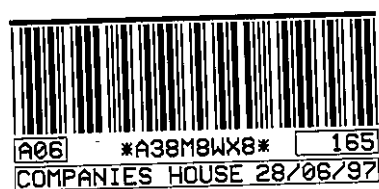


ABBAY LIFE FUNDING LIMITED

DIRECTORS' REPORT AND ACCOUNTS 1996



Company Registered Number: 2104259

ABBEY LIFE FUNDING LIMITED

DIRECTORS' REPORT

The Directors present their report for the year ended 31 December 1996.

ACCOUNTS

The Directors submit the audited accounts for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The principal activity of the Company is the provision of residential mortgages.

The Company primarily financed the mortgages from funding provided through Lloyds Bowmaker Finance Limited.

As at 31 December 1996 total mortgage loans held by the Company amounted to £114,000.

During the year under review a profit of £309,000 was achieved.

DIVIDENDS

The Directors propose to pay a dividend of £1,000,000 in respect of the year ended 31 December 1996.

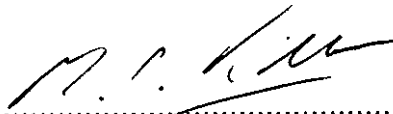
DIRECTORS AND THEIR INTERESTS

The Board of Directors during the year was:-

P F Hook
D A Baggaley

According to the register, none of the Directors has or has had at any time during the year, any interest in the share capital of the Company. The interest of Directors in the shares of Lloyds TSB Group plc and Lloyds Abbey Life plc are disclosed in the accounts of Lloyds Bowmaker Finance Limited.

By Order of the Board.



.....
14 March 1997

Finance House
51 Holdenhurst Road
Bournemouth
BH8 8EP

Company Registration Number: 2104259

ABBAY LIFE FUNDING LIMITED

ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

CASH FLOW STATEMENT

The Company is exempted from producing a cash flow statement since a consolidated cash flow statement prepared in accordance with the requirements of Financial Reporting Standard 1 is included in the accounts of its ultimate parent undertaking, Lloyds TSB Group plc.

INVESTMENTS

Mortgage loans are shown at cost less amounts written off.

DEFERRED TAXATION

Deferred taxation is provided at appropriate rates of corporation tax in respect of timing differences where there is a reasonable probability that such taxation will become payable.

TURNOVER

Turnover, which represents interest on mortgage loans and other operating income, is included in the profit and loss account on an accruals basis.

RELATED PARTY TRANSACTIONS

The Company is exempted from reporting intra-group related party transactions in accordance with the requirements of Financial Reporting Standard 8 because it is wholly owned by Lloyds TSB Group plc.

ABBEY LIFE FUNDING LIMITED

BALANCE SHEET AT 31 DECEMBER 1996

	<u>NOTE</u>	<u>1996</u> £000	<u>1995</u> £000
INVESTMENTS			
Mortgage loans		114	658
CURRENT ASSETS			
Debtors		-	48
Amounts due from group undertakings	1	1,185	22,554
		<hr/>	<hr/>
		1,185	22,602
		<hr/>	<hr/>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Creditors		-	3
Amounts due to group undertakings		52	7,288
Corporation tax payable		20	2,972
Dividends payable		1,000	11,000
Accruals		-	1,079
		<hr/>	<hr/>
		1,072	22,342
		<hr/>	<hr/>
NET CURRENT ASSETS		113	260
		<hr/>	<hr/>
TOTAL ASSETS LESS LIABILITIES		227	918
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	2	-	-
Profit and loss account		227	918
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS - EQUITY INTERESTS		227	918
		<hr/>	<hr/>

.....
14 March 1997



ABBAY LIFE FUNDING LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR

ENDED 31 DECEMBER 1996

	<u>NOTE</u>	<u>1996</u> £000	<u>1995</u> £000
Turnover	3	86	10,763
Operating charges	4	56	(1,132)
Interest payable to group undertakings		-	(7,192)
Interest receivable from group undertakings		70	-
Gain on sale of mortgage loans	5	249	15,812
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		461	18,251
Taxation	6	(152)	(2,916)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		309	15,335
Dividends		(1,000)	(11,000)
		<hr/>	<hr/>
RETAINED (LOSS)/PROFIT FOR THE YEAR		(691)	4,335
		<hr/> <hr/>	<hr/> <hr/>

RECONCILIATION OF SHAREHOLDERS' FUNDS AND

STATEMENT OF RETAINED PROFITS

	<u>1996</u> £000	<u>1995</u> £000
Balance at 1 January	918	(3,417)
Retained (loss)/profit for the year	(691)	4,335
	<hr/>	<hr/>
Balance at 31 December	227	918
	<hr/> <hr/>	<hr/> <hr/>

There are no recognised gains and losses other than those in the profit and loss account.

ABBEY LIFE FUNDING LIMITED

NOTES TO THE ACCOUNTS AT 31 DECEMBER 1996

1. **AMOUNTS DUE FROM GROUP UNDERTAKINGS**

This includes amounts due from Lloyds Bowmaker Finance Limited of £865,000 (1995 - £22,554,000).

2. **CALLED UP SHARE CAPITAL**

	<u>1996</u> £	<u>1995</u> £
Authorised 1,000 ordinary shares at £1 each	1,000	1,000
	—	—
Allotted 100 ordinary shares at £1 each fully paid	100	100
	—	—

3. **TURNOVER**

	<u>1996</u> £000	<u>1995</u> £000
Interest on mortgage loans	42	10,032
Other interest receivable	-	39
Other operating income	44	692
	—	—
	86	10,763
	—	—

The Company operated in one class of business in the UK only.

4. **OPERATING CHARGES**

Includes Auditors' remuneration of £1,500 (1995 - £6,463) for audit services.

No remuneration of any nature was paid or is payable by the Company to the Directors.

5. **GAIN ON SALE OF MORTGAGE LOANS**

During July 1995, the Company disposed of the majority of its first mortgage business. The net book value of the mortgage loans disposed of was £222,406,000, resulting in a profit of £15,812,000, net of disposal costs. The disposal included a transfer to a group company and no liability to tax was incurred. The profit of £249,000 for 1996 relates to the release of disposal cost provisions no longer required.

6. TAXATION

The taxation charge is based on the profit for the year and a tax rate of 33% (1995: 33%) and is made up as follows:

	<u>1996</u> £000	<u>1995</u> £000
On profit for the year:		
Corporation tax	20	2,972
Deferred taxation	-	(56)
Adjustment to prior years:		
Corporation tax	(2,972)	-
Group relief	3,104	-
	<hr/>	<hr/>
	152	2,916
	<hr/>	<hr/>

7. HOLDING COMPANY

The Company is a wholly owned subsidiary of Lloyds Bowmaker Limited. The Company's ultimate holding company is Lloyds TSB Group plc, a company registered in Scotland.

8. GROUP ACCOUNTS

The parent for the largest group of undertakings, for which group accounts are drawn up and of which the Company is a member, is Lloyds TSB Group plc.

The parent for the smallest group of undertakings, for which group accounts are drawn up and of which the Company is a member, is Lloyds Bowmaker Finance Limited, a company registered in England.

Copies of the group accounts are available to the public from:-

Lloyds Bank plc
71 Lombard Street
London
EC3P 3BS

Lloyds Bowmaker Finance Limited
Finance House
51 Holdenhurst Road
Bournemouth
Dorset
BH8 8EP

ABBAY LIFE FUNDING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those accounts, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the accounts comply with the above requirements.

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 that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ABBAY LIFE FUNDING LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF

ABBAY LIFE FUNDING LIMITED

We have audited the accounts on pages 2 to 6 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 2.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 7 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

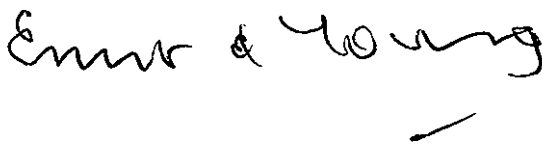
BASIS OF OPINION

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 judgments 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 evaluate the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG

CHARTERED ACCOUNTANTS

REGISTERED AUDITOR

SOUTHAMPTON

30 April 1997