amounts suspended in the year	14,117	21,755
Suspended interest on portfolio acquired from First National Bank Plc	480	-
Irrecoverable amounts written off	(10,552)	(46,841)
At 31 December, 1996	<u>44,124</u>	<u>40,079</u>

First National Commercial Bank Plc
NOTES ON THE ACCOUNTS
continued

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)

Loss on ordinary activities before taxation is stated after charging:

	Year ended 31 December 1996 £000	14 months ended 31 December 1995 £000
Interest payable		
Bank loans	-	10,821
Fellow subsidiary undertakings	3,173	3,899
Subordinated loan from immediate parent company	-	2,005
Other deposits	96	139
	<u>3,269</u>	<u>16,864</u>

	Year ended 31 December 1996 £000	14 months 31 December 1995 £000
Administrative expenses		
Staff costs (note 5(c))	1,211	1,761
Audit fees (including VAT)	55	74

Fees paid to the auditors in respect of non-audit work (including VAT) amounted to £47,000 (1995 - £3,000).

4. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	Year ended 31 December 1996 £000	14 months ended 31 December 1995 £000
Contribution at 33% (1995 - 33%) from fellow group undertakings for losses surrendered	7,415	4,000
Adjustment in respect of prior year	(34)	(85)
	<u>7,381</u>	<u>3,915</u>

The tax credit for the year represents consideration payable for losses surrendered to fellow group undertakings. It is disproportionate to the results for the period due to tax relief for the realisation of provisions for which relief was not available when charged to the profit and loss account in previous years.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 December 1996 £000	14 months ended 31 December 1995 £000
(a) Emoluments of directors (including pension contributions)		
Fees	15	5
Compensation payments	-	58
Other emoluments	227	305
	<u>242</u>	<u>368</u>

Emoluments (excluding pension contributions):

Chairman	-	-
Highest paid director	76	87

Analysis of emoluments of directors (excluding pension fund contributions):	No.	No.
Nil to £ 5,000	7	9
£10,001 to £15,000	1	-
£30,001 to £35,000	-	1
£65,001 to £70,000	2	-
£75,001 to £80,000	1	2
£85,001 to £90,000	-	1

(b) Material interests

None of the directors had a material interest in any contract to which the company was a party during the financial period.

(c) Staff costs (including directors)	£000	£000
Wages and salaries	1,083	1,566
Social security costs	71	96
Other pension costs	57	99
	<u>1,211</u>	<u>1,761</u>
(d) Average number of persons employed (including directors)	No. <u>29</u>	No. <u>38</u>

(e) Loans to directors

The following loans to directors subsisted during the year:

	As at 31 December 1996 £	As at 1 January 1996 £	Maximum amount during the period £
J W Lawson	31,018	47,851	47,856
B D Gillett	-	1,563	1,563

6. LOANS AND ADVANCES TO BANKS

	31 December 1996 £000	31 December 1995 £000
Loans and advances to banks, comprising current accounts and deposits, are repayable as follows:		
On demand	772	1,053
Cash ratio deposits required to be maintained with the Bank of England	183	584
	<u>955</u>	<u>1,637</u>

7. LOANS AND ADVANCES TO CUSTOMERS

	31 December 1996 £000	31 December 1995 £000
Loans and advances to customers before provisions for bad and doubtful debts	263,579	156,598
Less: Provisions for bad and doubtful debts	<u>(63,505)</u>	<u>(60,977)</u>
Loans and advances to customers after provisions for bad and doubtful debts	<u>200,074</u>	<u>95,621</u>

The total of loans at 31 December, 1996 on which interest is suspended is £107,132,000 and provisions on these loans total £61,974,000.

Loans and advances to customers are repayable as follows:

	£000	£000
On demand or at short notice	49,684	78,048
In not more than three months	11,395	909
In more than three months but not more than one year	17,609	1,351
In more than one year but not more than five years	65,111	9,661
In more than five years	56,275	5,652
	<u>200,074</u>	<u>95,621</u>

Provisions for bad and doubtful debts:

At 1 January, 1996	60,977	40,371
Amounts written off	(17,641)	(17,446)
Recoveries	7,762	3,261
Profit and loss account charge	6,718	34,791
Provisions on portfolio acquired from First National Bank Plc	5,689	-
At 31 December, 1996	<u>63,505</u>	<u>60,977</u>

The provisions for bad and doubtful debts can be further analysed as follows:

General	36,901	50,750
Specific	26,604	10,227
	<u>63,505</u>	<u>60,977</u>

The above figures at 31 December, 1996 include the portfolio of secured commercial loans purchased from First National Bank Plc totalling £142,469,000 gross of provisions for bad and doubtful debts (£136,780,000 net of provisions)

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

Included in the loans and advances total of £200,074,000 (1995 - £95,621,000) are advances totalling £9,220,000 (1995 £10,071,000) where the bank has taken control of the borrowing company for the sole purpose of protecting and realising its security. These controlling interests were acquired involuntarily and are held exclusively to enable the bank to recover the original advances made.

8. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	31 December 1996	31 December 1995
	£000	£000
Ordinary shares at valuation (cost - £563,000)	350	350

The principal subsidiary undertakings are as set out below and are wholly owned and registered in England and Wales, except for First National Developer Services Limited which is registered in the Isle of Man:

	Nature of Business
B.K. Developments Limited	Property
First National Developer Services Limited	Non trading
TCB Facilities Limited	Non trading

Group accounts have not been prepared as the Company is a wholly-owned subsidiary of another company registered in England and Wales (note 2).

9. TANGIBLE FIXED ASSETS

	Freehold Premises £000	Building Improves. £000	Furniture Equipment & Motor Cars £000	Total £000
Cost or valuation				
1 January, 1996 - Cost	-	137	786	923
- Professional valuation	935	-	-	935
Disposals at cost	-	-	(127)	(127)
At 31 December, 1996	935	137	659	1,731
Depreciation				
1 January, 1996	119	117	533	769
Charge for the year	7	11	86	104
Disposals	-	-	(84)	(84)
At 31 December, 1996	126	128	535	789
Net book value				
At 31 December, 1996	809	9	124	942
At 31 December, 1995	816	20	253	1,089

9. TANGIBLE FIXED ASSETS (continued)

The freehold premises, which are for the Company's own use, were valued at open market value in June 1984. The valuation was made in the United Kingdom by Stiles Horton Ledger (now Stiles Harold Williams) a firm of independent Chartered Surveyors. If the freehold premises had not been revalued, they would have been included in the accounts at the following amounts:-

	£000
Cost	131
Aggregate depreciation based on cost	<u>47</u>
Net book value based on cost	<u>84</u>

Capital commitments

Capital expenditure which has been contracted but not provided in the accounts

31 December 1996	31 December 1995
£000	£000
<u>20</u>	<u>-</u>

10. OTHER ASSETS

	31 December 1996	31 December 1995
	£000	£000
Trade debtors	35	1,091
Group relief receivable from fellow group undertakings	<u>7,415</u>	<u>4,000</u>
	<u>7,450</u>	<u>5,091</u>

The other assets are all due within one year.

11. DEPOSITS BY BANKS

	31 December 1996	31 December 1995
	£000	£000
Fellow subsidiary undertaking	<u>174,071</u>	<u>66,165</u>

The above is repayable in more than three months but not more than one year.

12. CUSTOMERS ACCOUNTS

Customers accounts are repayable as follows:	31 December 1996	31 December 1995
	£000	£000
On demand	2,167	2,372
In less than three months	-	53
In more than one year but not more than two years	<u>1</u>	<u>-</u>
	<u>2,168</u>	<u>2,425</u>

First National Commercial Bank Plc
NOTES ON THE ACCOUNTS
continued

13. OTHER LIABILITIES

	31 December 1996	31 December 1995
	£000	£000
Trade creditors	16	17
Other taxes and social security costs	19	27
Sundry creditors	203	238
	<u>238</u>	<u>282</u>

14. ACCRUALS AND DEFERRED INCOME

	31 December 1996	31 December 1995
	£000	£000
Interest on borrowings	70	174
Other accruals and deferred income	899	883
	<u>969</u>	<u>1,057</u>

15. DEFERRED TAXATION

In accordance with the Company's accounting policy, no provision for deferred taxation is considered necessary. The unrecognised potential deferred taxation asset is as follows:

	31 December 1996	31 December 1995
	£000	£000
Timing differences	<u>(12,263)</u>	<u>(16,835)</u>

16. SHARE CAPITAL

	No of shares	31 December 1996	31 December 1995
		£000	£000
Authorised			
Ordinary shares of 25p each	300,000,000	75,000	75,000
Preferred ordinary shares of 25p each	200,000,000	50,000	50,000
	<u>500,000,000</u>	<u>125,000</u>	<u>125,000</u>
Allotted and fully paid			
Ordinary shares of 25p each			
At 1 January, 1996	255,860,000	63,965	38,500
Issued during year	-	-	25,465
In issue at 31 December, 1996	255,860,000	63,965	63,965
Preferred ordinary shares of 25p each			
At 1 January, 1996	140,000,000	35,000	-
Issued during year	-	-	35,000
Called up share capital	<u>395,860,000</u>	<u>98,965</u>	<u>98,965</u>

Shares in the Company rank pari passu in all respects except with regard to the preferred ordinary shares priority to payment in the event of a winding up or other return of capital.

17. RESERVES

	Revaluation reserve £000	Profit and loss account £000	Total reserves £000
Balance/(Deficit) at 1 January, 1996	916	(66,282)	(65,366)
Loss for the year after taxation		(1,517)	(1,517)
Balance/(Deficit) at 31 December, 1996	916	(67,799)	(66,883)

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	31 December 1996 £000	31 December 1995 £000
Loss for the year after taxation	(1,517)	(39,253)
Issue of ordinary and preferred ordinary shares for consideration	-	60,465
Increase/(decrease) in shareholders' funds	(1,517)	21,212
Shareholders' funds at 1 January, 1996	33,599	12,387
Shareholders' funds at 31 December, 1996	32,082	33,599

19. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

	31 December 1996 £000	31 December 1995 £000
Assets denominated in currencies other than sterling	141	2,619
Liabilities denominated in currencies other than sterling	141	4,088

20. PENSIONS

A non-contributory pension scheme operates under a Trust set up by First National Finance Corporation p.l.c. The scheme is a funded defined benefit scheme.

Actuarial valuations are carried out triennially and the latest assessment of the scheme was at 1 May, 1996. The valuations are prepared by an independent qualified actuary using the projected unit method and are based on the following assumed percentage rates of increases per annum compound:

Return on investments	9.0%
General increases in pensionable salaries	6.5%

At the date of the latest valuation, the market value of the assets of the scheme was £50,698,000 and the actuarial value of the assets was sufficient to cover 122.5% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Alternative measures for reducing the surplus are under consideration.

The total pension cost charged for 1996 was £57,000 (1995 - £99,000). A net amount of £173,000 (1995 - £200,000) is included within accruals and deferred income, this being the excess of the accumulated pension cost over the amount funded.

NOTES ON THE ACCOUNTS

continued

21. CASH FLOW

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

22. RELATED PARTY TRANSACTIONS

Certain transactions with other group companies have not been disclosed as the Company is a wholly owned subsidiary of a group for which consolidated accounts are publicly available.