HOMELOAN MANAGEMENT LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2008

(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 2008.

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

The principal activities of the company are those of mortgage servicing and systems bureau provision and will continue to be so for the foreseeable future. Investment account servicing has been a decreasing activity and the final contractual relationship for this service expired during 2008.

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.

2008 was a year of unprecedented turmoil in global financial markets with the residential mortgage sector particularly badly affected. Against this background, HML's financial performance was creditable. For the first time in many years the portfolio of mortgage assets under administration reduced and the underlying activities that generate much of HML's revenue were significantly lower than in recent years which we have compensated for by broadening other revenue streams. Although total revenues have remained flat year on year, profit has reduced, as some pricing margin has been conceded and the company has invested heavily in a range of initiatives. Pre tax profit of £8m (2007: £15.8m) was a satisfactory result under the circumstances and leaves the business well positioned to meet the further challenges that face the industry through 2009.

Despite the collapse in mortgage origination, existing lenders and new entrants to the market continue to seek opportunities. Outsourcing of mortgage processing continues to be a key component of many lenders' business models and there is genuine potential for the business to grow through 2009.

2008 saw further development in HML's operating model. The progressive introduction of lean operating techniques, complemented by separate initiatives to ensure quality of performance, has significantly enhanced operational efficiency and will ensure the business maintains its position as the leading third party mortgage administrator in the UK. The company has continued to make significant investment in technology. In addition to systems modification to ensure compliance with new CCA legislation there has been further development of credit management systems providing greater automation and flexibility in the management of arrears. This is supported by the establishment of a 'Special Servicing' capability designed to ensure that HML can provide the most comprehensive and effective credit management solution.

The appointment in January 2008 of Brian Brodie as Managing Director followed by the recruitment of Gordon Soutar as Operations Director bring a vast amount of industry experience to the executive team and help to ensure that the business is well positioned to capitalise on its pre eminent position in the industry by continuing to grow the business and maximise shareholder return.

Key Performance Indicators (KPIs)

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

	2008	2007
Assets under management (year end)	£47.1bn	£51.4bn
Pre tax profit	£8.045m	£15.800m
Number of Employees (full time equivalent)		
- Year end	1,850	1,954

PRINCIPAL RISKS AND UNCERTAINTIES

The length and depth of the recession in the UK and the timing and strength of an upturn in the UK and Irish residential mortgage markets are factors that are extremely difficult to predict with accuracy but which will have a huge bearing on HML's short term prospects. The need continually to identify means of improving the quality and cost effectiveness of the service HML provides is well understood by the executive management team and the company's ability to retain its position as the UK's leading service provider and exploit the opportunities that that position presents will be critical in determining the future success of the business. HML's ability to adapt to changing market conditions and to focus on the different needs of clients will be tested but the company is well positioned to respond to the challenges brought by tighter credit markets and management is confident that structures are in place to enable the business to continue to grow.

All risks are managed in accordance with Group policies. For further details of the Group risk management framework please refer to Skipton Building Society 2008 Report and Accounts.

ENVIRONMENT

Corporate social responsibility remains a key component of the way HML conducts its business and management 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.

DIVIDEND

An interim dividend of 122.73 pence per share (2007: 315.59 pence per share), totalling £3,500,000 (2007: £9,000,000) was approved and paid during the year. The directors do not propose the payment of a final dividend (2007:£Nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were:

D J Cutter (Chairman)
S W Haggerty (resigned 1 February 2008)
B E Brodie (appointed 25 January 2008)
J G Goodfellow (resigned 31 December 2008)
D Grant (resigned 11 January 2008)
N Warman (appointed 25 January 2008)

Mr R J Twigg was appointed to the board on 1 January 2009

Mr D J Cutter, Mr J G Goodfellow and Mr S W Haggerty 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.

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 2008 creditor days were 39 days (2007: 37 days).

POLITICAL AND CHARITABLE DONATIONS

During the year the company made charitable donations totalling £88,274 (2007: £51,000).

The company made no contributions for political purposes in the year (2007: £Nil).

By order of the board

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

2 February 2009

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 of Homeloan Management Limited for the year ended 31 December 2008 which comprise; the Income Statement, the Balance Sheet, the Cash Flow Statement and the related notes. 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 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' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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 2008 and of its profit for the year then ended; and
- 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
1 The Embankment
Neville Street
Leeds
LS1 4DW
Registered Auditor

2 February 2009

HOMELOAN MANAGEMENT LIMITED

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year ended 2008 £000	Year ended 2007 £000
Revenue	1	85,191	86,764
Other operating income	4	672	676
Administrative expenses		(78,122)	(72,162)
Profit from operations		**7,741**	**15,278**
Interest receivable and similar income	5	304	523
Interest payable and similar charges	6	-	(1)
Profit before Tax		**8,045**	**15,800**
Tax expense	8	(2,398)	(4,822)
Profit for the Period		**5,647**	**10,978**
Attributable to:			
Equity holders of the parent		5,647	10,978
		5,647	**10,978**

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 (2007:£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 2008

	Notes	31 December 2008 £000	2008 £000	31 December 2007 £000	2007 £000
Current assets					
Trade and other receivables	10	15,126		17,333	
Cash and cash equivalents		10,559		6,794	
			25,685		**24,127**
Non-current assets					
Intangible assets	11	6,015		4,389	
Property, plant and equipment	12	6,047		8,200	
Deferred tax assets	13	583		231	
			12,645		**12,820**
Total Assets			**38,330**		**36,947**
Current liabilities					
Trade and other payables	15		**11,090**		**11,854**
Equity					
Share capital	17,18	2,852		2,852	
Share premium	18	180		180	
Reserves:	18				
Retained earnings		24,208		22,061	
			27,240		**25,093**
Total Equity and Liabilities			**38,330**		**36,947**

These accounts were approved by the board of directors on 2 February 2009 and signed on its behalf by :

D J Cutter (Chairman) ....

N Warman ....

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

HOMELOAN MANAGEMENT LIMITED

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year ended 2008 £000	Year ended 2007 £000
Cash Flows from Operating Activities			
Operating Profit before taxation		7,741	15,278
Adjustments for:			
Depreciation and amortisation charges		5,013	4,568
Decrease/(Increase) in trade receivables		2,698	(1,757)
(Increase) in prepayments		(491)	(323)
Increase/(decrease) in trade payables		(37)	710
Income taxes paid		(3,477)	(5,385)
Net cash from operating activities		**11,447**	**13,091**
Cash Flows from Investing Activities			
Interest received	5	304	523
Interest paid	6	-	(1)
Proceeds on disposal of property, plant and equipment		631	60
Purchases of property, plant and equipment	11,12	(5,117)	(6,481)
Net cash from investing activities		**(4,182)**	**(5,899)**
Cash Flows from Financing Activities			
Dividends paid	9, 18	(3,500)	(9,000)
Net cash from financing activities		**(3,500)**	**(9,000)**
Net (decrease)/increase in cash and cash equivalents		3,765	(1,808)
Cash and Cash equivalents at 1 January		6,794	8,602
Cash and cash equivalents at 31 December		**10,559**	**6,794**

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 (IFRS) and their interpretations as adopted by the EU and effective at 31 December 2008.

The Directors have adopted IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures – Amendments* and IFRIC 14 - IAS 19 -*The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction*.

The Directors have not adopted IAS 1, *Presentation of Financial Statements (2007)*, IFRS 8, *Operating Segments* or IAS 23, *Borrowing Costs (Revised)* 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. Administration fees are invoiced at the end of the month in which the service is performed. Invoices for services outside of core contractual obligations are issued as soon as the service is complete.

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, meet 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 and are regularly reviewed for impairment. The estimated useful lives are as follows:

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

Intangible assets are tested for impairment at each balance sheet date or when there is an indication of impairment. The Directors identify impairment by comparing the future economic benefits against the carrying value of the asset.

(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

Income tax on the profits for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except where items are recognised directly in equity, in which case the associated income tax asset or liability is recognised via equity.

Current tax is the expected tax payable on the income for the year, using tax rates enacted or substantially enacted on the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

(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.

(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.

(k) Financial instruments

Foreign currency put options which are held to protect the value of anticipated non sterling income streams are held on the balance sheet at their fair value with changes in their fair value going through the Income Statement. Fair values are obtained from quoted market prices in active markets, recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The company's policy is to derecognise financial assets only when the contractual right to the cash flows from the financial asset expires.

2. Segmental reporting

The entire income of the company in 2008 and 2007 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 2008 £000	Year ended 2007 £000
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	3,277	3,243
Amortisation of intangibles	1,736	1,325
Staff costs (see note 7)	38,970	37,013
Rentals payable under operating leases	1,297	1,000
Auditors' remuneration and expenses:		
Audit of these financial statements	30	28
Services relating to information technology	-	-
All other services	39	9

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. Other operating income

	Year ended 2008 £000	Year ended 2007 £000
Rents receivable under operating leases	222	128
Government Grants	450	548
	672	676

5. Interest receivable and similar income

	Year ended 2008 £000	Year ended 2007 £000
Interest receivable from group undertakings	303	512
Other interest receivable	1	11
	304	523

6. Interest payable and similar charges

	Year ended 2008 £000	Year ended 2007 £000
Bank interest payable	-	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 2008	Year ended 2007
Directors	2	2
Other	1,955	1,932
	1,957	1,934

The aggregate payroll costs of these persons were as follows:	£000	£000
Wages and salaries	33,784	32,345
Social security costs	3,252	2,929
Other pension costs	1,934	1,739
	38,970	37,013

Directors' emoluments:

	2008 £000	2007 £000
Remuneration as directors of the company	548	376
Pension contributions	84	28

The emoluments of the highest paid director were £408,000 (2007: £139,000). Included within total emoluments were pension contributions of £71,000 (2007: £9,000) in respect of the highest paid director. He is a member of a defined benefit scheme.

	2008	2007
Retirement benefits are accruing to the following number of directors who served during the year, under:		
Money purchase schemes	1	2
Defined benefit schemes	1	1

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 2008 £000	Year ended 2007 £000
a) Analysis of charge in the year		
Current tax expense		
Current tax at 28.5% (2007:30%)	2,732	5,013
Adjustment for prior years	18	(155)
Total Current Tax	**2,750**	**4,858**
Deferred tax expense		
Origination and reversal of temporary differences at 28%	(361)	(188)
Adjustment in respect of prior years	9	152
Total Deferred Tax	**(352)**	**(36)**
Tax expense	**2,398**	**4,822**

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	8,045	15,800
Tax on profit on ordinary activities at UK standard rate of 28.5% (2007: 30%)	2,293	4,740
Effects of:		
- expenses not deductible for tax purposes	72	69
- adjustment to tax in respect of previous periods	27	(3)
- effect of other tax rates	6	16
Tax expense	**2,398**	**4,822**

The tax charge for the period includes the one-off effect on the company's deferred tax balances of the reduction in the corporation tax rate from 30% to 28% which is effective from 1 April 2008.

9. Dividends

	Year ended 2008 £000	Year ended 2007 £000
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for the year ended 31 December 2008 of 122.73p (2007: 315.59p) per share	3,500	9,000
	3,500	**9,000**

10. Trade and other receivables

	Year ended 2008 £000	Year ended 2007 £000
Trade debtors, not past due	11,771	14,674
Due from fellow subsidiary companies	316	271
Prepayments and accrued income	2,741	2,250
Available for Sale Assets	235	-
Fair value of foreign currency put options (see Note 14)	63	138
	15,126	**17,333**

10. Trade and other receivables (continued)

Trade debtors are all on standard commercial terms and are payable within 30 days and are stated net of provisions for impairment totalling £728,000 (2007: £Nil). This bad debt provision was made in full in the year. All other amounts are expected to be collected in full.

The foreign currency put options are exercisable at regular intervals between the balance sheet date and 31 December 2012. The value is expected to be realised in the following time periods:

	Year ended 2008 £000	Year ended 2007 £000
Less than 1 year	12	26
Between 1 year and 5 years	51	112
	63	138

11. Intangible assets

	Purchased software £000	Deferred development expenditure £000	Total £000
Cost			
At 1 January 2008	6,489	2,256	8,745
Additions	1,687	-	1,687
Acquisitions- internally developed	-	1,675	1,675
At 31 December 2008	**8,176**	**3,931**	**12,107**
Amortisation and impairment losses			
At 1 January 2008	3,535	821	4,356
Amortisation for the year	1,212	524	1,736
At 31 December 2008	**4,747**	**1,345**	**6,092**
Carrying amounts			
At 1 January 2008	**2,954**	**1,435**	**4,389**
At 31 December 2008	**3,429**	**2,586**	**6,015**

	Purchased software £000	Deferred development expenditure £000	Total £000
Cost			
At 1 January 2007	4,942	1,152	6,094
Additions	1,547	1,104	2,651
At 31 December 2007	**6,489**	**2,256**	**8,745**
Amortisation and impairment losses			
At 1 January 2007	2,484	547	3,031
Amortisation for the year	1,051	274	1,325
At 31 December 2007	**3,535**	**821**	**4,356**
Carrying amounts			
At 1 January 2007	**2,458**	**605**	**3,063**
At 31 December 2007	**2,954**	**1,435**	**4,389**

All amortisation charges in the year have been charged through administrative expenses.

12. Property, plant and equipment

	Office and computer equipment £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2008	23,008	988	23,996
Additions	1,613	142	1,755
Disposals	-	(930)	(930)
At 31 December 2008	**24,621**	**200**	**24,821**
Accumulated depreciation and impairment			
At 1 January 2008	15,464	332	15,796
Depreciation charge for the year	3,277	-	3,277
Eliminated on disposals	-	(299)	(299)
At 31 December 2008	**18,741**	**33**	**18,774**
Carrying amounts			
At 1 January 2008	**7,544**	**656**	**8,200**
At 31 December 2008	**5,880**	**167**	**6,047**

	Office and computer equipment £000	Motor vehicles £000	Total £000
Cost			
At 1 January 2007	19,577	783	20,360
Additions	3,431	399	3,830
Disposals	-	(194)	(194)
At 31 December 2007	**23,008**	**988**	**23,996**
Accumulated depreciation and impairment			
At 1 January 2007	12,372	315	12,687
Depreciation charge for the year	3,092	151	3,243
Eliminated on disposals	-	(134)	(134)
At 31 December 2007	**15,464**	**332**	**15,796**
Carrying amounts			
At 1 January 2007	**7,205**	**468**	**7,673**
At 31 December 2007	**7,544**	**656**	**8,200**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Deferred tax

The movement on the deferred tax account is as shown below:

	Year ended 2008 £000	Year ended 2007 £000
At 1 January 2008	(231)	(195)
Income Statement (credit)	(352)	(36)
At 31 December 2008	**(583)**	**(231)**

Deferred tax assets

	Provisions £000
At 1 January 2008	231
Credited to Income Statement	352
At 31 December 2008	**583**
At 31 December 2007	**231**

The deferred tax asset is considered to be recoverable in full.

14. Hedging of foreign currency risk

The company has entered a number of contracts with clients resident in the Republic of Ireland. Those contracts run for periods between 3 and 5 years and are denominated in Euros. The cost of servicing those contracts is almost exclusively in sterling and, consequently, the value to the company of those contracts is subject to variations in the exchange rate between sterling and the Euro. The contracts were priced on the basis of an assumed exchange rate and the risk of adverse exchange rate movements has been hedged by means of purchasing a series of put options (options to sell Euros) at a rate that will maintain the sterling value of the income streams. Those options are carried on the balance sheet at their fair value. Movements in market value are transferred to profit and loss. The company has no other foreign currency exposures and management is confident that all material risks are adequately covered.

	Year ended 2008 £000	Year ended 2007 £000
Financial Instruments - Euro put options		
At 1 January	138	-
Purchased in year	-	134
Fair value adjustment (debited)/credited to profit & loss	(75)	4
At 31 December	**63**	**138**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Trade and other payables

	Year ended 2008 £000	Year ended 2007 £000
Trade Creditors	831	689
Other creditors	15	494
Amounts owed to parent undertaking	556	524
Due to fellow subsidiary companies	7	21
VAT	253	290
Corporation tax	1,439	2,168
Accruals and deferred income	7,989	7,668
	11,090	**11,854**

16. Management of Capital

The company is regulated by the Financial Services Authority as a mortgage administrator and, consequently, is required to maintain a minimum level of regulatory capital. Eligible capital comprises shareholder's funds, excluding unaudited earnings, less the carrying value of intangible assets. The minimum capital requirement is an agreed percentage of operating income. Capital adequacy is regularly monitored by management and the level of cover is reported monthly to the board.

17. Share Capital

	Year ended 2008 £000	Year ended 2007 £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**

18. Reconciliation of movement in capital and reserves

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2008	2,852	180	22,061	25,093
Profit for the period	-	-	5,647	5,647
Dividends to Shareholders	-	-	(3,500)	(3,500)
Balance at 31 December 2008	**2,852**	**180**	**24,208**	**27,240**
Balance at 1 January 2007	2,852	180	20,083	23,115
Profit for the period	-	-	10,978	10,978
Dividends to Shareholders	-	-	(9,000)	(9,000)
Balance at 31 December 2007	**2,852**	**180**	**22,061**	**25,093**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19. 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 2008, 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	
	2008	2007	2008	2007
	£000	£000	£000	£000
Sale of services to Group companies	3,252	3,683	7,807	5,139
Interest received	303	512	-	-
	3,555	4,195	7,807	5,139

b) Purchase of goods and services

	Amount		Outstanding	
	2008	2007	2008	2007
	£000	£000	£000	£000
Purchase of services:				
Shared service costs (Ultimate Parent Company)	4,762	4,566	486	490
Rents (Ultimate Parent Company)	1,069	1,071	89	89
Occupancy rent (Ultimate Parent Company)	204	203	17	17
System development costs (fellow Group Company)	2,113	1,597		-
	8,148	7,437	592	596

	2008	2007
	£000	£000
c) Key Management compensation		
Salaries and other short-term employee benefits	632	494
	632	494

Key management compensation comprised charges by the ultimate parent company in respect of the services of non executive directors.

20. Capital Commitments

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

	Year ended 2008	Year ended 2007
	£000	£000
Plant and equipment	607	804
Contracted but not provided for	607	804

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

	Year ended 2008	Year ended 2007
	£000	£000
On leases expiring		
In less than one year	-	-
Within two to five years	-	-
Later than five years	1,162	1,100
	1,162	1,100

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

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. 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 2008.

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

	2008	**2007**	**2006**
	%	**%**	**%**
Inflation rate	3.0	3.4	3.1
Discount rate	6.2	6.0	5.2
Expected return on assets	6.9	6.8	6.5
Rate of increase in pay	5.0	5.4	4.6
Rate of increase of pensions in payment			
- increasing in line with LPI (Limited Price Inflation)	2.9	3.3	3.0
- increasing in line with LPI, subject to a minimum of 3% pa	3.6	3.8	3.7
- increasing in line with LPI, subject to a maximum of 2.5% pa	2.3	2.4	2.3
Rate of increase in deferred pensions	3.0	3.4	3.1

The most significant non-financial assumption is the assumed rate of longevity. For the year ended 31 December 2008, this has been based on the standard tables known as PM/FA92 with an allowance for improvements in mortality in line with medium cohort improvements. This represents an increase in the assumed life expectancy assumption compared to 31 December 2006. These tables assume that when a member who is 15 years from retirement reaches age 65, the life expectancy from age 65 is as follows:

Non-retired members	**2008**	**2007**
Males	24.0	22.8
Females	26.2	25.6

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

	Society 2008 £m	**Society 2007 £m**
Fair value of plan assets	54.2	63.7
Present value of defined benefit obligations	(72.3)	(71.5)
Net pension liability	**(18.1)**	**(7.8)**

NOTES TO THE FINANCIAL STATEMENTS

21. Pensions (continued)

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

	2008 £m	2007 £m
At 1 January	**63.7**	**48.1**
Expected return on assets	4.4	3.9
Actuarial (losses)/gains	(16.0)	(0.7)
Contributions by employer	2.5	13.4
Contributions by plan participants	0.4	0.4
Benefits paid	(0.8)	(1.4)
At 31 December	**54.2**	**63.7**

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

	Society 2008 £m	Society 2007 £m
At 1 January	**71.5**	**69.4**
Current service cost	1.0	1.3
Interest cost	4.3	3.6
Contributions by plan participants	0.4	0.4
Past service cost	0.2	-
Actuarial (gain)	(4.3)	(1.8)
Actual benefit payments	(0.8)	(1.4)
At 31 December	**72.3**	**71.5**

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 2008 £m	Society 2007 £m
Actual return on assets	(11.6)	3.2
Expected return on assets	(4.4)	(3.9)
Actuarial (loss) on assets	(16.0)	(0.7)

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 2008 £m	Society 2008 % pa	Society 2007 £m	Society 2007 % pa
Equities	29.7	8.5%	33.6	8.1%
Property	3.3	6.8%	4.8	6.4%
Corporate bonds	8.4	6.2%	9.8	6.0%
Government bonds	12.5	3.7%	15.2	4.6%
Cash	0.3	2.0%	0.3	5.5%
Total	**54.2**	**6.9%**	**63.7**	**6.8%**

The actual return on the plan assets over the year ended 31 December 2008 was -18% (2007:+5.4%.)

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. 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:

	ESTIMATED Society 2009 £m	Society 2008 £m	Society 2007 £m
Current service cost	0.8	1.0	1.3
Interest on liabilities	4.5	4.3	3.6
Expected return on assets	(3.8)	(4.4)	(3.9)
Past service cost	-	0.2	-
Total pension expense	**1.5**	**1.1**	**1.0**

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 2008 £m	Society 2007 £m	Society 2006 £m
Gain/(loss) on scheme assets	(16.0)	(0.7)	1.3
Experience gains/(losses) on defined benefit obligation	(1.5)	(3.6)	5.1
Gain/(loss) from change in assumptions	5.8	5.5	2.7
Total gain/(loss) recognised in SORIE during the year	**(11.7)**	**1.2**	**9.1**
Cumulative actuarial gains/(losses) recognised at end of year	**(10.1)**	**1.6**	**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 2008.

	Society 2009 £m
Estimated group contributions	2.3
Estimated employee contributions	0.5
Estimated total contributions	2.8

The actuarial gains and losses which have been recognised in the Society's SORIE in the current and previous years is summarised below.

	Society 2008	Society 2007 £m	Society 2006 £m	Society 2005 £m	Society 2004 £m
Fair value of assets	54.2	63.7	48.1	34.7	30.4
Defined benefit obligation	(72.3)	(71.5)	(69.4)	(73.1)	(56.2)
(Deficit) in plan	**(18.1)**	**(7.8)**	**(21.3)**	**(38.4)**	**(25.8)**
Total amount of deficit that is recoverable	**(18.1)**	**(7.8)**	**(21.3)**	**(38.4)**	**(25.8)**

22. 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