HOMELOAN MANAGEMENT LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2006

(Registered Number 2214839)

Homeloan Management Limited

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Homeloan Management Limited (HML) is a company incorporated in England

The principal activities of the company are those of mortgage and investment account servicing and systems bureau provision, and will continue to be so for the foreseeable future

BUSINESS REVIEW

The results for the year are shown in the Income Statement and notes thereto The financial statements have been prepared in accordance with International Financial Reporting Standards

2006 was another highly successful year for HML, marked by continued growth and realisation of the value of the infrastructure investment of the previous two years At £16 3m, pre tax profit was £4 4m higher than 2005, an increase of 36% Revenue grew by £13m (21%) reflecting an increase in assets under management of £10 9bn (34%) taking the year end portfolio to £42 7bn

HML continues to support a wide range of mortgage lenders Five new client relationships were established during 2006 and eight contracts were renewed The increasing sophistication of the UK mortgage market continues to attract new entrants many of whom regard administration outsourcing as a key element of their business model and HML is ideally placed to service this growing market

To maintain its position as the leading third party mortgage administrator in the UK, HML continues to make significant investment in its infrastructure and technology The business is now firmly established as a multi site operation with over 1,700 staff based in four UK sites Continued growth will place increasing pressure on our infrastructure, with a fifth site likely within the next two to three years In addition, a planning application for a new 800 seat Head Office building in Skipton has been submitted

The appointment of Mark Smith to the board as Managing Director and the recruitment of Damian Stansfield as Operations Director bring 35 years industry experience to the business and will ensure that HML continues to consolidate its position as the UK's leading provider of outsourced mortgage administration services

Key Performance Indicators (KPIs)

The following KPIs are used by management to monitor the growth and general financial performance of the business

	2006	2005
Assets under management (year end)	£42 7bn	£31 8bn
Pre tax profit	£16 286m	£11 935m
Number of Employees (full time equivalent)		
- Year end	1,644	1,355

PRINCIPAL RISKS AND UNCERTAINTIES

The continued growth of the business is dependent to a large degree on the performance of the UK and Irish residential mortgage markets and the company's ability to further widen its client base The nature and range of services offered, and the embedded value of the existing portfolio, provide medium term protection against an economic downturn while new entrants to those markets continue to provide opportunities for client acquisition Competition within those markets and in the mortgage servicing industry will exert pressure on income but profitability should be sustained through efficiencies delivered by our program of investment in upgrading technologies Significant investment has also taken place, and will continue to take place, in re-engineering and upgrading IT systems and processes to drive process efficiency and ensure that HML continues to meet clients' requirements

ENVIRONMENT

During 2006 HML has implemented a corporate social responsibility policy and actively considers all aspects of those responsibilities, including those with regard to the environment The building infrastructure is designed to ensure efficient energy consumption Staff are made aware of the need to conserve energy and are actively supported in recycling paper and other waste

EMPLOYEES

Details of the number of employees and their related costs can be found in note 7 to the financial statements on page 11

The company's policy is to give all applications for employment from disabled persons full consideration in relation to the vacancy concerned In the event of existing staff becoming disabled, every effort is made to enable them to maintain their present position or to employ them in suitable work within another department

Employees are kept informed on matters relevant to them as employees through a range of communication channels, including a web based intranet which was introduced during 2006

DIVIDEND

An interim dividend of 298 06 pence per share (2005 245 46 pence per share), totalling £8,500,000 (2005 £7,000,000) was approved and paid during the year The directors do not propose the payment of a final dividend (2005 £Nil)

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were

S W Haggerty (Chairman)
E A Blythe
D J Cutter
J G Goodfellow
D Grant
M J Smith (*appointed 1 September 2006*)

Mr D J Cutter and Mr J G Goodfellow were also directors of the ultimate parent undertaking, Skipton Building Society and Mr S W Haggerty was a director of the immediate parent company, Skipton Group Holdings Limited Their interests in the shares of group undertakings are not required to be recorded in the register maintained by this company Other directors of the company as at 31 December 2006 had no interest in the shares of any group undertaking at any time during the year

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Homeloan Management Limited

DIRECTORS' REPORT (continued)

CREDITOR PAYMENT POLICY

The company's policy concerning the payment of suppliers for the next financial year is to agree terms of payment in advance and to make the payment in accordance with agreed terms and any other legal obligations

As at 31 December 2006 creditor days were 42 days (2005 46 days)

POLITICAL AND CHARITABLE DONATIONS

During the year the company made charitable donations totalling £22,000 (2005 £29,000)

The company made no contributions for political purposes in the year (2005 £Nil)

By order of the board

G Davidson
Secretary
1 Providence Place
Skipton
North Yorkshire
BD23 2HL

6 February 2007

HOMELOAN MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU

The financial statements are required by law to present fairly the financial position and performance of the company, the Companies Act 1985 provides, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgements and estimates that are reasonable and prudent,

- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They 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

HOMELOAN MANAGEMENT LIMITED

Independent Auditors' report to the Members of Homeloan Management Limited

We have audited the financial statements on pages 6 to 20

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 auditor's 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

The directors are responsible for preparing the Directors' Report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards Our responsibilities, as independent auditors, are defined in the United Kingdom by statute, the Auditing Practices Boards and our profession's ethical guidance

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 to you 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 is not disclosed

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, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds

6 February 2007

HOMELOAN MANAGEMENT LIMITED

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended 2006 £000	Year ended 2005 £000
Revenue	1	76,204	63,118
Other operating income	4	877	911
Administrative expenses		(61,253)	(52,428)
Profit from operations		**15,828**	**11,601**
Interest receivable and similar income	5	458	335
Interest payable and similar charges	6	-	(1)
Profit before Tax		**16,286**	**11,935**
Tax expense	8	(4,970)	(3,613)
Profit for the Period		**11,316**	**8,322**
Attributable to			
Equity holders of the parent		11,316	8,322
		11,316	**8,322**

In both the current and preceding period the company made no material acquisitions and had no discontinued operations

There were no recognised income and expense items in the current year (2005 £Nil) other than those reflected in the above Income Statement

The Income Statement is prepared on an unmodified historical cost basis

The notes on pages 9 to 20 form part of these financial statements

HOMELOAN MANAGEMENT LIMITED

Balance Sheet

AS AT 31 DECEMBER 2006

	Notes	31 December 2006 £000	2006 £000	31 December 2005 £000	2005 £000
Current assets					
Trade and other receivables	10	15,253		11,026	
Cash and cash equivalents		8,602		8,020	
			23,855		**19,046**
Non-current assets					
Intangible assets	11	3,063		2,501	
Property, plant and equipment	12	7,673		7,968	
Deferred tax assets	13	195		-	
			10,931		**10,469**
Total Assets			**34,786**		**29,515**
Current liabilities					
Trade and other payables	14		**11,671**		**9,048**
Non-current liabilities					
Deferred tax liabilities	13		-		**168**
Equity					
Share capital	15,16	2,852		2,852	
Share premium	16	180		180	
Reserves	16				
Retained earnings		20,083		17,267	
			23,115		**20,299**
Total Equity and Liabilities			**34,786**		**29,515**

These accounts were approved by the board of directors on 6 February 2007 and signed on its behalf by

S W Haggerty (Chairman)

M J Smith (Managing Director)

The notes on pages 9 to 20 form part of these accounts

HOMELOAN MANAGEMENT LIMITED

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended 2006 £000	Year ended 2005 £000
Cash Flows from Operating Activities			
Operating Profit before taxation		15,828	11,601
Adjustments for			
Depreciation and amortisation charges		4,175	3,231
Interest expense	6	-	(1)
(Increase) in trade receivables		(4,516)	(362)
Decrease/(Increase) in prepayments		289	(15)
Increase/(Decrease) in trade payables		1,577	(887)
Income taxes paid		(4,287)	(3,870)
Net cash from operating activities		**13,066**	**9,697**
Cash Flows from Investing Activities			
Interest received	5	458	335
Proceeds on disposal of property, plant and equipment		75	31
Purchases of property, plant and equipment	11,12	(4,517)	(4,618)
Net cash from investing activities		**(3,984)**	**(4,252)**
Cash Flows from Financing Activities			
Dividends paid	9, 16	(8,500)	(7,000)
Payment of finance lease liabilities		-	(39)
Net cash from financing activities		**(8,500)**	**(7,039)**
Net increase/(decrease) in cash and cash equivalents		582	(1,594)
Cash and Cash equivalents at 1 January		8,020	9,614
Cash and cash equivalents at 31 December		**8,602**	**8,020**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below

(a) Basis of accounting

The Financial Statements are presented in accordance with International Financial Reporting Standards and its interpretations as endorsed by the EU and effective from 31 December 2006 The Directors' have not adopted IFRS 7 *Financial Instruments Disclosures* or IAS 1 (amended) *Presentation of Financial Statements* *(capital disclosures)* which although endorsed by the EU, are currently not mandatory

The financial statements are drawn up under the historic cost convention

(b) Revenue Recognition

Revenue, which excludes value added tax, represents total invoiced sales of the company
Interest income is recognised on an accruals basis

(c) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives on the following bases

Plant and equipment	between 20% and 33% per annum on cost
Fixtures and fittings	20% per annum on cost
Motor Vehicles	25% per annum on written down value

(d) Intangible assets

Intangible assets include software development costs and purchased software that, in the opinion of the directors, meets the definition of an intangible asset Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets Intangible assets are amortised from the day they are available for use The estimated useful lives are as follows

Purchased Software	between 20% and 33% per annum on cost
Databases	20% per annum on cost
Deferred Development costs	20% per annum on cost

(e) Leases

A lease that transfers substantially all the risks and rewards of ownership of an asset is treated as a finance lease The asset is recorded in the Balance Sheet as an item of property, plant and equipment at an amount equal to the lower of its fair value and the present value of the minimum lease payments, less accumulated depreciation and impairment losses Rentals payable are apportioned between the finance element, which is charged to the Income Statement, and the capital element, which reduces the outstanding obligation

All other leases are accounted for as operating leases Costs of operating leases are charged to the Income Statement on a straight line basis over the lease term

(f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes, in accordance with IAS 12, Income Taxes

(g) Pensions

The majority of company employees are members of the Skipton Building Society Group stakeholder pension scheme, the assets of which are held in an independently administered scheme Contributions are charged to the Income Statement and are included in staff costs

The remaining employees of the company are members of the Skipton Building Society Group defined benefit scheme, which is administered by trustees and whose assets are separate from those of the Society and its subsidiaries Contributions are transferred to the trustees on a regular basis to secure the benefits provided under the rules of the scheme The amount of contribution is a set percentage of the employee's salary cost

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

(h) Government grants

Provided the conditions for their receipt have been complied with and there is reasonable assurance that they will be received, grants are recognised in the income statement so as to match them with the expenditure to which they contribute

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises cash in hand and loans and advances to credit institutions repayable on demand, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less

The cash flow statement has been prepared using the indirect method

(j) Foreign currency transactions

All non sterling monetary assets and liabilities are translated at the closing rate of exchange All exchange differences are taken to the income statement as they arise

2 Segmental Reporting

The entire income of the company in 2006 and 2005 was derived from the activities of mortgage and investment account servicing and systems bureau provision of mortgage and investment account servicing

3 Profit before tax

	Year ended 2006 £000	Year ended 2005 £000
Profit before tax has been arrived at after charging		
Depreciation of property, plant and equipment	2,848	2,611
Amortisation of intangibles	1,327	620
Staff costs (see note 7)	30,524	25,058
Rentals payable under operating leases	-	3
Auditors' remuneration and expenses		
Audit of these financial statements	28	25
Services relating to information technology	30	29
All other services	4	13

4 Other operating income

	Year ended 2006 £000	Year ended 2005 £000
Rents receivable under operating leases	531	424
Government Grants	346	487
	877	911

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Interest receivable and similar income

	Year ended 2006 £000	Year ended 2005 £000
Interest receivable from group undertakings	458	335

6 Interest payable and similar charges

	Year ended 2006 £000	Year ended 2005 £000
Interest on finance lease liabilities	-	1

7 Staff numbers and costs

The average monthly number of persons employed by the company (including directors) during the period was as follows

	Year ended 2006	Year ended 2005
Directors	2	3
Other	1,581	1,425
	1,583	**1,428**

The aggregate payroll costs of these persons were as follows	£000	£000
Wages and salaries	26,932	22,205
Social security costs	2,385	1,981
Other pension costs	1,207	872
	30,524	**25,058**

Directors' Emoluments

	2006 £000	2005 £000
Remuneration as directors of the company	279	458
Pension Contributions	44	47

The emoluments of the highest paid director were £126,000 (2005 £263,000) Included within total emoluments were pension contributions of £15,000 (2005 £28,000) in respect of the highest paid director (S)he is a member of a defined benefit scheme under which her/his maximum accrued pension at the year end was £18,295 (2005 £47,041) and her/his maximum accrued lump sum was £92,578 (2005 £95,393)

	2006	2005
Retirement benefits are accruing to the following number of directors who served during the year, under		
Money purchase schemes	2	1
Defined benefit schemes	1	2

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8 Tax expense

A reconciliation of current tax on profit before tax at the standard UK corporation tax rate to the actual current tax charge is as follows

	Year ended 2006 £000	Year ended 2005 £000
a) Analysis of charge in the year at 30%		
Current tax expense		
Current tax at 30%	5,266	3,609
Adjustment for prior years	67	(170)
Total Current Tax	**5,333**	**3,439**
Deferred tax expense		
Origination and reversal of temporary differences	(306)	28
Adjustment in respect of prior years	(57)	146
Total Deferred Tax	**(363)**	**174**
Tax expense	**4,970**	**3,613**

b) Factors affecting tax charge in the year

The charge for the year can be reconciled to the profit per the income statement as follows

Profit on ordinary activities before tax	16,286	11,935
Tax on profit on ordinary activities at UK standard rate of 30% (2005 30%)	4,886	3,581
Effects of		
- expenses not deductible for tax purposes	74	56
- adjustment to tax in respect of previous periods	10	(24)
Tax expense	**4,970**	**3,613**

9 Dividends

	Year ended 2006 £000	Year ended 2005 £000
Amounts recognised as distributions to equity holders in the period		
Interim dividend for the year ended 31 December 2006 of 298 06p (2005 245 46p) per share	8,500	7,000
	8,500	7,000

10 Trade and other receivables

	Year ended 2006 £000	Year ended 2005 £000
Trade debtors	12,912	8,191
Due from fellow subsidiary companies	276	481
Prepayments and accrued income	2,065	2,354
	15,253	11,026

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11 Intangible assets

	Purchased software £000	Deferred development expenditure £000	Total £000
Cost			
At 1 January 2006	3,053	1,152	4,205
Additions	1,889	-	1,889
Acquisitions- internally developed	-	-	-
At 31 December 2006	**4,942**	**1,152**	**6,094**
Amortisation and impairment losses			
At 1 January 2006	1,386	318	1,704
Amortisation for the year	1,098	229	1,327
At 31 December 2006	**2,484**	**547**	**3,031**
Carrying amounts			
At 1 January 2006	**1,667**	**834**	**2,501**
At 31 December 2006	**2,458**	**605**	**3,063**

	Purchased software £000	Deferred development expenditure £000	Total £000
Cost			
At 1 January 2005	2,128	1,152	3,280
Additions	925	-	925
Acquisitions- internally developed	-	-	-
At 31 December 2005	**3,053**	**1,152**	**4,205**
Amortisation and impairment losses			
At 1 January 2005	995	89	1,084
Amortisation for the year	391	229	620
At 31 December 2005	**1,386**	**318**	**1,704**
Carrying amounts			
At 1 January 2005	**1,133**	**1,063**	**2,196**
At 31 December 2005	**1,667**	**834**	**2,501**

All amortisation charges in the year have been charged through administration expenses

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 Property, plant and equipment

	Office and computer equipment £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2006	17,265	638	17,903
Additions	2,312	316	2,628
Disposals	-	(171)	(171)
At 31 December 2006	**19,577**	**783**	**20,360**
Accumulated depreciation and impairment			
At 1 January 2006	9,637	298	9,935
Depreciation charge for the year	2,735	113	2,848
Eliminated on disposals	-	(96)	(96)
At 31 December 2006	**12,372**	**315**	**12,687**
Carrying amounts			
At 1 January 2006	**7,628**	**340**	**7,968**
At 31 December 2006	**7,205**	**468**	**7,673**

	Office and computer equipment £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2005	13,695	598	14,293
Additions	3,570	123	3,693
Disposals	-	(83)	(83)
At 31 December 2005	**17,265**	**638**	**17,903**
Accumulated depreciation and impairment			
At 1 January 2005	7,130	246	7,376
Depreciation charge for the year	2,507	104	2,611
Eliminated on disposals	-	(52)	(52)
At 31 December 2005	**9,637**	**298**	**9,935**
Carrying amounts			
At 1 January 2005	**6,565**	**352**	**6,917**
At 31 December 2005	**7,628**	**340**	**7,968**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 Deferred tax

The movement on the deferred tax account is as shown below

	Year ended 2006 £000	Year ended 2005 £000
At 1 January 2006	168	(6)
Income Statement (credit)/charge	(363)	174
At 31 December 2006	**(195)**	**168**

Deferred tax Liabilities

	Accelerated tax depreciation £000
At 1 January 2006	168
(Credited) to Income Statement	(168)
At 31 December 2006	**-**

Deferred tax Assets

	Provisions £000
At 1 January 2006	-
Credited to Income Statement	195
At 31 December 2006	**195**

Net deferred tax liability/(asset)

At 31 December 2006	**(195)**
At 31 December 2005	**168**

14 Trade and other payables

	Year ended 2006 £000	Year ended 2005 £000
Trade Creditors	1,318	2,177
Other creditors	663	882
Amounts owed to parent undertaking	630	377
Due to fellow subsidiary companies	83	124
VAT	150	117
Corporation tax	2,695	1,649
Accruals and deferred income	6,132	3,722
	11,671	**9,048**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Share Capital

	Year ended 2006 £000	Year ended 2005 £000
Authorised		
3,000,000 ordinary shares of £1 each	**3,000**	**3,000**
Issued and fully paid		
2,851,760 ordinary shares of £1 each	**2,852**	**2,852**

16 Reconciliation of movement in capital and reserves

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2006	2,852	180	17,267	20,299
Profit for the period	-	-	11,316	11,316
Dividends to Shareholders	-	-	(8,500)	(8,500)
Balance at 31 December 2006	**2,852**	**180**	**20,083**	**23,115**
Balance at 1 January 2005	2,852	180	15,945	18,977
Profit for the period	-	-	8,322	8,322
Dividends to Shareholders	-	-	(7,000)	(7,000)
Balance at 31 December 2005	**2,852**	**180**	**17,267**	**20,299**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17 Related Party Transactions

The Company has a related party relationship with various members of the Skipton Building Society Group

During the year to 31 December 2006, the following transactions were entered into with related parties All transactions were conducted on an arm's length basis

a) Sales of goods and services

	Amount		Outstanding	
	2006	2005	2006	2005
	£000	£000	£000	£000
Sale of services				
Group Companies	3,665	3,505	7,816	3,806
Interest received	458	335	-	-
	4,123	**3,840**	**7,816**	**3,806**

b) Purchase of goods and services	Amount		Outstanding	
	2006	2005	2006	2005
	£000	£000	£000	£000
Purchase of services				
Shared service costs (Ultimate Parent Company)	4,566	3,619	543	312
Rents (Ultimate Parent Company)	1,071	989	89	89
Occupancy rent (Ultimate Parent Company)	168	301	14	19
System development costs (fellow Group Company)	950	1,174	67	114
	6,755	**6,083**	**713**	**534**

	2006	2005
	£000	£000
c) Key Management compensation		
Salaries and other short-term employee benefits	139	20
Post-employment benefits	19	-
	158	**20**

Key management compensation in 2005 and 2006 comprised charges by the ultimate parent company in respect of the services of non executive directors and in 2006 also included the costs of an executive director whose salary was paid by another Group company

18 Capital Commitments

Capital commitments at the balance sheet date for which no provision has been made were as follows

	Year ended 2006	Year ended 2005
	£000	£000
Plant and equipment	264	228
Contracted but not provided for	**264**	**228**

The company has annual commitments due under operating leases At the balance sheet date these were as follows

	Year ended 2006	Year ended 2005
	£000	£000
On leases expiring		
In less than one year	47	-
Within two to five years	-	95
Later than five years	820	1,158
	867	**1,253**

The company is party to group banking arrangements involving the pooling of funds with other group companies

NOTES TO THE FINANCIAL STATEMENTS

19 Pensions

Skipton Building Society (The Society) sponsors the Skipton Building Society Pension & Life Assurance Scheme ("the Skipton Scheme")

The Scheme provides benefits based on final salary for employees (although for benefits accruing after 1 January 2003 Career Average Revalued Earnings applies) The assets of the Scheme are held in a separate trustee-administered fund Contributions to the Scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method

The Society's policy for recognising actuarial gains and losses is to recognise them immediately on the Balance Sheet through the Statement of Recognised Income and Expense

The aggregate costs of the scheme are recognised in accordance with IAS 19 (Amended) The Skipton Scheme is operated by a number of Group companies Each of the participating entities, except for the Society, accounts on the basis of contributions paid by that company The Society accounts for the difference between the aggregate IAS 19 (Amended) costs of the scheme and the aggregate contributions paid by the other entities

A qualified independent actuary carried out the last full actuarial valuations of the schemes on 1 April 2006 and these have been updated on an approximate basis to 31 December 2006

The main financial assumptions used in the actuarial valuation are as follows

	2006 %	2005 %
Inflation rate	3 1	2 9
Discount rate	5 2	4 7
Expected return on assets	6 51-7 39	6 56-7 50
Rate of increase in pay	4 6	4 4
Rate of increase of pensions in payment		
- increasing in line with LPI (Limited Price Inflation)	3 0	2 9
- increasing in line with LPI, subject to a minimum of 3% pa	3 7	3 6
- increasing in line with LPI, subject to a maximum of 2 5% pa	2 3	n/a
Rate of increase in deferred pensions	3 1	2 9

The most significant non-financial assumption is the assumed rate of longevity For the year ended 31 December 2006, this has been based on the standard tables known as PM/FA92 with an allowance for improvements in mortality in line with the Short Cohort effect This represents an increase in the assumed life expectancy assumption compared to 31 December 2005 These tables assume that when a member, yet to retire, reaches age 65, the life expectancy from age 65 is as follows

Non-retired members	**2006**	**2005**
Males	21 9	20 3
Females	24 7	23 2

The table below shows the net pension liability which is recognised in the Society's Balance Sheet

	Society 2006 £m	**Society 2005 £m**
Fair value of plan assets	48 1	38 4
Present value of defined benefit obligations	(69 4)	(73 1)
Net pension liability	**(21 3)**	(34 7)

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19 Pensions (continued)

The table below sets out the reconciliation of the fair value of scheme assets for the year

	2006 £m	2005 £m
At 1 January	**38 4**	**30.4**
Expected return on assets	2 6	2 3
Actuarial gains	1 3	4 1
Contributions by employer	6 7	1 6
Contributions by plan participants	0 4	0 4
Benefits paid	(1 3)	(0 4)
At 31 December	**48 1**	**38 4**

The table below sets out a reconciliation of the present value of the defined benefit obligation for the year

	Society 2006 £m	Society 2005 £m
At 1 January	**73.1**	**56 2**
Current service cost	1 5	1 0
Interest cost	3 5	3 0
Contributions by plan participants	0 4	0 4
Past service cost	-	0 6
Actuarial (gain) / loss	(7 8)	12 4
Actual benefit payments	(1 3)	(0 5)
At 31 December	**69 4**	**73.1**

The difference between the expected return and the actual return on scheme assets is recognised in the Statement of Recognised Income and Expense This reconciliation is set out below

	Society 2006 £m	Society 2005 £m
Actual return on assets	3 9	6 4
Expected return on assets	(2 6)	(2 3)
Actuarial gain on assets	1 3	4 1

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes The expected return for each asset class, which is provided in the next table, reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available), and the views of investment organisations The table also sets out the fair value of the scheme assets by each major category

	Society 2006 £m	Society 2006 % pa	Society 2005 £m	Society 2005 % pa
Equities	23 8	7 9	24 4	8 0
Property	4 6	6 4	0 9	6 5
Corporate bonds	6 4	5 2	5 1	4 7
Government bonds	9 5	4 6	7 3	4 1
Cash	3 8	5 0	0 7	4 5
Total	**48 1**	**6.51**	**38.4**	**6 73**

The actual return on the plan assets over the year ended 31 December 2006 was 10%

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19 Pensions (continued)

The service costs for the year are recognised in 'Administrative expenses', whilst the interest cost and expected return on assets are recognised within 'Other income' An analysis of the charge is set out below

	Society 2006 £m	Society 2005 £m
Current service cost	**1.5**	1 0
Interest on liabilities	**3 5**	3 0
Expected return on assets	**(2 6)**	(2 3)
Past service cost	**-**	0 6
Total pension expense	**2.4**	2 3

Note that the above costs and income are recognised in the Society's Income Statement only

The table below sets out the actuarial gains and losses which have been recognised within the Society's Statement of Recognised Income and Expense (SORIE)

	Society 2006 £m	Society 2005 £m	Society 2004 £m
Gain on scheme assets	**1 3**	4 1	1 2
Experience gains/(losses) on defined benefit obligation	**5 1**	(0 6)	(0 2)
Gain/(loss) from change in assumptions	**2.7**	(11 8)	(1 4)
Total gain/(loss) recognised in SORIE during the year	**9 1**	(8 3)	(0 4)
Cumulative actuarial gains/(losses) recognised at end of year	**0 4**	(8 7)	(0 4)

The table below sets out our best estimate, of the aggregate contributions expected to be paid to the scheme during the year ending 31 December 2007

	Society 2007 £m
Estimated group contributions	**13 1**
Estimated employee contributions	**0 4**
Estimated total contributions	**13.5**

20. Ultimate Parent Undertaking

The company is a wholly owned subsidiary of Skipton Group Holdings Limited The ultimate parent undertaking is Skipton Building Society, which is registered in the United Kingdom A copy of the group annual report and accounts into which the results of this company are consolidated is available from -

The Secretary
Skipton Building Society
The Bailey
Skipton
North Yorkshire
BD23 1DN