

**HOLMES HOLDINGS LIMITED**  
**REPORT AND ACCOUNTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 1999**  
**Registered No. 3689577**



# HOLMES HOLDINGS LIMITED

## Report of the Directors

The Directors submit their report together with the accounts for the period from 29 December 1998 to 31 December 1999.

### 1. Principal activity and review of the year

The Company was registered in England and Wales on 29 December 1998 as Trushelfco (No. 2470) Limited with an authorised share capital of 100 ordinary shares of £1 each, of which two shares were issued and fully paid. The Company changed its name to Holmes Holdings Limited on 3 February 1999.

The principal activity of the Company is that of a non-operating parent company for the Holmes group, the subsidiaries of which provide long term finance for mortgage portfolios. No future changes in activity are envisaged. The Company acquired the whole of the issued ordinary share capital of Holmes Funding No. 1 plc and Holmes Funding No. 2 plc on 12 February 1999 and 3 September 1999 respectively.

### 2. Results and Dividend

The results for the period are set out on page 5. The profit of £7,145 will be transferred to reserves. The Directors do not recommend the payment of a dividend.

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

It is, and has been throughout the period 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 foreign currency risk. The Board reviews and agrees policies for managing these risks and they are summarised below.

#### *Interest rate risk*

Interest is charged on the loans and advances made by the Group at various rates, including variable and fixed 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.

#### *Currency risk*

The Group has debt securities in issue denominated in Euro. The Group's policy is to eliminate all exposures arising from movements in the Euro-Sterling exchange rate 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.

# **HOLMES HOLDINGS LIMITED**

## **4. Directors and their interests**

The Directors who served during the period were :

A Barton	(appointed 18 June 1999)
P Minoprio	(appointed 9 February 1999)
SPV Management Limited	(appointed 9 February 1999)
M P Schwarz	(appointed 9 February 1999, resigned 18 June 1999)
W J Burnand	(appointed 27 January 1999, resigned 9 February 1999)
M C Hutchinson	(appointed 27 January 1999, resigned 9 February 1999)
D C J Rowe	(appointed 29 December 1998, resigned 27 January 1999)
E J Zuercher	(appointed 29 December 1998, resigned 27 January 1999)

P Minoprio resigned as a Director on 12 April 2000

M McDermott was appointed a Director on 12 April 2000

None of the Directors had a beneficial interest in the shares of the Company.

## **5. Directors' Responsibility in respect of the Preparation of Accounts**

The Directors are required by UK company law to prepare accounts for each financial period 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 period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the period ended 31 December 1999. 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.

## **6. Auditors**

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually.

During the year PricewaterhouseCoopers resigned as auditors of the Company and the Directors resolved to appoint Deloitte & Touche as auditors of the Company in their place.

## HOLMES HOLDINGS LIMITED

### 7. Year 2000 and Economic and Monetary Union

The Group is aware of the significant compliance and operational risks faced with Year 2000 and the strategic and operational risks posed by Economic and Monetary Union. These issues were addressed by the administrator, Abbey National Mortgage Finance plc whose plans were fully implemented by September 1999. This approach ensured that the Group's business critical systems were unaffected by the Year 2000 issue, and continue to operate effectively. Nevertheless the Directors continue to monitor the potential risks and uncertainties surrounding the Year 2000 issue.

The Group's preparations for the introduction of the Euro were completed in time for the opening of the financial markets on 4 January 1999. The Group continues to prepare for the possibility of the UK entering the EMU.

By order of the Board



For and behalf of  
Abbey National Secretariat Services Limited, Secretary

8<sup>th</sup> September 2000

Registered Office:  
Abbey House  
Baker Street  
London  
NW1 6XL

# HOLMES HOLDINGS LIMITED

## Auditors' report to the members of Holmes Holdings Limited

We have audited the financial statements on pages 5 to 17, which have been prepared under the accounting policies set out on page 9.

## Respective responsibilities of directors and auditors

As described on page 2 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 audit 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's and the Group's affairs at 31 December 1999, and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte + Touche*

### **Deloitte & Touche**

Chartered Accountants and Registered Auditors  
Stonecutter Court  
1 Stonecutter Street  
London  
EC4A 4TR

*15 September 2000*

# HOLMES HOLDINGS LIMITED

## Consolidated Profit and Loss Account For the period ended 31 December 1999

	Note	1999 <u>£'000</u>
Interest receivable and similar income	2	71,369
Interest payable	3	<u>(58,101)</u>
Net interest income		13,268
Other operating income		828
Administrative expenses		(12,181)
Provisions for bad and doubtful debts	4	<u>(1,485)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	430
Taxation on profit on ordinary activities	6	<u>(423)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	16	<u><u>7</u></u>

There are no recognised gains or losses in the period other than the profit for the period and therefore no statement of total recognised gains and losses is required.

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

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

The Company made no profit or loss, or recognised gains or losses during the period, therefore no Company profit and loss account is required.

# HOLMES HOLDINGS LIMITED

## Consolidated Balance Sheet As at 31 December 1999

	Note	1999 <u>£'000</u>
<b>FIXED ASSETS</b>		
Loans and advances to customers	8	1,795,063
<b>CURRENT ASSETS</b>		
Debtors	9	26,591
Cash at bank	10	<u>62,449</u>
		89,040
<b>CREDITORS - amounts falling due within one year</b>	11	<u>(15,668)</u>
<b>NET CURRENT ASSETS</b>		<u>73,372</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,868,435
<b>CREDITORS - amounts falling due after more than one year</b>	12	<u>(1,868,428)</u>
<b>NET ASSETS</b>		<u><u>7</u></u>
<b>CAPITAL and RESERVES</b>		
Called-up share capital	15	-
Profit and loss account		<u>7</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	16	<u><u>7</u></u>

The financial statements on page 5 to 17 were approved by the Board of Directors on

Signed on behalf of the Board of Directors

Director

*A. J. Barton* A. J. BARTON

Date :

5 September 2000

# HOLMES HOLDINGS LIMITED

## Company Balance Sheet As at 31 December 1999

	Note	1999 <u>£'000</u>
<b>FIXED ASSETS</b>		
Investment in subsidiary undertakings	7	100
<b>CREDITORS - amounts falling due within one year</b>	11	(100)
<b>NET CURRENT LIABILITIES</b>		<u>(100)</u>
<b>NET ASSETS</b>		<u>-</u>
<b>CAPITAL and RESERVES</b>		
Called-up share capital	15	-
Profit and loss account		<u>-</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>-</u>

The financial statements on page 5 to 17 were approved by the Board of Directors on

Signed on behalf of the Board of Directors

Director

*A. J. Barton*

A. J. BARTON

Date :

*5 September 2000*



# HOLMES HOLDINGS LIMITED

## Consolidated Cash Flow Statement For the period ended 31 December 1999

	Note	1999 <u>£'000</u>
Net cash inflow from operating activities	17	43,213
<b>Returns on investments and servicing of finance</b>		
Bank interest received		1,685
Interest paid on debt securities in issue		(43,394)
Interest paid on start up loans		(211)
Other interest paid		(11)
		<u>(41,931)</u>
<b>Taxation</b>		
UK Corporation tax paid		-
<b>Capital expenditure and financial investment</b>		
Purchase of mortgage portfolios		(2,063,662)
Redemptions of mortgage advances		266,888
		<u>(1,796,774)</u>
<b>Cash (outflow) before use of liquid resources and financing</b>		<u>(1,795,492)</u>
<b>Management of liquid resources</b>		
Net increase in 30 day deposits	10	(61,545)
<b>Financing</b>		
Issue of debt securities		2,001,000
Repayment of debt securities in issue		(152,305)
Start up loans received		10,400
Repayment of start up loans		(1,154)
		<u>1,857,941</u>
<b>Increase in cash in the period</b>	10	<u>904</u>

# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999

### 1. Accounting Policies

#### Basis of Accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable 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 calculated 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.
- (4) Value added tax is not recoverable by the Group and is included with its related cost.
- (5) 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.
- (6) Income and expenses arising in foreign currencies are translated at the average rates of exchange over the accounting period unless they are hedged in which case the relevant hedge rate is applied. Assets and liabilities denominated in foreign currencies are translated into sterling at the contracted hedge rate.

### 2. Interest Receivable and Similar Income

	1999 £'000
Interest receivable on secured advances	71,148
(Expense)/income from derivatives used to hedge secured advances	(1,586)
Bank interest receivable	1,807
Total	<u>71,369</u>

### 3. Interest Payable

	1999 £'000
Interest payable on debt securities in issue	57,809
Interest payable on start-up loan	281
Other interest payable	11
Total	<u>58,101</u>

# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999 (continued)

### 4. Provisions for Bad and Doubtful Debts

	1999 £'000
At incorporation:	
General	-
Specific	-
	<hr/>
Transfer from profit and loss account	1,485
Irrecoverable amounts written off	(58)
At 31 December	<hr/> <u>1,427</u>
Being:	
General	980
Specific	447

#### Analysis of movements on suspended interest:

	1999 £'000
At incorporation	-
Amounts suspended in the year	303
Irrecoverable amounts written off	(19)
At 31 December	<hr/> <u>284</u>

#### The value of loans and advances on which interest is suspended is as follows:

	1999 £'000
Loans and advances to customers	<hr/> <u>6,850</u>
Provisions on these amounts	<hr/> <u>447</u>

### 5. Profit on Ordinary Activities before Taxation

Profit on ordinary activities before taxation is stated after charging:

	1999 £'000
Administration charges - SPV Management Limited	<hr/> <u>18</u>
Audit fees	<hr/> <u>12</u>

The Company has no employees. No emoluments were paid to the Directors by the Company during the year. A management fee for administration services is charged by SPV Management Limited.

# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999 (continued)

### 6. Taxation

	1999 £'000
UK corporation tax at 30.00%	<u>423</u>

The tax charge is high owing to an adjustment for general provision movements in the year.

### 7. Investment in Subsidiary Undertakings

Company	1999 £'000
Cost:	
At incorporation	-
Additions	<u>100</u>
At 31 December	<u>100</u>

The subsidiary undertakings are as follows:

	Country of registration and operation	Activity	Proportion of ordinary shares held %
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

The Company acquired the whole of the issued ordinary share capital of Holmes Funding No. 1 plc and Holmes Funding No. 2 plc on 12 February 1999 and 3 September 1999 respectively. Both of the above investments are unlisted. The shares were acquired at par value and no goodwill arose as a result of the acquisitions. The consideration was satisfied by the payment of £25,000 cash and £75,000 debt.

### 8. Loans and Advances to Customers

Group	1999 £'000
Advances secured on residential properties	<u>1,795,063</u>
Repayable:	
On demand or at short notice	33,808
In not more than three months	2,410
In more than three months but not more than one year	7,502
In more than one year but not more than five years	48,353
In more than five years	1,704,417
Less: provisions (see note 4)	<u>(1,427)</u>
	<u>1,795,063</u>

# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999 (continued)

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

	1999 £'000
Fixed rate	719,556
Variable rate	1,076,934
Less: provisions	<u>(1,427)</u>
	<u>1,795,063</u>

The Group's policy is to hedge all fixed rate loans and advances to customers using derivative instruments (see note 14, "Financial instruments"). Interest on variable rate loans and advances is based on the Bank of England base rate.

### 9. Debtors

Group	1999 £'000
Accrued interest receivable	11,101
Amounts owed by the administrator	9,901
Other debtors	<u>5,589</u>
Total	<u>26,591</u>

### 10. Cash at Bank

Group	Repayable on demand £'000	3 month deposits £'000	Total £'000
1999			
At incorporation	-	-	-
Net cash inflow	<u>904</u>	<u>61,545</u>	<u>62,449</u>
At 31 December	<u>904</u>	<u>61,545</u>	<u>62,449</u>

Deposits pay interest based on the LIBOR and on relevant inter bank rates.

### 11. Creditors : amounts falling due within one year

Group	1999 £'000
Corporation tax	423
Accrued interest payable	14,485
Other creditors	<u>760</u>
Total	<u>15,668</u>

# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999 (continued)

### Company

	1999 £'000
Amounts owed to subsidiary undertakings	75
Other creditors	25
Total	<u>100</u>

## 12. Creditors : amounts falling due after more than one year

### Group

	1999 £'000
Debt securities in issue (note 13)	1,848,695
Start up loans	9,246
Amounts owed to the administrator	10,487
Total	<u>1,868,428</u>

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

## 13. Debt Securities in Issue

### Group

	1999 £'000
Class A1 Mortgage Backed Floating Rate Notes 2025	57,695
Class A2 Mortgage Backed Floating Rate Notes 2025	481,000
Class A3 Mortgage Backed Floating Rate Notes 2025	210,000
Class B Mortgage Backed Floating Rate Notes 2025	52,500
Class C Mortgage Backed Floating Rate Notes 2025	47,500
Class A1 Mortgage Backed Floating Rate Notes 2035	400,000
Class A2 Mortgage Backed Floating Rate Notes 2035	315,000
Class A3 Mortgage Backed Floating Rate Notes 2035	200,000
Class B Mortgage Backed Floating Rate Notes 2035	40,000
Class C Mortgage Backed Floating Rate Notes 2035	45,000
Total	<u>1,848,695</u>

The notes are repayable in more than five years, and are at variable rates of interest. The notes are denominated in the following currencies:

	1999 £'000
Sterling	767,695
Euro	1,081,000
Total	<u>1,848,695</u>

Interest is payable on the notes based on the three-month LIBOR and three-month EURIBOR.

# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999 (continued)

The estimated fair values of the notes, based on the mid-market price on 30 December 1999, are as follows:

	1999 £'000
Class A1 Mortgage Backed Floating Rate Notes 2025	57,659
Class A2 Mortgage Backed Floating Rate Notes 2025	479,722
Class A3 Mortgage Backed Floating Rate Notes 2025	209,311
Class B Mortgage Backed Floating Rate Notes 2025	52,500
Class C Mortgage Backed Floating Rate Notes 2025	47,589
Class A1 Mortgage Backed Floating Rate Notes 2035	400,040
Class A2 Mortgage Backed Floating Rate Notes 2035	315,236
Class A3 Mortgage Backed Floating Rate Notes 2035	200,050
Class B Mortgage Backed Floating Rate Notes 2035	40,010
Class C Mortgage Backed Floating Rate Notes 2035	44,955
Total	<u>1,847,072</u>

### 14. Financial Instruments

The Group's policies as regards derivatives and financial instruments are set out in the Report of the Directors on page 1 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. Disclosure of comparative information is not required, as this is the first year in which FRS 13, "Derivatives and other financial instruments: disclosures", is effective in the accounts of Holmes Holdings Limited. Short term debtors and creditors are included in all of the following disclosures.

#### 14 (a) Maturity profile of financial liabilities

	Debt securities in issue £'000	1999 Other liabilities £'000	Total liabilities £'000
Within one year or less or on demand	-	15,668	15,668
More than one year but not more than two years	-	-	-
More than two years but not more than five years	-	-	-
More than five years	1,848,695	19,733	1,868,428
	<u>1,848,695</u>	<u>35,401</u>	<u>1,884,096</u>

There are no material undrawn committed borrowing facilities.

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## Notes to the Accounts for the period ended 31 December 1999 (continued)

### 14 (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 1999 was:

	Total £'000	Floating rate £'000	Non- interest bearing £'000	Weighted average period until maturity* Years
<b>Assets:</b>				
Sterling	<u>1,884,103</u>	<u>1,857,512</u>	<u>26,591</u>	<u>1.1</u>
<b>Liabilities:</b>				
Sterling	<u>1,884,096</u>	<u>1,857,941</u>	<u>26,155</u>	<u>14.1</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.

### 14 (c) Fair values of financial assets and liabilities

The fair value of debt securities in issue is disclosed in note 13 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 £40,000. There is no material difference between this and the estimated fair value of the instruments.

The estimated fair value of cross currency swaps entered into by the Group as at 31 December 1999 was a liability of £109 million. The cross currency swaps mature in March 2025 and November 2035. The fair value of the instruments will largely be recognised after the end of the next financial period. As described in the accounting policies on page 9 this swap is accounted for by translating the liability which it hedges at the swap rate, rather than at the year end rate.

### 14 (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 1999.



# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999 (continued)

### 15. Share Capital

	1999 £'000
Authorised:	
100 Ordinary shares of £1 each	-
Called up, allotted and fully paid:	
2 Ordinary shares of £1 each	-

### 16. Reconciliation of Movements in Consolidated Shareholders' Funds

	1999 £'000
Retained profit for the year	7
Ordinary share capital issued	-
Opening shareholders' funds	-
Closing shareholders' funds	7

### 17. Reconciliation of Profit on Ordinary Activities Before Taxation to Net Cash Inflow from Operating Activities

	1999 £'000
Profit on ordinary activities before taxation	430
Bank interest receivable	(1,807)
Interest payable	58,101
Operating profit	56,724
(Increase) in debtors	(26,469)
Increase in creditors	11,247
Increase in provisions	1,711
Net cash inflow from operating activities	43,213

### 18. Net Debt

#### 18 (a) Analysis of Changes in Net Debt

	At incorporation £'000	Cash flow £'000	1999 £'000
Cash at bank	-	904	904
Debt securities in issue	-	(1,848,695)	(1,848,695)
Start up loans	-	(9,246)	(9,246)
	-	(1,857,941)	(1,857,941)
30 day deposits	-	61,545	61,545
Total	-	(1,795,492)	(1,795,492)

# HOLMES HOLDINGS LIMITED

## Notes to the Accounts for the period ended 31 December 1999 (continued)

### 18 (b) Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	1999 £'000
Increase in cash in the period	10	904
Cash outflow from increase in liquid resources	10	61,545
Cash (inflow) from (increase) in debt		(1,857,941)
Change in net debt resulting from cash flows		<u>(1,795,492)</u>
Net debt at incorporation		-
Net debt at 31 December		<u><u>(1,795,492)</u></u>

### 19. Capital Commitments and Contingent Liabilities

There were no outstanding capital commitments or contingent liabilities at 31st December 1999.

### 20. 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 1999 was £18,000.