

MORTGAGE EXPRESS

REPORT AND ACCOUNTS 2001

Registered number
2405490



Registered office

Endeavour House
1 Lyonsdown Road
New Barnet
Herts EN5 1HU

Directors' report and financial statements

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Directors' report for the year ended 31 December 2001**Principal activity**

The principal activity is the provision of mortgage loans secured on residential properties.

Business Review

The result for the year is shown in the profit and loss account on page 7. The result for the year ended 31st December 2001 was a loss after tax of £1,553,000 (2000: £1,977,000 profit).

Dividend

It is not proposed to pay a dividend for the year (2000: £Nil).

Payment policy

Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different arrangements have been agreed with suppliers. It is the policy of the company to abide by the agreed terms of payment. The company had no trade creditors as at 31 December 2001 (2000: none).

Directors

The directors who served during the year were as follows:

Timothy Michael Dawson
Keith Richard Greenough
David Graham Parkins
Christopher John Rodrigues
Rosemary Prudence Thorne

The directors' interests in shares in its ultimate parent company, Bradford & Bingley plc, were:

	31 December 2001
Ordinary shares of 25p each:	
D Parkins	750
T Dawson	750
Options to subscribe for ordinary shares of 25p each:	
D Parkins	54,846
T Dawson	66,542

Where directors are also directors of Bradford & Bingley plc, their share interests are disclosed in the consolidated accounts of that company.

None of the directors had an interest in the loan capital of Bradford & Bingley plc or any other interest in the share or loan capital of its subsidiaries.

Employment of disabled persons and employee involvement

The company is committed to employee involvement. Emphasis is placed on developing greater awareness of the financial and economic factors which affect the company.

The ultimate parent company, Bradford & Bingley plc, is committed to the development of policies to promote equal opportunities in employment for all its employees. As part of this policy, the company gives full and fair consideration to applications for employment from people with disabilities, and offers appropriate training and career development, having regard to their particular aptitudes and abilities. Wherever members of staff become disabled, the company, wherever possible, seeks either to continue employment in their existing job or redeploy them on suitable duties.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the Board



Alan Forbes Shankley
Company Secretary

14 February 2002

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 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.

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

Independent auditor's report to the members of Mortgage Express

We have audited the financial statements on pages 7 to 16.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, 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 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 required for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

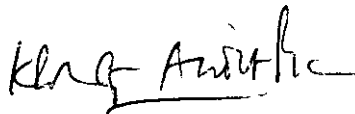
Basis of opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

14th February 2002

Profit and loss account for the year ended 31 December

	Notes	2001 £000	2000 £000
Interest receivable		164,709	151,142
Interest payable		(148,160)	(122,503)
Net interest receivable		16,549	28,639
Administrative expenses		(17,918)	(20,481)
Other operating charges		(2,755)	(5,121)
Income/(losses) from securitised vehicle	4	2,157	(176)
(Loss)/profit on ordinary activities before tax	2	(1,967)	2,861
Tax on profit/(loss) on ordinary activities	5	414	(884)
(Loss)/profit for the financial year after tax		(1,553)	1,977
Retained (loss)/profit for the year	12,13	(1,553)	1,977

The company had no recognised gains or losses other than the current year loss, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation stated above, and its historical cost equivalent.

All activities of the company are continuing.

The notes on pages 9 to 16 form part of these financial statements.

Balance sheet at 31 December

	Notes	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Tangible assets	6		2,001		2,277
Current assets					
Mortgage advances falling due within one year		26,914		9,964	
Mortgage advances falling due after one year		3,489,376		1,960,027	
Securitised assets		941,855		993,742	
Less: non recourse funding		(941,161)		(991,226)	
Debtors	7	24,358		22,736	
Cash at bank and in hand		333,305		333,392	
		<u>3,874,647</u>		<u>2,328,635</u>	
Creditors: amounts falling due within one year	8	<u>(3,440,614)</u>		<u>(1,894,199)</u>	
Net current assets			434,033		434,436
Creditors: amounts falling due after one year	9		(334,718)		(333,844)
Net assets			<u>101,316</u>		<u>102,869</u>
Capital and reserves					
Called up share capital	11		100,000		100,000
Profit and loss account	12		1,316		2,869
Shareholders' funds	13		<u>101,316</u>		<u>102,869</u>

The notes on pages 9 to 16 form part of these financial statements

Approved by the Board on 14th February 2002 and signed on its behalf.



..... David G Parkins - Director

Notes to the financial statements for the year ended 31 December**1. Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Company Status

Mortgage Express is a private unlimited company.

Basis of accounting

The financial statements are prepared on the historical cost basis of accounting, in accordance with applicable accounting standards. Under Financial Reporting Standard 5 (Reporting the Substance of Transactions), the quasi-subsidary transactions and the resulting assets, liabilities, gains and losses are fairly represented in these financial statements. The financial statements are prepared on a going concern basis.

Provisions for Bad and Doubtful Debts

Specific provisions are made for advances which are recognised to be bad or doubtful. In addition, general provisions are maintained to cover losses that, although not yet specifically identified, are known to be present at the year end in any portfolio of advances.

Interest is charged to mortgage accounts which are in possession and which is expected to be irrecoverable is written off against interest receivable in the year.

Taxation

Corporation tax and any group relief arising is provided at the current rate on the taxable profit for the year.

Deferred tax

Deferred tax is provided at the appropriate rate of tax where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

Related party transactions

Under Financial Reporting Standard No.8, the company is exempt from disclosing transactions within Bradford & Bingley plc group as the company is a wholly owned subsidiary of Bradford & Bingley plc, whose annual report and consolidated accounts are publicly available.

Pensions

The company is a member of the Bradford & Bingley Group Plc pension scheme. The Group charges pension and other post retirement costs against profits using an actuarial method and assumptions designed to provide for the anticipated costs over the remaining service lives of the employees in the scheme. This method ensures that the regular costs represent a relatively equal proportion of the current and expected future pensionable payroll in the light of current actuarial assumptions.

Variations from regular costs are spread over the remaining service lives of current employees in the scheme.

Depreciation

Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets by equal instalments over the estimated economic lives as follows:

Motor Vehicles	25% reducing balance
Computer Equipment	33% straight line
Fixtures & Fittings	20% straight line
Plant & Machinery	10% straight line

1. Accounting policies (continued)**Cash flow statement**

Under Financial Reporting Standard No.1 (Revised), the company is exempt from the requirement to prepare a cash flow statement, on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

2. (Loss)/profit on ordinary activities before tax

(Loss)/profit on ordinary profits before tax is stated	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
After charging:		
Depreciation of owned assets (see note 6)	814	669
Auditor's remuneration	101	25
Profits/(losses) from securitised operations (see Note 4)	2,157	(176)
After crediting:		
Profit on sale of tangible fixed assets	(66)	(61)

3. Directors and employees

	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Employee costs:-		
Wages and salaries	6,761	8,612
Social security costs	560	783
Other pension costs	706	857
	8,027	10,252

	2001 No.	2000 No.
The average number of employees during the year was:	258	295

	2001 £	2000 £
Directors' emoluments	331,144	348,440

The aggregate of emoluments of the highest paid director was £185,829 (2000: £201,071). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £66,282, (2000: £59,719).

	2001 No of Directors	2000 No of Directors
Defined benefit schemes	2	2

4. Securitised Operations of Aire Valley Finance (No.2) plc

Profit and loss account for the period ended 31 December

	2001 £000	2000 £000
Interest receivable	64,575	16,929
Interest payable	(57,349)	(16,125)
Net interest receivable	7,226	804
Administrative expenses	(5,069)	(980)
Profit/(loss) on ordinary activities before tax	2,157	(176)
Tax on profit/(loss) on ordinary activities	-	-
Profit/(loss) for the financial year after tax	2,157	(176)
Retained Profit/(loss) for the year	2,157	(176)

Non –recourse amounts received

Creditors:

	2001	2000
Loan notes (net of issue costs)	941,161	991,226

Under FRS 5, Aire Valley Finance (No 2) plc (AVFNo2) has been reported through linked presentation as a quasi-subsiidiary of Mortgage Express.

On 4 October 2000, Aire Valley Finance Trustees (No2) acquired a portfolio of mortgages from Mortgage Express. The beneficial interest was subsequently transferred to AVFNo2. AVFNo2 was funded by the issue of £1bn of bonds serviceable only from the cash flows generated by the mortgage portfolio together with £22.9m of subordinated finance from Bradford & Bingley plc. As at 31 December 2001 all the bonds remain in issue and the subordinated finance from Bradford & Bingley plc including accrued interest was £23.1m.

Mortgage Express is not obliged to support any losses in respect of these mortgages nor do they intend to do so. This is clearly stated in the agreements with the bondholders.

The controlling interests of AVFNo2 and Aire Valley Finance Trustees (No2) are held by a discretionary trustee. Mortgage Express is entitled to any residual income after the claims of the bondholders have been met.

5. Tax on (loss)/profit on ordinary activities

United Kingdom Corporation Tax at 30% (2000 at 30%)	Year ended 31 December 2001 £000	Year ended 31 December 2000 £000
Corporation tax	1,398	1,136
Adjustment with respect to prior years	1,752	-
Deferred tax	(1,812)	(252)
Adjustment with respect to prior years	(1,752)	-
	<u>(414)</u>	<u>884</u>

6. Tangible fixed assets

(£000)	Motor Vehicles	Computer Equipment	Fixtures & Fittings	Plant & Machinery	Total
Cost 1 January	312	1,225	2,326	43	3,906
Additions	-	26	586	-	612
Disposals	(142)	-	-	-	(142)
TOTAL 31 December	170	1,251	2,912	43	4,376

(£000)	Motor Vehicles	Computer Equipment	Fixtures & Fittings	Plant & Machinery	Total
Depreciation at 1 January	109	907	603	10	1,629
Charge for year	36	239	533	6	814
Disposals	(68)	-	-	-	(68)
TOTAL 31 December	77	1,146	1,136	16	2,375
Net book value 31/12/01	93	105	1,776	27	2,001
Net book value 31/12/00	203	318	1,723	33	2,277

7. Debtors

	31 December 2001 £000	31 December 2000 £000
Amounts owed by group undertakings	-	8,366
Deferred tax (see Note 10)	5,635	2,071
Prepayments and accrued income	14,610	11,106
Other debtors	4,113	1,193
	<u>24,358</u>	<u>22,736</u>

8. Creditors: amounts falling due within one year

	31 December 2001 £000	31 December 2000 £000
Amounts owed to group undertakings	3,411,214	1,871,884
Corporation tax payable	6,597	2,239
Other creditors	22,803	20,076
	<u>3,440,614</u>	<u>1,894,199</u>

9. Creditors: amounts falling due after one year

	31 December 2001 £000	31 December 2000 £000
Amounts owed to group undertakings	<u>337,718</u>	<u>333,844</u>

10. Deferred tax asset

	31 December 2001 £000	31 December 2000 £000
Opening balance	2,071	1,819
Charge during the year	1,812	252
Adjustment with respect to prior years	1,752	-
Closing balance	<u>5,635</u>	<u>2,071</u>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2001 Provided £000	2001 Unprovided £000	2000 Provided £000	2000 Unprovided £000
Difference between accumulated depreciation and capital allowances	135	-	159	-
Mortgage loss general provision	1,809	-	968	-
Other timing differences	3,691	-	944	520
	<u>5,635</u>	<u>-</u>	<u>2,071</u>	<u>520</u>

11. Called up share capital

	31 December 2001 £000	31 December 2000 £000
Authorised		
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, issued and fully paid		
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

12. Movement on reserves

	Profit and Loss Reserve £000
At the beginning of the year	2,869
Retained loss for the year	(1,553)
At the end of the year	<u>1,316</u>

13. Shareholders' funds

	31 December 2001 £000	31 December 2000 £000
(Loss)/profit for the financial year	(1,553)	1,977
Net (reduction)/addition to shareholders' funds	<u>(1,553)</u>	<u>1,977</u>
Opening shareholders' funds	102,869	100,892
Closing shareholders' funds	<u>101,316</u>	<u>102,869</u>

14. Purchase of assets

On the 31 December 2001, the assets and liabilities of Bradford & Bingley Homeloans Ltd, Bradford & Bingley Mortgage Management Ltd and Leamington Mortgage Corporation Ltd, all fellow group companies, were transferred into the company at book value. The acquisition is analysed as follows:

	Bradford & Bingley Homeloans Ltd £000	Bradford & Bingley Mortgage Management Ltd £000	Leamington Mortgage Corporation Ltd £000	TOTAL £000
Mortgage balances	46,349	75,291	-	121,640
Bad debt provisions	(275)	(67)	-	(342)
Net mortgage assets	46,074	75,224	-	121,298
Sundry debtors	-	334	25	359
Intercompany	-	-	212	212
Cash	412	1,177	162	1,751
Assets	46,486	76,735	399	123,620
Intercompany	44,844	76,099	-	120,943
Taxation	619	229	359	1,207
Sundry creditors	130	407	37	574
Dividends proposed	893	-	3	896
Liabilities	46,486	76,735	399	123,620

15. Pension Costs

The company is a member of the Bradford & Bingley Group Plc ("The Group") pension scheme. The Group operates two funded defined staff benefit schemes, administered by trustees for the majority of its employees. The funds are independent from those of the company and the group. The normal pension age of employees in the scheme is 60 years old. Pension costs in the principal scheme are assessed in accordance with the advice of a qualified actuary using the projected unit method and the second, smaller scheme, uses the aggregate method. The most recent actuarial valuation on the schemes was at 30 June 2000. The aggregate actuarial value of the schemes' assets was sufficient to cover 110% of the aggregate benefits that had accrued to members, after allowing for expected future increases in earnings.

The aggregate market value of the schemes' assets at 30 June 2000 was £343.3m

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investment and the rates of increase in salaries and pensions. The rate of return on investments has been assumed to exceed the rate of salary increases by 2.0% per annum and future pensions by 2.0% per annum.

The pension account takes account of the surpluses disclosed, which are amortised over a period of 15 years, being the estimated average remaining service lives of pension scheme members.

The company and the Group are adopting the transitional requirements of FRS17 'Retirement benefits'. The Group scheme is run on a basis that does not enable individual companies within the Group to identify their share of the underlying assets and liabilities.

15. Pension Costs (Continued)

FRS 17 Multi employer exemption

The company is a member of a pension scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme. There is net pension deficit of £14.3m as at 31 December 2001 however the assets are not intended to be realised in the short term and may be subject to significant change before they are realised.

16. Ultimate parent undertaking

The immediate parent undertaking of Mortgage Express is Bradford & Bingley Investments, a company incorporated in Great Britain and registered in England and Wales. The undertaking regarded by the directors as the ultimate parent undertaking is Bradford and Bingley plc, an undertaking resident in Great Britain and registered under the Companies Act 1985.

The only group of which Mortgage Express is a member and whose consolidated accounts are prepared is that headed by Bradford & Bingley plc. Copies of these accounts can be obtained from the Secretary, Bradford & Bingley plc, Head Office, PO Box 88, Crossflatts, Bingley, West Yorkshire, BD16 2UA.