

HOLMES HOLDINGS LIMITED
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003
Registered No. 3689577



HOLMES HOLDINGS LIMITED

Report of the directors

The Directors submit their report together with the accounts for the year ended 31 December 2003.

1. Principal activity and review of the year

The principal activity of the Company continues to be that of a non-operating parent company for the Holmes group, the subsidiaries of which provide long term finance for mortgage portfolios.

Holmes Trustees Limited, a Group company, holds residential mortgage loans from Abbey National plc on trust absolutely for the beneficial owners of the loans ("the trust property"). Holmes Trustees Limited has no beneficial interest in the trust property, or the income and expenditure relating to that property, which is distributed to the beneficial owners of the property.

As at 31 December 2003, the book value of residential mortgage loans that Abbey National Plc had assigned legal title to the Company was £23.2 billion (2002: £23.1 billion).

Holmes Funding Limited, a Group company, has a beneficial interest in the trust property for the facilitation of the issue of asset-backed notes by other Group companies. Abbey National plc retains the remainder of the beneficial interest in the trust property.

On 26 March 2003, Holmes Funding Limited purchased a further share in the beneficial interest in the trust property from Abbey National plc of £2.4 billion (2002: 4.0 billion).

The March 2003 purchase of interest in the Trust Property was financed by the issue of UK Sterling, US Dollar and Euro denominated asset backed loan notes to the value of £2.4 billion by Holmes Financing (No.7) plc. The Company had set up and acquired the whole of the issued share capital of Holmes Financing (No. 7) plc during the year.

Since the year end Holmes Financing (No. 8) plc has been set up.

No future changes in activity are envisaged.

2. Results and dividends

The results for the year are set out on page 5.

The loss of £4,245,000 (2002: £5,218,000) will be transferred from reserves.

The loss in the year has arisen as a result of the deferred consideration payable to the originator of the loans and advances to customers, which is based upon the profitability of the Company's subsidiaries before the charge for the general provision for bad and doubtful debts. Settlement of the deferred consideration liability is dependent on there being sufficient funds within the Company's subsidiaries.

The Directors do not recommend the payment of a dividend (2002: £Nil).

The Directors anticipate that the Group will make a profit over the life of the mortgage portfolios.

HOLMES HOLDINGS LIMITED

Report of the directors (continued)

3. Financial instruments

The Group's financial instruments, other than derivatives, comprise loans and advances to customers, borrowings, cash and liquid resources, and various items, such as debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group also enters into derivatives transactions (interest rate and cross-currency swaps). The purpose of such transactions is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate and currency risk. The Board reviews and agrees policies for managing these risks and these are summarised below:

a) Interest rate risk - Interest is charged on the loans and advances made by the Group at various rates. These assets are financed by securities on which interest is payable at different variable rates. The Group's policy is to match this interest income and expense by the use of interest rate swaps.

b) Currency risk - The Group has debt securities in issue denominated in Euro and US Dollars. The Group's policy is to eliminate all exposures arising from movements in the Euro-Sterling and US Dollar-Sterling exchange rates by the use of cross-currency swaps to hedge payments of interest and principal on the securities. All other assets, liabilities and transactions are denominated in Sterling.

4. Directors and their interests

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

M McDermott

R Wise (resigned 23 May 2003)

D Green (appointed 23 May 2003)

SPV Management Limited

SPV Management Ltd held all the shares of the Company (one jointly with M McDermott as nominee) as trustee under a discretionary charitable trust dated 17 February 1999.

None of the other Directors had any interest in the shares of the Company (2002: None).

M McDermott as nominee also holds a joint interest with Holmes Holdings Ltd in one of the shares of all the group companies listed on page 12. M. McDermott is also a Director of SPV Management Limited.

5. Directors' responsibility in respect of the preparation of accounts

The Directors are required by United Kingdom company law to prepare accounts 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 of the profit or loss for that year.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 December 2003. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records 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.

HOLMES HOLDINGS LIMITED

Report of the directors (continued)

6. Going concern

The Directors confirm that they are satisfied that the Holmes group of companies has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing the financial statements.

7. Auditors

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP will be the auditors of the company for the forthcoming financial year under the provisions of section 386(2) of the Companies Act 1985.

By order of the Board



For and on behalf of
Abbey National Secretariat Services Limited, Secretary

18 October 2004.

Registered Office:
Abbey National House
2 Triton Square,
Regent's Place,
London,
NW1 3AN.

HOLMES HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOLMES HOLDINGS LIMITED

We have audited the financial statements of Holmes Holdings Limited for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 25. 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 and other members of the Group is not disclosed.

We read the Directors' report for the above year 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 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 and the Group, 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 and the Group as at 31 December 2003 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

25 October 2004.

HOLMES HOLDINGS LIMITED

Consolidated Profit and Loss Account For the year ended 31 December 2003

	Note	2003 £'000	2002 £'000 (Re-stated)
Interest receivable and similar income	2	708,110	656,878
Interest payable	3	(650,169)	(589,411)
Net interest income		<u>57,941</u>	<u>67,467</u>
Other operating income		1,162	1,333
Administrative expenses		(58,982)	(70,072)
Provisions for bad and doubtful debts	4	(6,301)	(6,724)
OPERATING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	<u>(6,180)</u>	<u>(7,996)</u>
Tax credit on loss on ordinary activities	6	1,935	2,778
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED LOSS FOR THE YEAR	18	<u>(4,245)</u>	<u>(5,218)</u>
Profit and loss account brought forward		(12,338)	(7,120)
Profit and loss account carried forward		<u>(16,583)</u>	<u>(12,338)</u>

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

All transactions are derived from continuing operations within the United Kingdom.

There are no recognised gains and losses in the year other than the loss for the year and therefore no separate statement of total and recognised gains and losses is required.

As permitted by section 230 of the Companies Act 1985, the profit and loss of the parent company is not presented as part of these financial statements.

The parent company's profit after taxation for the financial year is £Nil (2002: £Nil).

HOLMES HOLDINGS LIMITED**Consolidated Balance Sheet
As at 31 December 2003**

	Note	2003 £'000	2002 £'000 (Re-stated)
FIXED ASSETS			
Loans and advances to customers	8	711,457	930,245
Beneficial interest in mortgage portfolio	9	<u>13,341,978</u>	<u>13,679,484</u>
		14,053,435	14,609,729
CURRENT ASSETS			
Debtors	10	31,036	37,914
Deferred taxation asset	11	6,943	4,985
Cash at bank and in hand	12	<u>1,612,344</u>	<u>1,486,849</u>
		1,650,323	1,529,748
CREDITORS - amounts falling due within one year	13	(1,070,931)	(1,364,555)
NET CURRENT ASSETS		<u>579,392</u>	<u>165,193</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		14,632,827	14,774,922
CREDITORS - amounts falling due after more than one year	14	(14,649,410)	(14,787,260)
NET LIABILITIES		<u>(16,583)</u>	<u>(12,338)</u>
CAPITAL AND RESERVES			
Called-up share capital	17	-	-
Profit and loss account		(16,583)	(12,338)
EQUITY SHAREHOLDERS' DEFICIT	18	<u>(16,583)</u>	<u>(12,338)</u>

The financial statements on page 5 to 23 were approved by the Board of Directors on 18 October 2004.

Signed on behalf of the Board of Directors



M McDermott
Director.

HOLMES HOLDINGS LIMITED

Company Balance Sheet As at 31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Investment in subsidiary undertakings	7	450	400
CREDITORS - amounts falling due within one year	13	<u>(450)</u>	<u>(400)</u>
NET CURRENT LIABILITIES		<u>(450)</u>	<u>(400)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		-	-
NET ASSETS		<u>-</u>	<u>-</u>
CAPITAL AND RESERVES			
Called-up share capital	17	-	-
Profit and loss account		<u>-</u>	<u>-</u>
EQUITY SHAREHOLDERS' FUNDS		<u>-</u>	<u>-</u>

The financial statements on page 5 to 23 were approved by the Board of Directors on 18 October 2004.

Signed on behalf of the Board of Directors



M McDermott
Director.

HOLMES HOLDINGS LIMITED**Consolidated Cash Flow Statement
For the year ended 31 December 2003**

	Note	2003 £'000	2002 £'000 (Re-stated)
Net cash inflow from operating activities	19	830,707	858,649
Returns on investments and servicing of finance			
Bank interest received		37,908	28,774
Interest paid on debt securities in issue		(628,220)	(568,666)
Interest paid on start up loans		(3,285)	1
Other interest paid		(1,176)	-
		<u>(594,773)</u>	<u>(539,891)</u>
Tax			
UK Corporation tax paid		(28)	(21)
Capital expenditure and financial investment			
Redemptions of mortgage advances		220,079	294,217
Partial maturity of interest in mortgage portfolio held on trust		2,733,372	2,278,200
Purchase of beneficial interest in mortgage portfolio held on trust		<u>(2,403,550)</u>	<u>(3,999,221)</u>
		<u>549,901</u>	<u>(1,426,804)</u>
Cash outflow before use of liquid resources and financing		785,807	(1,108,067)
Financing			
Issue of debt securities		2,403,550	3,999,221
Repayment of debt securities in issue		(3,075,958)	(1,737,185)
Start up loans received		12,096	6,100
		<u>(660,312)</u>	<u>2,268,136</u>
Increase in cash in the year	20	<u>125,495</u>	<u>1,160,069</u>

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

Notes to the accounts for the year ended 31 December 2003

1. Accounting policies

Basis of Accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below:

- (1) The Group accounts comprise the accounts of the Company and all its subsidiary undertakings.
The accounting reference date of the Company and its subsidiary undertakings is 31 December.
- (2) Interest receivable is recognised on an accruals basis.
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.
- (3) 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.
The Group holds an equitable interest in a portfolio of mortgage loans held on trust, against which provisions are made on the same basis. The Group accounts for these provisions in accordance with its share of the total trust property.
- (4) Deferred consideration is payable to the originator of the loans and advances to customers based on the profitability of the Group before the charge for the general provision for bad and doubtful debts, and is recognised on an accruals basis.
- (5) Value added tax is not recoverable by the Group and is included with its related cost.
- (6) Transactions are undertaken in derivative financial instruments, "derivatives", which include interest rate and cross-currency swaps. Derivatives are entered into for the purpose of eliminating risk from potential movements in interest rates and foreign exchange rates inherent in the Group's non-trading assets and liabilities. Non-trading assets and liabilities are those intended for use on a continuing basis in the activities of the Group.
A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates of the derivative and the designated asset or liability being hedged.
Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Non-trading derivatives are accounted for on an accruals basis, consistent with the asset or liability 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 or payable.
- (7) Income and expenses arising in foreign currencies are translated at the average rates of exchange over the accounting year unless they are hedged in which case the relevant hedge rate is applied. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the contracted hedge rate.
- (8) Deferred taxation is provided on all timing differences that have not reversed before the balance sheet date at the rate of tax expected to apply when those timing differences will reverse. Deferred tax assets are recognised to the extent that they are regarded as recoverable.
- (9) Debt Securities in issue are stated at net proceeds. Discounts or premiums are amortised to the profit and loss account on a level yield basis.
- (10) There has been a change in accounting policy in Holmes Trustees Ltd, a subsidiary of Holmes Holdings Ltd which necessitated a prior year adjustment. Details of this adjustment can found in note 22 to the accounts.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

2. Interest receivable and similar income

	2003 £'000	2002 £'000 (Re-stated)
Interest receivable on secured advances	50,127	73,821
Income receivable from beneficial interest in mortgage portfolio	708,024	648,054
Expense from derivatives used to hedge secured advances	(91,829)	(93,842)
Bank interest receivable	37,907	28,845
Interest receivable on collateralised cash	3,881	-
	<u>708,110</u>	<u>656,878</u>

3. Interest payable

	2003 £'000	2002 £'000 (Re-stated)
Interest payable on debt securities in issue	633,928	576,258
Expense from derivatives used to hedge secured advances	9,540	10,499
Interest payable on start-up loans	2,820	2,654
Interest payable on collateralised cash	3,881	-
	<u>640,629</u>	<u>589,411</u>

4. Provisions for bad and doubtful debts

	2003 £'000	2002 £'000
At 1 January:		
General	17,512	9,410
Specific	692	2,122
	<u>18,204</u>	<u>11,532</u>
Transfer from profit and loss account	6,301	6,724
Irrecoverable amounts written back/(off)	92	(52)
At 31 December	<u>24,597</u>	<u>18,204</u>
Being:		
Provisions against beneficial interest in mortgage portfolio (note 9):		
General	22,061	14,831
Specific (including suspended interest £271,000 (2002: £123,000))	676	222
	<u>22,737</u>	<u>15,053</u>
Provisions against loans and advances to customers (note 8):		
General	1,710	2,681
Specific	150	470
	<u>1,860</u>	<u>3,151</u>

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

4. Provisions for bad and doubtful debts (continued)

Analysis of movements on suspended interest on loans and advances:

At 1 January	96	893
Amounts suspended in the year	183	(341)
Irrecoverable amounts written off	(144)	(456)
At 31 December	<u>135</u>	<u>96</u>

The values at 31 December on which interest had been suspended were as follows:

On loans and advances to customers	2,529	4,529
Provisions on loans and advances to customers	<u>140</u>	<u>252</u>
On beneficial interest in mortgage portfolio	6,161	2,515
Provisions on beneficial interest in mortgage portfolio	<u>360</u>	<u>142</u>

5. Operating loss on ordinary activities before taxation

Operating loss on ordinary activities before taxation is stated after charging:

	2003 £'000	2002 £'000
Administration charges - SPV Management Limited	135	98
Auditors' remuneration - audit fees (2002: £212,000 recharged to J.P.Morgan)	149	453
Non audit fees	<u>199</u>	<u>67</u>

Neither the Company nor the Group has any employees (2002: none) other than its directors. No emoluments were paid to the Directors for their services to the Company or the Group during the year (2002: nil).

A management fee for administration services is charged by SPV Management Limited.

6. Tax on loss on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax for the year at 28% (2002: 28%)	25	28
Adjustments in respect of prior years	<u>(2)</u>	<u>5</u>
	23	33
Deferred taxation	(1,985)	(2,811)
Effect of reduced tax rate on opening asset	<u>27</u>	<u>-</u>
	<u>(1,935)</u>	<u>(2,778)</u>

The tax charge that arises in the year is due to the disallowable general provision on the interest income.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

6. Tax on loss on ordinary activities (continued)

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

The corporation tax charge is made up as follows:

Loss on ordinary activities before tax	(6,180)	(7,996)
Loss on ordinary activities multiplied by standard rate of United Kingdom corporation tax of 30%	(1,854)	(2,399)
Effect of:		
Non tax-deductible general provisions	1,877	2,430
Benefit of small companies corporation tax rate	(1)	(3)
Adjustments to tax charge in respect of previous periods	2	5
	<u>23</u>	<u>33</u>

7. Investment in subsidiary undertakings

The company's investment in subsidiary undertakings, all of which are unlisted, comprises:

Company:

	2003 £'000	2002 £'000
Cost:		
At 1 January	400	350
Additions	50	50
At 31 December	<u>450</u>	<u>400</u>

The undertakings are as follows:

	Country of registration and operation	Activity	Proportion of ordinary shares held %
Holmes Trustees Limited	England and Wales	Trustee for mortgage portfolio	100
Holmes Funding Limited	England and Wales	Finance of mortgage portfolio	100
Holmes Funding No. 1 plc	England and Wales	Finance of mortgage portfolio	100
Holmes Funding No. 2 plc	England and Wales	Finance of mortgage portfolio	100
Holmes Financing (No. 1) plc	England and Wales	Finance of mortgage portfolio	100
Holmes Financing (No. 2) plc	England and Wales	Finance of mortgage portfolio	100
Holmes Financing (No. 3) plc	England and Wales	Finance of mortgage portfolio	100
Holmes Financing (No. 4) plc	England and Wales	Finance of mortgage portfolio	100
Holmes Financing (No. 5) plc	England and Wales	Finance of mortgage portfolio	100
Holmes Financing (No. 6) plc	England and Wales	Finance of mortgage portfolio	100
Holmes Financing (No. 7) plc	England and Wales	Finance of mortgage portfolio	100
PECOH Limited	England and Wales	Inactive	100

The Company acquired the whole of the issued share capital of Holmes Financing (No. 7) plc on 26 March 2003, for £50,000, satisfied by the payment of £12,500 cash and £37,500 debt.
All the shares were acquired at par value and no goodwill arose as a result of the acquisitions.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

8. Loans and advances to customers

	2003 £'000	2002 £'000
Advances secured on residential properties	711,457	930,245
Repayable:		
On demand or at short notice	12,487	20,223
In not more than three months	2,580	2,312
In more than three months but not more than one year	7,783	7,250
In more than one year but not more than five years	49,243	45,820
In more than five years	641,224	857,791
At 31 December 2003	713,317	933,396
Provisions:		
At 1 January (note 4)	(3,151)	(8,006)
Transfer to profit and loss account	1,317	4,920
Irrecoverable amounts written off	(26)	(65)
At 31 December (note 4)	(1,860)	(3,151)
Net book value:		
At 31 December 2003	711,457	930,245

The loans and advances to customers are all denominated in Sterling and have the following interest rate structures:

	2003 £'000	2002 £'000
Fixed rate	270,613	386,449
Variable rate	442,704	546,947
Less: provisions (see note 4)	(1,860)	(3,151)
	711,457	930,245

The Group's policy is to hedge all fixed rate loans and advances to customers using derivative financial instruments (see note 16). Interest on variable rate loans and advances is based on the Bank of England base rate.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

9. Beneficial interest in mortgage portfolio

	2003 £'000	2002 £'000
Cost:		
At 1 January	13,694,537	11,973,516
Additions	2,403,550	3,999,221
Capital repayments	(2,733,372)	(2,278,200)
At 31 December	<u>13,364,715</u>	<u>13,694,537</u>
Provisions:		
At 1 January (Note 4)	15,053	3,526
Transfer from profit and loss account	7,618	11,644
Irrecoverable amounts written back / (off)	66	(117)
At 31 December (note 4)	<u>22,737</u>	<u>15,053</u>
Net book value:		
At 31 December	<u>13,341,978</u>	<u>13,679,484</u>
Repayable:		
On demand or at short notice	29,808	6,395
In not more than three months	36,913	60,767
In more than three months but not more than one year	219,416	187,805
In more than one year but not more than five years	1,319,525	1,131,596
In more than five years	11,759,053	12,307,974
At 31 December 2003	<u>13,364,715</u>	<u>13,694,537</u>
Fixed rate	2,380,538	3,674,765
Variable rate	10,984,177	10,019,772
Less: provisions (see note 4)	(22,737)	(15,053)
	<u>13,341,978</u>	<u>13,679,484</u>

The mortgage portfolio in which the Company holds a beneficial interest is held on trust for the Company and the originator of the mortgage loans by Holmes Trustees Limited, a group undertaking. During the year the Company increased its interest in the trust property in one tranche (2002: three tranches). The mortgage loans are secured on residential property in England, Scotland and Wales. At 31 December 2003 the total mortgage assets held on trust for the beneficiaries amounted to £23,162,383,000 (2002: £23,104,300,000).

10. Debtors

	2003 £'000	2002 £'000
Amounts owed by the administrator	246	383
Other debtors	27,310	31,419
Accrued interest receivable	3,480	6,112
	<u>31,036</u>	<u>37,914</u>

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

11. Deferred taxation asset

	2003 £'000	2002 £'000
As at 1 January	4,985	2,174
Transfer to profit and loss account	1,958	2,811
As at 31 December	<u>6,943</u>	<u>4,985</u>
Provided on:		
General provision against loans and advances to customers	325	536
General provision against beneficial interest in mortgage portfolio	6,618	4,449
	<u>6,943</u>	<u>4,985</u>

The deferred tax asset has been recognised under FRS 19 (Deferred tax) since it is considered more likely than not that there will be sufficient future chargeable profits against which the future reversal of the general provisions can be deducted.

12. Cash at bank and in hand

	2003 £'000	2002 £'000 (Re-stated)
At 1 January		1,486,849
Net cash inflow		125,495
At 31 December		<u>1,612,344</u>
At 1 January		326,780
Net cash inflow		1,160,069
At 31 December		<u>1,486,849</u>
	2003 £'000	2002 £'000 (Re-stated)
Guaranteed Investment Contract	1,293,435	1,300,554
Cash collateral	318,909	186,295
	<u>1,612,344</u>	<u>1,486,849</u>

The Group holds deposits at banks which pay interest based on LIBOR and on relevant inter bank rates.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

13. Creditors: amounts falling due within one year

	2003 £'000	2002 £'000 (Re-stated)
Debt securities in issue (note 15)	482,320	961,292
Amounts due in respect of collateralised cash received	318,908	186,295
Amounts due to the administrator	1,931	1,280
Corporation tax	25	28
Other creditors	132,602	84,582
Accrued interest payable	135,145	131,078
	<u>1,070,931</u>	<u>1,364,555</u>
Company:		
Amounts owed to subsidiary undertakings	334	297
Other creditors	116	103
	<u>450</u>	<u>400</u>

14. Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Debt securities in issue (note 15)	14,412,500	14,605,936
Start up loans	74,546	62,450
Amounts owed to the administrator	162,364	118,874
	<u>14,649,410</u>	<u>14,787,260</u>

Interest payable on the start up loans is based on LIBOR.

Amounts due over 5 years are paid in order of priority when cash is available after other commitments have been fulfilled.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

15. Debt securities in issue

	2003 £'000	2002 £'000
Class A3 Mortgage Backed Floating Rate Notes 2025	28,655	182,933
Class B Mortgage Backed Floating Rate Notes 2025	52,500	52,500
Class C Mortgage Backed Floating Rate Notes 2025	47,500	47,500
Class A1 Mortgage Backed Floating Rate Notes 2035	56,128	129,016
Class A2 Mortgage Backed Floating Rate Notes 2035	315,000	315,000
Class A3 Mortgage Backed Floating Rate Notes 2035	200,000	200,000
Class B Mortgage Backed Floating Rate Notes 2035	40,000	40,000
Class C Mortgage Backed Floating Rate Notes 2035	45,000	45,000
Series 1 Class A Floating Rate Notes 2005	-	600,000
Series 1 Class B Floating Rate Notes 2040	-	21,000
Series 1 Class C Floating Rate Notes 2040	-	28,000
Series 2 Class A Floating Rate Notes 2007	650,000	650,000
Series 2 Class B Floating Rate Notes 2040	23,000	23,000
Series 2 Class C Floating Rate Notes 2040	30,000	30,000
Series 3 Class A1 Floating Rate Notes 2010	375,000	375,000
Series 3 Class A2 Floating Rate Notes 2010	200,000	200,000
Series 3 Class B Floating Rate Notes 2040	24,000	24,000
Series 3 Class C Floating Rate Notes 2040	30,000	30,000
Series 4 Class A Fixed/Floating Rate Notes 2013	250,000	250,000
Series 4 Class B Floating Rate Notes 2040	11,000	11,000
Series 4 Class C Floating Rate Notes 2040	14,000	14,000
Series 2 Class A Floating Rate Notes 2017	527,250	703,000
Series 2 Class B Floating Rate Notes 2040	26,011	26,011
Series 2 Class C Floating Rate Notes 2040	34,447	34,447
Series 3 Class A Floating Rate Notes 2023	500,000	500,000
Series 3 Class B Floating Rate Notes 2040	19,000	19,000
Series 3 Class C Floating Rate Notes 2040	25,000	25,000
Series 4 Class A Floating Rate Notes 2040	300,000	300,000
Series 4 Class B Floating Rate Notes 2040	12,600	12,600
Series 4 Class C Floating Rate Notes 2040	21,000	21,000
Series 1 Class A Floating Rate Notes 2005	-	750,000
Series 1 Class B Floating Rate Notes 2040	-	23,000
Series 1 Class C Floating Rate Notes 2040	-	37,500
Series 2 Class A Floating Rate Notes 2007	750,000	750,000
Series 2 Class B Floating Rate Notes 2040	23,000	23,000
Series 2 Class C Floating Rate Notes 2040	37,500	37,500
Series 3 Class A Floating Rate Notes 2040	500,000	500,000
Series 3 Class B Floating Rate Notes 2040	15,000	15,000
Series 3 Class C Floating Rate Notes 2040	31,000	31,000
Series 1 Class A Floating Rate Notes 2015	573,750	765,000
Series 1 Class B Floating Rate Notes 2040	26,500	26,500
Series 1 Class C Floating Rate Notes 2040	39,500	39,500
Series 2 Class A Fixed/Floating Rate Notes 2008	490,000	490,000
Series 2 Class B Floating Rate Notes 2040	22,000	22,000
Series 2 Class C Floating Rate Notes 2040	33,000	33,000
Series 3 Class A1 Floating Rate Notes 2040	550,000	550,000
Series 3 Class A2 Floating Rate Notes 2040	300,000	300,000
Series 3 Class B Floating Rate Notes 2040	25,000	25,000
Series 3 Class C Floating Rate Notes 2040	36,000	36,000
Series 3 Class D1 Floating Rate Notes 2040	30,000	30,000
Balance carried forward	7,339,341	9,393,007

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

15. Debt securities in issue (continued)

	2003 £'000	2002 £'000
Balance brought forward	7,339,341	9,393,007
Series 3 Class D2 Floating Rate Notes 2040	16,500	16,500
Series 3 Class D3 Floating Rate Notes 2040	3,500	3,500
Series 4 Class A Fixed/Floating Rate Notes 2009	350,000	350,000
Series 4 Class B Floating Rate Notes 2040	11,000	11,000
Series 4 Class C Floating Rate Notes 2040	19,000	19,000
Series 1 Class B Floating Rate Notes 2040	-	24,500
Series 1 Class C Floating Rate Notes 2040	-	36,500
Series 2 Class A1 Floating Rate Notes 2006	527,500	527,500
Series 2 Class A2 Floating Rate Notes 2006	170,000	170,000
Series 2 Class B Floating Rate Notes 2040	24,500	24,500
Series 2 Class C Floating Rate Notes 2040	36,500	36,500
Series 3 Class A1 Fixed/Floating Rate Notes 2008	375,000	375,000
Series 3 Class A2 Floating Rate Notes 2040	500,000	500,000
Series 3 Class B Floating Rate Notes 2040	33,000	33,000
Series 3 Class C Floating Rate Notes 2040	47,500	47,500
Series 1 Class A Floating Rates Notes 2003	-	961,292
Series 1 Class B Floating Rates Notes 2040	32,043	32,043
Series 1 Class C Floating Rates Notes 2040	55,114	55,114
Series 2 Class A Floating Rates Notes 2008	801,077	801,077
Series 2 Class B Floating Rates Notes 2040	26,916	26,916
Series 2 Class C Floating Rates Notes 2040	45,501	45,501
Series 3 Class A Floating Rates Notes 2009	633,500	633,500
Series 3 Class B Floating Rates Notes 2040	21,539	21,539
Series 3 Class C Floating Rates Notes 2040	36,110	36,110
Series 4 Class A1 Floating Rates Notes 2009	641,026	641,026
Series 4 Class A2 Floating Rates Notes 2009	129,230	129,230
Series 4 Class B Floating Rates Notes 2040	25,642	25,642
Series 4 Class C Floating Rates Notes 2040	44,231	44,231
Series 5 Class A Floating Rates Notes 2040	500,000	500,000
Series 5 Class B Floating Rates Notes 2040	17,000	17,000
Series 5 Class C Floating Rates Notes 2040	29,000	29,000
Series 1 Class A Floating Rates Notes 2004	482,320	-
Series 1 Class B Floating Rates Notes 2040	14,470	-
Series 1 Class M Floating Rates Notes 2040	24,600	-
Series 2 Class A Floating Rates Notes 2008	803,340	-
Series 2 Class B Floating Rates Notes 2040	24,100	-
Series 2 Class M Floating Rates Notes 2040	40,970	-
Series 3 Class A Floating Rates Notes 2040	321,000	-
Series 3 Class B Floating Rates Notes 2040	15,000	-
Series 3 Class M Floating Rates Notes 2040	20,000	-
Series 4 Class A1 Floating Rates Notes 2040	341,500	-
Series 4 Class A2 Floating Rates Notes 2040	250,000	-
Series 4 Class B Floating Rates Notes 2040	28,000	-
Series 4 Class M Floating Rates Notes 2040	38,250	-
	<u>14,894,820</u>	<u>15,567,228</u>

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

15. Debt securities in issue (continued)

The notes are denominated in the following currencies:

	2003 £'000	2002 £'000
UK Sterling	3,717,655	3,586,933
US Dollar	7,076,308	8,214,300
Euro	3,451,627	3,116,765
Swiss Franc	649,230	649,230
	<u>14,894,820</u>	<u>15,567,228</u>

Foreign currency notes are converted at the rate of exchange in the applicable hedging currency swap.

All the Class A notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority except until enforcement of the security for the Notes when as to payments of principal the Class A1 notes will rank in priority to the Class A2 notes and the Class A3 notes. The Class A2 notes will rank in priority to the Class A3 notes.

Payments in respect of the Class B, C, D and M notes will only be made if, and to the extent that, there are sufficient funds after paying or providing for certain liabilities, including liabilities in respect of the Class A Notes.

The Class B Notes rank after the Class A notes in point of security but before the Class C Notes

The Class C Notes rank after the Class B notes in point of security but before the Class D Notes

The Class D Notes rank after the Class C notes in point of security but before the Class M Notes

The Class M Notes rank after the Class D notes in point of security.

The notes are only repayable if there are sufficient funds available.

Interest is payable on the notes at variable rates based on one-month and three month Sterling LIBOR, the US Dollar LIBOR, the three-month EURIBOR and the three-month Swiss Franc rate, with the exception of the fixed/floating rate notes. On these notes interest is payable at fixed rates for a set period, after which it is paid at variable rates based on three-month Sterling, the three month EURIBOR and Swiss Franc LIBOR.

The estimated fair value of the notes, based on the mid-market price on 31 December 2003 was £15,004,262,073 (31 December 2002: £15,085,524,000).

16. Financial instruments

The Group's policies as regards derivatives and financial instruments are set out in the Report of the Directors on page 2 and the accounting policies on page 9. The Group does not trade in financial instruments. The following disclosures are made in respect of financial instruments. Short term debtors and creditors are included in all of the following disclosures:

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

16. Financial instruments (continued)

(a) Maturity profile of financial liabilities

	Debt securities in issue £'000	Other liabilities £'000	Total liabilities £'000
2003			
Within one year or less or on demand	482,320	588,611	1,070,931
More than two years but not more than five years	4,566,917	-	4,566,917
More than five years	9,845,583	236,910	10,082,493
	<u>14,894,820</u>	<u>825,521</u>	<u>15,720,341</u>
2002 (Re-stated)			
Within one year or less or on demand	961,292	403,263	1,364,555
More than two years but not more than five years	3,447,500	-	3,447,500
More than five years	11,158,436	181,324	11,339,760
	<u>15,567,228</u>	<u>584,587</u>	<u>16,151,815</u>

There are no material undrawn committed borrowing facilities.

(b) Interest rate profile of financial assets and liabilities

After taking into account the interest rate and cross currency swaps entered into by the Group, the interest rate profile of the Group's financial assets and liabilities at 31 December was:

	Total £'000	Floating rate £'000	Non-interest bearing £'000	Weighted average period until maturity* Years
2003				
Assets:				
Sterling	<u>15,703,758</u>	<u>15,665,779</u>	<u>37,979</u>	<u>0.1</u>
Liabilities:				
Sterling	<u>15,720,341</u>	<u>15,288,274</u>	<u>432,067</u>	<u>0.1</u>
2002 (Re-stated)				
Assets:				
Sterling	<u>16,759,351</u>	<u>16,096,578</u>	<u>42,899</u>	<u>9.0</u>
Liabilities:				
Sterling	<u>16,151,815</u>	<u>15,815,973</u>	<u>335,842</u>	<u>13.4</u>

* for non-interest bearing assets/liabilities only.

Benchmark rates for determining interest payments for the floating rate assets and liabilities are given in the note to the accounts relevant to the financial instrument type.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

16. Financial instruments (continued)

(c) Fair values of financial assets and liabilities

The fair value of debt securities in issue is disclosed in note 15 to the accounts.

Fair value disclosures are not provided for loans and advances to customers as there is no liquid and active market for such instruments.

The estimated fair values of other assets and liabilities on the balance sheet are not materially different from their carrying amounts.

The accrued interest on the derivative financial instruments held to manage the interest rate profile of assets and liabilities is a liability of £10,770,713 (2002: £21,210,000).

The estimated fair value of cross currency swaps entered into by the Group as at 31 December 2003 was an liability of £706,007,252 (2002: £527,894,729). The cross currency swaps mature between October 2003 and July 2040. The estimated fair value of interest rate swaps entered into by the Group as at 31 December 2003 was a liability of £146,727,010 (2002: £264,000,000). The fair value of the instruments will largely be recognised after the end of the next financial year. As described in the accounting policies on page 8 this swap is accounted for by translating the liability, which it hedges at the swap rate, rather than at the year-end rate.

(d) Currency profile

Taking into account the effect of derivative instruments, the Group did not have a material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at 31 December 2003 and 2002.

17. Share capital

	2003 £	2002 £
Authorised:		
100 Ordinary shares of £1 each	100	100
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>

18. Reconciliation of movements in consolidated shareholders' deficit

	2003 £'000	2002 £'000
Opening shareholders' deficit	(12,338)	(7,120)
Retained loss for the year	<u>(4,241)</u>	<u>(5,218)</u>
Closing shareholders' deficit	<u>(16,579)</u>	<u>(12,338)</u>

The loss in the year has arisen as a result of the deferred consideration payable to the originator of the loans and advances to customers, which is based upon the profitability of the Company's subsidiaries before the charge for the general provision for bad and doubtful debts.

The Directors anticipate that the Group will make a profit over the life of the mortgage portfolio.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

19. Reconciliation of loss on ordinary activities before taxation to net cash inflow from operating activities

	2003 £'000	2002 £'000
Loss on ordinary activities before taxation	(6,180)	(7,996)
Bank interest receivable	(37,908)	(28,845)
Interest payable	636,748	578,912
Decrease in debtors	6,879	1,590
Increase in creditors	224,775	309,113
Increase in provisions	6,393	5,875
Net cash inflow from operating activities	<u>830,707</u>	<u>858,649</u>

20. Net debt

(a) Analysis of changes in net debt

	2002 £'000	Cash flow £'000	2003 £'000
Cash at bank	<u>1,486,849</u>	<u>125,495</u>	<u>1,612,344</u>
Debt securities in issue	(15,567,228)	672,408	(14,894,820)
Start up loans	(62,450)	(12,096)	(74,546)
	<u>(15,629,678)</u>	<u>660,312</u>	<u>(14,969,366)</u>
Net Debt at 31 December	<u>(14,142,829)</u>	<u>785,807</u>	<u>(13,357,022)</u>

(b) Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
Increase in cash in the year	125,495	1,160,069
Cash outflow / (inflow) from increase in debt	660,312	(2,268,136)
Change in net debt resulting from cash flows	<u>785,807</u>	<u>(1,108,067)</u>
Net debt at 1 January	<u>(14,142,829)</u>	<u>(13,034,762)</u>
Net debt at 31 December	<u>(13,357,022)</u>	<u>(14,142,829)</u>

21. Capital commitments and contingent liabilities

There were no outstanding capital commitments or contingent liabilities at 31 December 2003 and 2002.

HOLMES HOLDINGS LIMITED

Notes to the Accounts for the year ended 31 December 2003 (continued)

22. Prior period adjustment

A change in the treatment of cash at bank balances held by Holmes Trustees Ltd, a subsidiary of Holmes Holdings Ltd, necessitated a prior year adjustment. These balances are held by the Trust on behalf of its beneficiaries and should therefore be included in their financial statements. This necessitated the removal of the cash asset and amount due to the beneficiaries along with interest receivable and payable on the balances from the consolidated financial statements above. The removal has had no impact on either net assets or profit for the year.

23. Related party transactions

The Company has taken advantage of the exemption covered by paragraph 3 (c) of FRS 8, "Related party disclosures", not to disclose transactions with entities that are part of the Holmes Group.

Companies within the Group remunerate SPV Management Limited for administration services. The total amount paid in the year ended 31 December 2003 was £135,000 (2002: £98,000).

24. Ultimate controlling party

SPV Management Limited, a company incorporated in Great Britain and registered in England and Wales, holds all of the shares in the Company (one jointly with M McDermott as nominee) as trustee under a discretionary charitable trust, dated 17 February 1999, for the benefit of nurses employed in the United Kingdom and for charitable purposes.

The administration, operations, accounting and financial reporting functions of the Company are performed by Abbey National plc, which is incorporated in Great Britain and registered in England and Wales. During the year, Abbey National plc has delegated administration and servicing functions in respect of the loans on behalf of the mortgages' trustee and the beneficiaries to a service provider.

25. Post Balance Sheet event

Since the year end, Holmes Holdings Limited acquired the majority of the shares in Holmes Financing (No. 8) plc with Holmes Financing (No. 8) plc issuing £4bn of new securities. The proceeds were loaned to Holmes Funding Limited to acquire a greater share of the mortgages held by Holmes Trustees Limited.