HOMELOAN MANAGEMENT LIMITED

DIRECTORS' REPORT & ACCOUNTS

31 DECEMBER 1998

(Registered Number 2214839)

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activity of the company in the year under review was that of mortgage administration and systems bureau services and will continue to be so for the foreseeable future.

BUSINESS REVIEW

The results for the year are shown in the profit and loss account and notes thereto. No interim dividend has been paid during the year under review (1997: £ nil). The directors do not propose the payment of a final dividend (1997: £ nil).

CREDITOR PAYMENT POLICY AND PAYMENT DAYS

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 payment in accordance with those agreed terms and any other legal obligations. At 31 December 1998 there was an average of 15 days purchases outstanding (1997: 13 days).

YEAR 2000

The company has recognised the importance of the Year 2000 issue (Y2k) and a full assessment of its impact on the company has been completed and resources committed to its resolution. Costs relating to the project relate mainly to the use of existing resources and consist of staff costs and hardware and software costs. Some of the hardware costs relate to the acceleration of normal expenditure. The total cost of Y2k is expected to be £400,000. The company has established procedures to ensure that where possible all of its suppliers have confirmed that they are Y2k compliant and where possible purchases are tested on site. The directors are confident that the steps that are being taken are sufficient to address the Y2k issue and will avoid disruption to the business into the next millennium.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were:-

J R Skae (Chairman)
J G Goodfellow
R J McCormick
A B Meeks
W A L Lacon
S W Haggerty

Mr J G Goodfellow, Mr R J McCormick and Mr J R Skae are also directors of the ultimate parent undertaking Skipton Building Society. Their interests in the shares of group companies are not required to be recorded in the register maintained by this company.

No other director serving at 31 December 1998 held any interests in the shares of group undertakings during the year.

On 22 January 1999 Mr J R Skae resigned as a director of the company and Messrs H G Fell and N Sherlock were appointed as directors of the company. On 19 February 1999 Mr R J McCormick was appointed Chairman of the company.

DIRECTORS' REPORT (continued)

EMPLOYEES

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 members becoming disabled, every effort is made to enable them to maintain their present position or to employ them in suitable work within another department.

All staff are briefed by their managers in meetings organised on a regular basis. The staff are represented by their Staff Association, the committee of which meets regularly both with and without management representatives.

By order of the board

J W Dawson
Secretary

22 February 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors 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 accounts 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.

REPORT OF THE AUDITORS TO THE MEMBERS OF HOMELOAN MANAGEMENT LIMITED

We have audited the accounts on pages 5 to 15.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LEEDS

22 February 1999

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	1998 £'000	1997 £'000
TURNOVER	1	10,547	8,443
ADMINISTRATIVE EXPENSES		(9,175)	(7,444)
OPERATING PROFIT		1,372	999
INTEREST RECEIVABLE & SIMILAR INCOME	2	304	198
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3,4	1,676	1,197
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	5	(522)	(402)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,154	795
RETAINED PROFIT BROUGHT FORWARD		972	177
RETAINED PROFIT CARRIED FORWARD		2,126	972

The notes on pages 7 to 15 form part of these accounts.

There were no recognised gains or losses in the current year (1997: £ nil) other than those reflected in the above profit and loss account.

The profit and loss account is prepared on an unmodified historical cost basis.

In both the current and preceding year, the company made no material acquisitions and had no discontinued operations.

BALANCE SHEET AS AT 31 DECEMBER 1998

	Note	1998 £'000	1998 £'000	1997 £'000	1997 £'000
FIXED ASSETS					
Tangible assets	6		997		956
CURRENT ASSETS					
Debtors	7	5,826		4,845	
Cash at bank and in hand		380		148	
		6,206		4,993	
CREDITORS:					
Amounts falling due within one year	8	(2,045)		(1,941)	
NET CURRENT ASSETS			4,161		3,052
TOTAL ASSETS LESS CURRENT LIABILITIES			5,158		4,008
CREDITORS:					
Amounts falling due after more than one year	9		(-)		(4)
NET ASSETS			5,158		4,004
CAPITAL AND RESERVES					
Called up equity share capital	12		2,852		2,852
Share premium account	13		180		180
Profit and loss account			2,126		972
EQUITY SHAREHOLDERS' FUNDS	14		5,158		4,004

A statement of movements in shareholders' funds is given in note 14.

These accounts were approved by the board of directors on 22 February 1999.

J G Goodfellow)
Directors
A B Meeks)

J.G.Goodfellow

The notes on pages 7 to 15 form part of these accounts.

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's accounts:-

(a) Basis of accounting

These accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Cashflow Statement

Under Financial Reporting Standard No 1 (Revised), the company is exempt from the requirement to prepare a cashflow statement as all of its voting rights are controlled by Skipton Building Society, whose group annual report and accounts are publicly available.

(c) Turnover

Turnover represents amounts invoiced in respect of services provided excluding value added tax. All sales are made within the United Kingdom. Income is recognised on fees receivable on the basis of work performed.

(d) Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets over their estimated useful lives as follows:-

Office and computer equipment	-	20% on cost
Motor vehicles	-	25% on written down value
Long leasehold buildings	-	2% on cost

Major fixed asset purchases are depreciated on a monthly basis from the date utilisation commences. Other items receive a full year's depreciation charge in the year of purchase.

(e) Deferred Taxation

Provision is made using the liability method for taxation which is deferred as a result of items included in these accounts being dealt with in a different period for taxation purposes, to the extent that it is likely that such taxation will become payable in the foreseeable future.

NOTES TO THE ACCOUNTS (continued)

(f) Lease Contracts

Rentals payable under operating leases are charged to the profit and loss account when incurred.

(g) Pensions

The majority of the company's employees are members of the Skipton Building Society group defined benefit pension scheme, the assets of which are held separately from the company in an independently administered scheme. Contributions are transferred to the trustees on a regular basis to secure the benefits provided under the rules of the scheme. In addition, the company operates several defined contribution schemes, including a Skipton Building Society group scheme, the assets of which are held separately from the company in independently administered schemes. Contributions are charged to revenue and included in staff costs.

(h) Related Party Transactions

Under Financial Reporting Standard No 8 ('FRS 8'), the company is exempt from disclosing transactions with entities within the Skipton Building Society group as all of its voting rights are controlled by Skipton Building Society, whose group annual report and accounts are publicly available.

2. **INTEREST RECEIVABLE AND SIMILAR INCOME**

	1998 £'000	1997 £'000
Received from parent undertaking	276	183
Bank interest receivable	28	15
	304	198

NOTES TO THE ACCOUNTS (continued)

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting) the following:-

	1998 £'000	1997 £'000
Depreciation of tangible fixed assets	342	233
Profit on sale of tangible fixed assets	(14)	(3)
Operating lease payments - office equipment	11	75
- land & buildings	695	606
Auditors' and their associates' remuneration and expenses for - audit services	16	15
- for non audit work	10	-

4. STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:-

	1998 Number	1997 Number
Directors	6	6
Administration	336	283
	342	289

The aggregate payroll costs of these persons were as follows:-

	1998 £'000	1997 £'000
Wages and salaries	4,200	3,415
Social security costs	293	208
Other pension costs	155	153
	4,648	3,776

NOTES TO THE ACCOUNTS (continued)

	1998 £'000	1997 £'000
Directors' Emoluments:		
Remuneration as directors	253	235
Company contributions to money purchase pension schemes	2	4
	255	239

The emoluments of the highest paid director was £116,000 (1997: £105,000). Included within total emoluments were pension contributions of £4,000 (1997: £4,000). Up to May 1998 he was a member of the money purchase scheme and contributions paid to this scheme amounted to £2,000 (1997: £4,000). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £3,000 (1997:£nil), and his accrued lump sum was £6,000 (1997:£nil).

	1998 Number	1997 Number
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	-	1
Defined benefit schemes	3	2
	3	3

5 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge for the year comprises:

	1998 £'000	1997 £'000
UK corporation tax calculated at 31% (1997: 31.5%) on the profit for the year	507	315
Corporation tax adjustment relating to previous years	7	2
Deferred taxation at 30% (1997: 30%)	8	48
Deferred tax adjustment relating to previous years	-	37
	522	402

NOTES TO THE ACCOUNTS (continued)

6. **TANGIBLE FIXED ASSETS**

	Long Leasehold Land and Buildings £'000	Office & Computer Equipment £'000	Motor Vehicles £'000	Total £'000
COST				
At 1 January 1998	85	1,669	256	2,010
Additions	-	342	117	459
Disposals	(85)	(29)	(49)	(163)
At 31 December 1998	-	1,982	324	2,306
DEPRECIATION				
At 1 January 1998	24	921	109	1,054
Charge for year	-	279	63	342
Disposals	(24)	(29)	(34)	(87)
At 31 December 1998	-	1,171	138	1,309
NET BOOK VALUE At 31 December 1998	-	811	186	997
At 31 December 1997	61	748	147	956

NOTES TO THE ACCOUNTS (continued)

7. DEBTORS

	1998 £'000	1997 £'000
Trade debtors	860	1,088
Amounts owed by parent undertaking	4,256	3,240
Amounts owed by fellow subsidiary undertakings	108	94
Prepayments and accrued income	467	280
Deferred taxation (note 11)	135	143
	5,826	4,845

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Trade creditors	287	182
Amounts owed to fellow subsidiary undertakings	208	129
Corporation tax	507	315
Other taxes	96	86
Other creditors	21	35
Accruals and deferred income	926	1,194
	2,045	1,941

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £'000	1997 £'000
Other creditors	-	4

NOTES TO THE ACCOUNTS (continued)

10. OBLIGATIONS UNDER LEASING CONTRACTS

The future annual obligations under operating lease contracts relating to office equipment to which the company is committed as at 31 December 1998 are as follows:-

	1998 £'000	1997 £'000
Repayments due on contracts expiring:		
Within one year	-	-
Within two to five years	11	20
	11	20

In addition the company is liable for rent on its leased premises totalling £695,000 per annum (1997: £606,000). The leases on such premises are short leases which expire more than five years after 31 December 1998.

11. PROVISIONS FOR LIABILITIES AND CHARGES

DEFERRED TAXATION

Taxation deferred at 30% (1997: 30%) representing the full potential asset arises from:

	1998 £'000	1997 £'000
Short term timing differences	10	23
Accelerated depreciation over capital allowances	125	120
Deferred tax asset (note 7)	135	143

NOTES TO THE ACCOUNTS (continued)

12. EQUITY SHARE CAPITAL

	1998 £'000	1997 £'000
AUTHORISED:		
3,000,000 £1 ordinary shares	3,000	3,000
ALLOTTED, CALLED UP AND FULLY PAID:		
2,851,760 £1 ordinary shares	2,852	2,852

13. SHARE PREMIUM ACCOUNT

	1998 £'000	1997 £'000
On shares issued	180	180

14. RECONCILIATON OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1998 £'000	1997 £'000
At 1 January	4,004	3,209
Retained profit for the financial year	1,154	795
At 31 December	5,158	4,004

15. CAPITAL COMMITMENTS

At 31 December 1998 there were outstanding capital commitments of £115,000 (1997: £ nil).

NOTES TO THE ACCOUNTS (continued)

16. **PENSIONS**

The majority of the employees of the company are members of the Skipton Building Society group defined benefit pension scheme. The pension costs are assessed in accordance with the advice of independent, professionally qualified actuaries. The scheme was the subject of a full actuarial valuation at 1 April 1997 and particulars of this valuation are included in the group annual report and accounts of Skipton Building Society.

The company also operates a number of defined contribution schemes, including a Skipton Building Society group scheme, the assets of which are held separately from those of the company in independently administered funds. The total pension cost for the year in respect of defined contribution schemes amounted to £65,000 (1997: £48,000). There were no outstanding or overpaid pension contributions at 31 December 1998 (1997: £ nil). The total pension cost for the company in the year and the prior year is shown in note 4.

17. **RELATED PARTY TRANSACTIONS**

There are no other related party transactions which require disclosure under FRS 8.

18. **ULTIMATE PARENT UNDERTAKING**

The company is a wholly owned subsidiary of Skipton Building Society, which is registered in the United Kingdom. Under Section 22 of the Building Societies Act 1986 the Society is obliged to discharge the liabilities of the company incurred prior to 11 June 1996, insofar as it is unable to do so out of its own assets, when this section was repealed.

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