HOMELOAN MANAGEMENT LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31ST DECEMBER 1999

(Registered Number 2214839)

HOMELOAN MANAGEMENT LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 31st December 1999.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activity of the company is 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 (1998: £nil). The directors do not propose the payment of a final dividend (1998: £nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were:

R J McCormick (appointed Chairman 19/02/99)
J R Skae (Chairman, resigned 22/01/99)
J G Goodfellow
A B Meeks
W A Lacon
S W Haggerty
H G Fell (appointed 22/01/99)
N Sherlock (appointed 22/01/99)
E A Blythe (appointed 01/06/99)
M Reay (appointed 01/06/99)

Mr J G Goodfellow, Mr R J McCormick, Mr J R Skae, Mr H G Fell and Mr N Sherlock are also directors of the ultimate parent undertaking Skipton Building Society. 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 31st December 1999 had no interest in the shares of any group undertaking at any time during the year.

YEAR 2000

The company recognises the importance of the year 2000 issue, completed a full assessment of its impact and committed resources to its resolution. To date, the company's results and operations have not been adversely affected either by internal year 2000 compliance failures or the inability of any third parties to manage the issues. The directors recognise the need to continue to monitor the year 2000 issue and are confident that the steps being undertaken will continue to avoid business disruption. Total costs incurred relating to the year 2000 issue as at 31st December 1999 were £498,000. Any further costs arising from the year 2000 compliance programme are not expected to be significant.

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 payment in accordance with agreed terms and any other legal obligations. At 31st December 1999 creditor days were 12 days (1998: 15 days).

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 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
31st January 2000

HOMELOAN MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements 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 for that year. In preparing those 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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 4 to 12.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the directors' report, and as described on page 1, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 are 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 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 31st December 1999 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

31st January 2000

HOMELOAN MANAGEMENT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 1999

	Notes	1999	1998
		£'000	£'000
Turnover	1	13,277	10,547
Administrative expenses		(11,578)	(9,175)
Operating profit		**1,699**	**1,372**
Interest receivable and similar income	2	264	304
Profit on ordinary activities before taxation	3,4	**1,963**	**1,676**
Taxation on profit on ordinary activities	5	(614)	(522)
Profit on ordinary activities after taxation		**1,349**	**1,154**
Retained profit brought forward		2,126	972
Retained profit carried forward		**3,475**	**2,126**

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

There were no recognised gains or losses in the current year (1998: £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.

The notes on pages 6 to 12 form part of these accounts.

HOMELOAN MANAGEMENT LIMITED

BALANCE SHEET

AT 31ST DECEMBER 1999

	Notes		1999		1998
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	6		1,316		997
Current assets					
Debtors	7	7,040		5,826	
Cash at bank and in hand		70		380	
		7,110		6,206	
Creditors: Amounts falling due within one year	8	(1,919)		(2,045)	
Net current assets			**5,191**		**4,161**
Net assets			**6,507**		**5,158**
Capital and reserves					
Called up equity share capital	11		2,852		2,852
Share premium account			180		180
Profit and loss account			3,475		2,126
Equity shareholders' funds	12		**6,507**		**5,158**

A reconciliation of the movement in shareholders' funds is given in note 12.

These accounts were approved by the board of directors on 31st January 2000 and signed on its behalf by :-

J G Goodfellow)
) Directors
A B Meeks)

The notes on pages 6 to 12 form part of these accounts

HOMELOAN MANAGEMENT LIMITED

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 to write off the cost of tangible fixed assets over their estimated useful lives as set out below:

Office and computer equipment	-	20% on cost
Motor vehicles	-	25% on written down value

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.

(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 an independently administered scheme. 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.

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

2. Interest receivable

	1999 £'000	1998 £'000
Receivable from parent undertaking	251	276
Bank interest receivable	13	28
	264	**304**

3. Profit on ordinary activities before taxation

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

		1999 £'000	1998 £'000
Depreciation on tangible fixed assets		463	342
(Profit)/Loss on disposal of tangible fixed assets		(2)	(14)
Operating lease payments	- office equipment	11	11
	- Land & buildings	695	695
Auditors' and their associates remuneration and expenses:			
For audit work		17	16
For non audit work		15	10
Directors' emoluments (note 4)		325	255

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

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:

	1999	1998
Directors	8	6
Administration	407	336
	415	**342**

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£'000	£'000
Wages and salaries	5,376	4,200
Social security costs	413	293
Other pension costs	166	155
	5,955	**4,648**

Directors' Emoluments:

	1999	1998
	£'000	£'000
Remuneration as directors of the company	325	253
Contribution to money purchase scheme	-	2
	325	**255**

The emoluments of the highest paid director were £124,000 (1998: £116,000). Included within total emoluments were pension contributions of £4,000 (1998: £4,000). Up to May 1998 he was a member of the money purchase scheme and contributions paid to this scheme in 1998 amounted to £2,000. He is a member of a defined benefit scheme, under which his accrued pension at the year end was £4,000 (1998: £3,000) and his accrued lump sum was £9,000 (1998: £6,000).

	1999	1998
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	-
Defined benefit schemes	4	3

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

5. Taxation on profit on ordinary activities

	1999	1998
	£'000	£'000
The taxation charge for the year comprises:		
UK corporation tax calculated at 30.25% on the profit for the year (1998: 31%)	602	507
Corporation tax adjustment relating to previous years	(12)	7
Deferred taxation at 30% (1998: 30%)	7	8
Deferred tax adjustment relating to previous years	17	0
	614	**522**

6. Tangible fixed assets

	Motor Vehicles	Office & Computer Equipment	Total
	£'000	£'000	£'000
Cost			
At 1st January 1999	324	1,982	2,306
Additions	83	711	794
Disposals	(39)	-	(39)
At 31st December 1999	**368**	**2,693**	**3,061**
Depreciation			
At 1st January 1999	138	1,171	1,309
Charged in year	65	398	463
Disposals	(27)	-	(27)
At 31st December 1999	**176**	**1,569**	**1,745**
Net Book Value			
At 31st December 1999	**192**	**1,124**	**1,316**
At 31st December 1998	**186**	**811**	**997**

7. Debtors

	1999	1998
	£'000	£'000
Trade debtors	1,585	860
Amounts owed by parent undertaking	4,881	4,256
Amounts owed by fellow subsidiary undertakings	115	108
Prepayments and accrued income	348	467
Deferred taxation (note 11)	111	135
	7,040	**5,826**

NOTES TO THE ACCOUNTS

8. Creditors: Amounts falling due within one year

	1999	1998
	£'000	£'000
Trade creditors	224	287
Amounts owed to fellow subsidiary undertakings	332	208
Corporation tax	414	507
Other taxes	215	96
Other creditors	42	21
Accruals and deferred income	692	926
	1,919	**2,045**

9. Obligations under leasing contracts

The future annual obligations under operating lease contracts relating to office equipment to which the company is committed at 31st December 1999 are as follows:

	1999	1998
	£'000	£'000
Repayments due on contracts expiring:		
Within two to five years	11	11

In addition the company is liable for rent on its leased premises totalling £695,000 per annum (1999: £695,000). The leases on such premises are short leases which expire more than five years after 31 December 1999.

10. Provisions for liabilities and charges

Deferred taxation

Taxation deferred at 30% (1998: 30%) representing the full potential asset arising from:

	1999	1998
	£'000	£'000
Short term timing differences	8	10
Accelerated depreciation over capital allowances	103	125
Deferred tax asset (note 7)	**111**	**135**

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

11. Equity Share Capital	**1999**	**1998**
	£'000	**£'000**
Authorised:		
3,000,000 £1 ordinary shares	**3,000**	**3,000**

	1999	**1998**
	£'000	**£'000**
Allotted, called up and fully paid:		
2,851,760 £1 ordinary shares	**2,852**	**2,852**

12. Reconciliation of Movement in Shareholders' funds	**1999**	**1998**
	£'000	**£'000**
At 1 January	5,158	4,004
Profit for the financial year	1,349	1,154
	6,507	**5,158**

13. Capital commitments

At 31 December 1999 there were outstanding capital commitments of £nil (1998: £115,000).

14. 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 1st April 1997 and particulars of this valuation are included in the 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 (1998: £65,000). There were no outstanding or overpaid pension contributions at 31 December 1999. (1998: £nil). The total pension cost for the company in the year and the prior year is shown in note 4.

HOMELOAN MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

15. Ultimate parent undertaking

The company is a wholly owned subsidiary of Skipton Building Society, 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