

Company Number: 1917566



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Directors' Report

The directors submit their Report and Accounts for the year ended 30 September 1996.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company throughout the year was the operation of its residential mortgage business.

During the year, as part of the refinancing of a proportion of the debt of the National Home Loans Holdings PLC group, the mortgage assets of a number of special purpose vehicles (see note 10) were sold back to the Company and the majority of these mortgage assets were re-securitised.

The directors consider that the Company has performed satisfactorily and that, given favourable economic conditions, the Company will continue to perform satisfactorily.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 6. The directors do not propose a final dividend and no interim dividend was paid.

DIRECTORS

The directors during the year were :-

J P L Perry

N S Terrington

G C Green

J A Heron

N Keen

R D Shelton

P A Kent (resigned 3 October 1996)

B C Murkin (resigned 3 October 1996)

Mr J G Gemmell was appointed a director on 24 October 1996.

In accordance with the Articles of Association Mr N Keen, Mr J A Heron and Mr J G Gemmell will retire, and being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

None of the directors had any interest either during or at the end of the year in any material contract or arrangement with the Company. Mr J P L Perry, Mr N S Terrington and Mr N Keen are directors of the Company's parent company, National Home Loans Holdings PLC. Their interests in the shares of group companies are shown in the parent company's Directors' Report.

The remaining directors had the following beneficial interests in the share capital of National Home Loans Holdings PLC, by virtue of options granted to them under the Executive Share Option Scheme.

	At 30 September 1996	At 30 September 1995
	Ordinary Shares of 10p each	Ordinary Shares of 10p each
G C Green	193,757	193,757
J A Heron	101,453	157,359
R D Shelton	118,531	118,531

In addition, at 30 September 1996 Mr G C Green beneficially held 50,000 Ordinary Shares (1995: 50,000) and Mr J A Heron beneficially held 600 Ordinary Shares (1995: 600 shares) in National Home Loans Holdings PLC. Save for these, none of the above have any interest in the shares of other Group companies.

EMPLOYEES' INVOLVEMENT

The directors recognise the benefits of keeping employees informed of the progress of the business. Employees have been provided with regular information on the performance and plans of the Company and the financial and economic factors affecting it through both information circulars and management presentations.

EMPLOYMENT OF DISABLED PERSONS

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. The Company has continued its policy of providing appropriate training and career development to such persons.

CREDITOR PAYMENT POLICY

The company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier.

AUDITORS

On 1 February 1996, our auditors changed the name under which they practise to Deloitte and Touche. A resolution for the reappointment of Deloitte and Touche as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.



J G Gemmell, *Company Secretary*,

23 January 1997

Statement of Directors' Responsibilities

in relation to Financial Statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. As required, in the absence of any circumstances which would make it inappropriate, the financial statements have been prepared on a going concern basis.

The directors consider that in preparing the financial statements (on pages 6 to 16), the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Auditors' Report

To the members of The National Home Loans Corporation plc

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

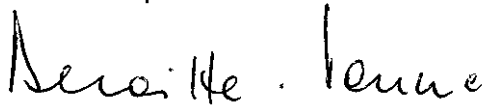
Basis of opinion

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 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 circumstances of the Company, 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 30 September 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



27 January 1997

Deloitte & Touche

Chartered Accountants and Registered Auditors

Colmore Gate

2 Colmore Row

Birmingham

B3 2BN

Profit and Loss Account

for the year to 30 September 1996

	Notes	1996 £'000	1995 £'000
Interest receivable:			
Mortgages		1,863	1,664
Other	2	25,124	25,079
		<u>26,987</u>	<u>26,743</u>
Interest payable and similar charges	3	(12,727)	(20,633)
Net interest income		<u>14,260</u>	<u>6,110</u>
Other operating income	4	7,821	9,544
Total operating income		<u>22,081</u>	<u>15,654</u>
Operating expenses		(1,641)	(4,581)
Provisions for losses		(6,996)	2,864
Operating profit, being profit on ordinary activities before taxation	6	<u>13,444</u>	<u>13,937</u>
Tax credit on operating profit on ordinary activities	7	5,989	-
Retained profit for the year		<u>19,433</u>	<u>13,937</u>

All material activities derive from continuing operations.

There is no material difference between the results disclosed in the profit and loss account and the results on an unmodified historic cost basis.

There are no material recognised gains or losses, other than the profit for the year.

MOVEMENT IN SHAREHOLDERS' FUNDS

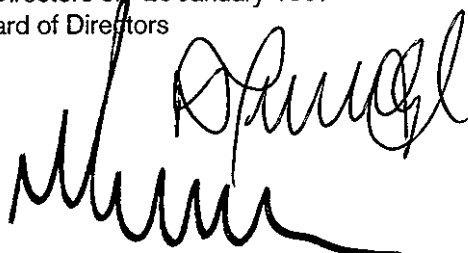
Profit attributable to shareholders	19,433	13,937
Adjustment to revaluation reserve	-	(18)
Net movement in shareholders' funds	<u>19,433</u>	<u>13,919</u>
Opening shareholders' funds	69,771	55,852
Closing shareholders' funds	<u>89,204</u>	<u>69,771</u>

Balance Sheet*at 30 September 1996*

	Notes	1996 £'000	1995 £'000
Assets employed:			
Fixed assets			
Tangible assets	8	22,095	23,084
Mortgage loans	9	56,213	33,861
Investments - group companies	11	140,177	124,718
		218,485	181,663
Current assets			
Debtors falling due within one year	12	34,949	17,444
Debtors falling due after more than one year	12	11,451	11,451
Cash at banks and in hand		17,533	64,409
		63,933	93,304
		282,418	274,967
Financed by:			
Equity shareholders' funds			
Called up share capital	13	43,447	43,447
Reserves	14	45,757	26,324
		89,204	69,771
Creditors			
Amounts falling due within one year	15	63,760	62,418
Amounts falling due after more than one year	15	129,454	142,778
		193,214	205,196
		282,418	274,967

Approved by the Board of Directors on 23 January 1997

Signed on behalf of the Board of Directors

N S Terrington, *Chief Executive*N Keen, *Finance Director*


Notes to the Accounts

for the year to 30 September 1996

1. ACCOUNTING POLICIES

The accounts and notes have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(a) Accounting convention

The accounts are prepared under the historical cost convention, as adjusted for the revaluation of certain fixed assets.

(b) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation.

(c) Depreciation

Depreciation is provided on cost or valuation in equal annual instalments over the lives of the assets. The rates of depreciation are as follows :

Long leasehold premises	2% per annum
Short leasehold premises	over the life of the lease
Computer equipment	25% per annum
Furniture, fixtures and office equipment	15% per annum
Motor vehicles	25% per annum

(d) Mortgage loans

Mortgage loans are stated at cost less any provision for diminution in value after taking into account the existence of insurances, guarantees and indemnities.

(e) Investments

The Company's investments in subsidiary companies are valued by the directors at the Company's share of the book value of their underlying net tangible assets.

(f) Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items of income and expenditure for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

(g) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year or at other rates where covered by forward currency contracts.

(h) Pension costs

The expected cost of providing pensions within the group funded defined benefit scheme, as calculated periodically by professional actuaries using the projected unit method, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme.

(i) Funding costs

Initial costs incurred in arranging funding facilities are amortised over the period of the facility. Unamortised initial costs are deducted from the associated liability.

The realised profits or losses on financial instrument transactions for hedging purposes are credited or charged to the profit and loss account over the life of the associated contract.

(j) Operating leases

Rental costs under operating leases are charged to the profit and loss account over the period of the leases.

2. OTHER INTEREST RECEIVABLE

Other interest receivable includes £21.9m (1995 : £21.6m) in respect of interest received on loans to other group companies which are not subsidiaries of the Company.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	1996 £'000	1995 £'000
On bank loans, overdrafts and other loans repayable within five years	<u>12,727</u>	<u>20,633</u>

4. OTHER OPERATING INCOME

Other operating income includes £2.7m (1995: £2.7m) in respect of income receivable from various special purpose vehicles which have purchased mortgages from the Company. Further details of these transactions are given in Note 10.

5. DIRECTORS AND EMPLOYEES

	1996 £'000	1995 £'000
Directors' emoluments:		
Fees	-	-
Other emoluments	356	574
Compensation for loss of office	-	185
	<u>356</u>	<u>759</u>

Fees and other emoluments described above (excluding pension contributions) include amounts paid to:

	1996 £'000	1995 £'000
The Chairman	-	-
The highest paid director	<u>136</u>	<u>131</u>

Particulars of directors' emoluments, excluding pension contributions, are as follows:

	1996 Number	1995 Number
Nil - £5,000	3	3
£ 60,001 - £65,000	-	2
£ 85,001 - £90,000	1	2
£105,001 - £110,000	-	1
£110,001 - £115,000	1	-
£130,001 - £135,000	-	1
£135,001 - £140,000	1	-

The directors in the £0 - £5,000 band are all directors of the parent company who received no remuneration from this company.

A house purchase loan had been granted, within the terms of the staff mortgage scheme, to Mr N Keen prior to his appointment as a director. During the year Mr N Keen repaid the loan which stood at £81,145 on 30 September 1995. Interest was payable at the standard rate for new mortgages. The maximum amount outstanding during the year was that shown at 30 September 1995.

The average number of persons (including directors) employed by the Company during the year was 344 (1995 : 400). The costs incurred in respect of these employees were :

	1996 £'000	1995 £'000
Wages and salaries	5,753	6,768
Social security costs	476	580
Pension costs	297	348
	<u>6,526</u>	<u>7,696</u>

Contributions to the Group Pension Scheme were determined by the actuarial valuation completed as at 1 March 1995. Further information in respect of this valuation is disclosed in the accounts of National Home Loans Holdings PLC.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1996 £'000	1995 £'000
Profit on ordinary activities before taxation is after charging:		
Depreciation	1,335	1,640
Auditors' remuneration - audit services	60	60
Other legal and professional fees	314	315
Hire of plant and machinery	358	501
Property rents	1,646	1,620

7. TAXATION

	1996 £'000	1995 £'000
UK corporation tax based on the profit for the year		
Current at 33%	-	-
Deferred tax	235	-
Prior year adjustments		
Current at 33%	-	-
Deferred tax	5,754	-
	<u>5,989</u>	<u>-</u>

The tax credit arises as a result of the partial provision of a deferred tax asset. There are tax losses carried forward of approximately £60m available to offset future taxable trading profits.

Deferred Taxation

	1996 £'000	1995 £'000
Balance at 1 October 1995	-	-
Current year credit	(235)	-
Prior year adjustment	(5,754)	-
Balance at 30 September 1996	<u>(5,989)</u>	<u>-</u>

The potential liability for deferred taxation and the amounts for which provision has been made are:

	1996		1995	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Capital allowances in excess of depreciation	1,335	-	1,300	-
Other timing differences	(7,324)	(12,800)	(1,300)	(23,000)
	<u>(5,989)</u>	<u>(12,800)</u>	<u>-</u>	<u>(23,000)</u>

Deferred tax of £1.2m (1995 : £1.2m) has not been provided on the surplus on revaluation of fixed assets.

8. TANGIBLE FIXED ASSETS

	Long Leasehold Premises £'000	Short Leasehold Premises £'000	Plant and Machinery £'000	Total £'000
Cost or valuation				
At 1 October 1995	22,929	1,071	4,618	28,618
Additions	-	2	373	375
Disposals	-	-	(222)	(222)
At 30 September 1996	<u>22,929</u>	<u>1,073</u>	<u>4,769</u>	<u>28,771</u>
Cost	-	1,073	4,769	5,842
Valuation	<u>22,929</u>	<u>-</u>	<u>-</u>	<u>22,929</u>
Accumulated depreciation				
At 1 October 1995	2,127	472	2,935	5,534
On disposals	-	-	(193)	(193)
Charge for the year	425	45	865	1,335
At 30 September 1996	<u>2,552</u>	<u>517</u>	<u>3,607</u>	<u>6,676</u>
Net Book Value				
At 30 September 1996	<u>20,377</u>	<u>556</u>	<u>1,162</u>	<u>22,095</u>
At 30 September 1995	<u>20,802</u>	<u>599</u>	<u>1,683</u>	<u>23,084</u>

Comparable amounts determined according to the historic cost convention:

	Long Leasehold Premises £'000	Short Leasehold Premises £'000	Plant and Machinery £'000	Total £'000
Cost	15,999	1,073	4,769	21,841
Accumulated depreciation	<u>(1,717)</u>	<u>(517)</u>	<u>(3,607)</u>	<u>(5,841)</u>
Net book value				
At 30 September 1996	<u>14,282</u>	<u>556</u>	<u>1,162</u>	<u>16,000</u>
At 30 September 1995	<u>14,568</u>	<u>599</u>	<u>1,683</u>	<u>16,850</u>

The long leasehold premises at Homer Road in Solihull were revalued during 1990 by chartered surveyors on an open market value for existing use basis at £22.9m. The remainder of the fixed assets above are stated at cost.

9. MORTGAGE LOANS

	1996 £'000	1995 £'000
Cost		
At 1 October 1995	33,861	40,095
Additions	316,517	26,121
Securitisations and other sales	(281,380)	(22,438)
Other movements	(5,523)	4,616
Repayments and redemptions	(7,262)	(14,533)
At 30 September 1996	56,213	33,861

10. SECURITISATIONS

As part of the Group's financing arrangements, the Company has sold portfolios of mortgages to a number of other group companies referred to as 'special purpose vehicles' or SPV's.

The SPV's have issued securities which are secured on the mortgages acquired, to finance the purchase of those mortgages. In each case the Company has provided a subordinated loan to the issuer and met certain of its front end expenses which will be recovered over time. In certain cases the Company has also taken a minority shareholding or subscribed for loan stock.

The Company has entered into agreements with the SPV's under which it administers and manages the mortgages purchased by those companies. Other than its responsibilities with regard to these arrangements, and the warranties given in the mortgage sale agreements, the Company has no commitment to repurchase the mortgages acquired by the SPV's and has no other liability in respect thereof.

11. GROUP COMPANIES

	1996 £'000	1995 £'000
Valuation:		
At 1 October 1995	124,718	145,957
Investment during the year	25,598	1,896
Provisions	(3,575)	(461)
Repayment of loans	(6,564)	(22,674)
At 30 September 1996	140,177	124,718
Cost:		
At 1 October 1995	150,133	170,911
Investment during the year	25,598	1,896
Repayment of loans	(6,564)	(22,674)
At 30 September 1996	169,167	150,133

The investments are loans to group companies which are not subsidiaries of the Company and shares in subsidiaries amounting to £26,000 (1995 : £26,000).

The Company is itself a wholly owned subsidiary and, therefore, no consolidated accounts have been prepared.

The directors consider that the value of the investments in subsidiary companies is at least equal to the amounts at which they are stated.

12. DEBTORS

	1996 £'000	1995 £'000
Amounts due within one year:		
Amounts owed by other group companies	24,942	13,236
Other debtors	1,678	3,211
Tax debtors	5,989	-
Prepayments and accrued income	2,340	997
	<u>34,949</u>	<u>17,444</u>
Amounts due after more than one year:		
Amounts owed by other group companies	<u>11,451</u>	<u>11,451</u>

13. CALLED-UP SHARE CAPITAL

	1996 £'000	1995 £'000
Authorised:		
208,643,146 Ordinary Shares of 75p each	156,482	156,482
80,909,750 non-voting shares of 1p each	<u>809</u>	<u>809</u>
	<u>157,291</u>	<u>157,291</u>
Allotted and paid-up :		
57,929,187 Ordinary Shares of 75p each	<u>43,447</u>	<u>43,447</u>

14. RESERVES

	Revaluation Reserve £'000	Profit & Loss Account £'000	Total £'000
Balance at 1 October 1995	6,234	20,090	26,324
Additional depreciation on revalued assets	(139)	139	-
Profit for the year	-	19,433	19,433
Balance at 30 September 1996	<u>6,095</u>	<u>39,662</u>	<u>45,757</u>

15. CREDITORS

	1996 £'000	1995 £'000
Amounts falling due within one year:		
Bank loans and overdrafts	14,600	860
Amounts owed to group companies	43,714	59,117
Corporation tax	21	21
Accruals	5,425	2,420
	<u>63,760</u>	<u>62,418</u>
Amounts falling due after more than one year:		
Bank loans and notes	129,154	142,478
Accruals	300	300
	<u>129,454</u>	<u>142,778</u>
Bank loans and notes repayable:		
Within one year	14,075	-
Between one and two years	39,495	13,324
Between two and five years	89,659	129,154
	<u>143,229</u>	<u>142,478</u>

At 30 September 1996, the total bank loans and overdrafts was £143.8m (1995 : £143.3m).

The bank loans and notes mature on 30 September 1999. These loan notes are secured on all of the assets of the Company and certain assets of the parent company.

Under the terms of the refinancing of the Company's bank facilities dated 29 June 1992, it was agreed that a "success fee" will become payable to the banks and noteholders on 31 December 1998. Following the capital reconstruction of the parent company, this is now based on 0.83 per cent of the difference between the average share price of the parent company during the thirty days prior to 25 November 1998 and 50 pence per share, multiplied by the number of the parent company's ordinary shares of 15p each that were in issue on 29 June 1992.

16. CAPITAL COMMITMENTS

There were no capital commitments (1995 : £nil) contracted but not provided for.

17. FINANCIAL COMMITMENTS

At 30 September 1996 the Company had commitments to make annual payments under operating leases which expire as follows:

	1996 £'000	1995 £'000
Plant and machinery		
Within one year	100	101
Between two and five years	157	206
Land and buildings		
Between two and five years	163	119
Over five years	1,612	1,655
	<u>2,032</u>	<u>2,081</u>

18. POST BALANCE EVENT

On 28 October 1996, the Company acquired a portfolio of mortgages from a UK bank for a consideration of £44.0m. Subsequently the mortgages were securitised.

19. ULTIMATE PARENT COMPANY

The Company's ultimate parent company is National Home Loans Holdings PLC, a company registered in England and Wales. Copies of the Group's financial statements are available from that company's registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.