

OCWEN UK PLC
(REGISTERED NUMBER: 3389478)

Directors' Report and Accounts
Period from 1 April 1998 to 31 December 1998



OCWEN UK PLC

Company Information

Directors

W C Erbey
J A Dlutowski
K Ainsworth

Company Secretary

Rutland Secretaries Limited
18 Southampton Place
London
WC1A 2AJ

Registered Office

Malvern House
Hatters Lane
Croxley Business Park
Watford
WD1 8YF

Company Solicitors

Edge Ellison
18 Southampton Place
London
WC1A 2AJ

Company Auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Company Bankers

National Westminster Bank plc
City of London Office
PO Box 12258
1 Princes Street
London
EC2R 8PA

Barclays Bank plc
PO Box 544
54 Lombard Street
London
EC3P 3AH

OCWEN UK PLC

Directors' Report

Period ended 31 December 1998

The directors present their report and the audited financial statements for the period from 1 April 1998 to 31 December 1998. The company last produced accounts for the period from 16 June 1997 to 31 March 1998 thus comparatives shown refer to this period. The change in accounting period from 31 March to 31 December brought the UK group companies into line with the US parent's year end.

Principal Activity and Review of the Business

The principal activity of the company is that of a holding company.

On 2 April 1998, the company incorporated three subsidiaries, Ocwen Limited, Ocwen UK Servicing Limited and Ocwen Direct Limited (which subsequently changed its name to Midland and General Direct Limited). On 24 April 1998, the company and its subsidiaries acquired certain assets and liabilities of the UK operations of Cityscape Financial Corporation ("Cityscape UK") and commenced trading. On 1 June 1998, the group purchased the share capital of a dormant company and renamed it Ocwen Financial Services Limited. The group also incorporated Ocwen 2 Limited on 5 August 1998 and Ocwen BDA Limited on 24 November 1998. The group currently trades wholly within the UK specialising in the origination, securitisation and servicing of mortgage loans in the non-status market.

The period covered by this set of financial statements was one of restructuring and consolidation for the group following the acquisition of the operations of Cityscape UK, and with steadily improving new business volumes and productivity improvements, the directors are confident that the group is in a satisfactory position going forward. The net liability position of £1.6 million at 31 December 1998 has been addressed through the issue of a further £14.4 million of ordinary share capital at par to Ocwen Financial Corporation on 27 May 1999.

Results and Dividends

The results of the group for the period are shown in the profit and loss account on page 6, which shows a loss on ordinary activities before taxation of £2.6 million (Period to 31 March 1998: nil).

The directors do not recommend the payment of a dividend.

Directors

The names of the present directors of the company are shown below.

Appointments and resignations during the period and up to the date of this report are as follows:

	Appointed	Resigned
W C Erbey	8 April 1998	
J A Dlutowski	8 April 1998	
K Ainsworth	8 April 1998	
J A Harvey	22 July 1997	8 April 1998
R G Baker	22 July 1997	8 April 1998
SPV Management Limited	22 July 1997	8 April 1998

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Directors' Report Period ended 31 December 1998

Directors' Interests

None of the directors holds any interest in the issued share capital of the company.

No director was materially interested in any contract of significance.

Year 2000

Many computer systems express dates using only the last two digits of the year. These systems require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. The operation of the group's business depends not only on its computer systems, but also to some degree on those of its suppliers and customers. There is, therefore, an exposure to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The group is participating in the Ocwen Financial Corporation group's programme designed to address the impact of the Year 2000 on all the group's businesses. The group has a number of experienced personnel who are being utilised to address this issue. Appropriate members of group management, including directors, are updated as required on the progress of Year 2000 issues.

As part of the group exercise, an analysis of significant risks has been performed to determine the impact of the issue on the group's activities. From this, prioritised action plans have been developed that are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes.

Priority is being given to those systems that could cause a significant financial or legal impact on the group's business if they were to fail. The plan also includes a requirement for the testing of all critical systems.

The risk analysis also considers the impact on the group's business of Year 2000 related failures by its significant suppliers and customers. In appropriate cases formal assurance is being sought from these other parties.

The total cost to complete the modifications to computer and other equipment, including those to date, are estimated as being in the region of £0.1 million. The directors are satisfied with the progress being made on the Year 2000 issue.

Auditors

Price Waterhouse were appointed auditors of the company on 26 October 1998. Price Waterhouse merged with Coopers & Lybrand on 1 July 1998 to form a new firm, PricewaterhouseCoopers. Price Waterhouse resigned with effect from 28 October 1998 and PricewaterhouseCoopers were appointed in their place. PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution to approve their re-appointment will be proposed at the Annual General Meeting.

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Directors' Report

Period ended 31 December 1998

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period. 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 and the group 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 the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



J A Dłutowski

Director

27 July 1999

AUDITORS' REPORT TO THE MEMBERS OF OCWEN UK PLC

We have audited the financial statements on pages 6 to 23 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 to 11.

Respective responsibilities of directors and auditors

As described on page 4, the directors are responsible for preparing the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

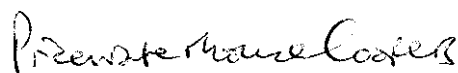
Basis of opinion

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 circumstances of the company and the group, 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 affairs of the company and the group as at 31 December 1998 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors**

27 July 1999
Southwark Towers
32 London Bridge Street
London
SE1 9SY

OCWEN UK PLC

Consolidated Profit and Loss Account Period Ended 31 December 1998

		1 April 1998 to 31 December 1998	16 June 1997 to 31 March 1998
	Note	£'000	£'000
Interest receivable	2	13,361	-
Interest payable	3	(7,523)	-
Net interest income		5,838	-
Fees and commissions receivable		11,138	-
Other operating income		4,876	-
Total operating income		21,852	-
Operating expenses		(24,474)	-
Loss on ordinary activities before taxation	4	(2,622)	-
Tax on loss on ordinary activities	6	990	-
Loss on ordinary activities after taxation for the financial period	17, 18	(1,632)	-

All income and expenditure derives from continuing operations.

There are no recognised gains and losses other than the loss for the financial period. Accordingly, no statement of total recognised gains and losses is given.

There is no difference between the results reported above and those that would be reported on an unmodified historical cost basis.

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Consolidated Balance Sheet As at 31 December 1998

		31 December 1998		31 March 1998	
	Note	£'000	£'000	£'000	£'000
ASSETS					
Fixed assets					
Tangible assets	7		4,769		-
Intangible assets	9		(5,290)		-
			(521)		-
Current assets					
Mortgage loans: Unsecuritised balances	10		73,242		-
Securitised balances	11	281,491		-	
Non-recourse finance	11	(264,731)		-	
			16,760		-
Debtors	13		26,950		-
Cash at bank and in hand			8,622		13
			125,574		13
TOTAL ASSETS			125,053		13
LIABILITIES					
Capital and reserves					
Called up share capital	16		13		13
Profit and loss account	17		(1,632)		-
Shareholders' funds – equity interests	18		(1,619)		13
Other liabilities					
Creditors	14		126,672		-
TOTAL LIABILITIES			125,053		13

These financial statements were approved by the Board of Directors on 27 July 1999.

Signed on behalf of the Board of Directors


J A Dłutowski
Director

OCWEN UK PLC

Company Balance Sheet As at 31 December 1998

	<i>Note</i>	31 December 1998	31 March 1998
		£'000	£'000
ASSETS			
Investments			
Shares in subsidiary undertakings	12	-	-
Current assets			
Debtors	13	12,391	-
Cash at bank		2	13
		12,393	13
TOTAL ASSETS			
		12,393	13
LIABILITIES			
Capital and reserves			
Called up share capital	16	13	13
Profit and loss account	17	77	-
Shareholders' funds – equity interests	18	90	13
Other liabilities			
Creditors	14	12,303	-
TOTAL LIABILITIES			
		12,393	13

These financial statements were approved by the Board of Directors on 27 July 1999.

Signed on behalf of the Board of Directors


J.A. Dłutowski
Director

OCWEN UK PLC

Notes to the Accounts Period Ended 31 December 1998

1. Accounting Policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting Convention

The financial statements are prepared under the historical cost convention.

Basis of Consolidation

The consolidated accounts deal with the accounts of the company and all its subsidiaries (including quasi subsidiaries as reported in note 12) drawn up to 31 December 1998. In accordance with Section 230(4) of the Companies Act 1985, Ocwen UK plc is exempt from the requirement to present its own profit and loss account. The amount of the loss for the financial year dealt with in the financial statements of Ocwen UK plc is disclosed in note 17 to the accounts.

Mortgage Loans

Mortgage loans are stated at cost less provisions. Specific provisions are made against mortgage loan receivables when, in the opinion of the directors, credit risks or economic factors make recovery doubtful. In addition, general provisions are made, based upon evaluation of the mortgage portfolio and other exposures, in respect of losses which are known from experience to be present in any such portfolio. The aggregate provisions which are made during the period are charged against the operating profit. If the collection of interest is considered to be doubtful, it is suspended and excluded from interest income in the profit and loss account.

Linked Presentation

The group has securitised certain mortgage assets on a non-recourse basis. In accordance with the requirements of Financial Reporting Standard 5 "Reporting the Substance of Transactions", *these assets are disclosed on the face of the balance sheet, with the non-recourse finance raised deducted from them.*

Investments

The company's investment in subsidiary companies are valued at cost less any necessary provisions for permanent diminution in value.

Deferred Taxation

Deferred taxation is recognised at the anticipated tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts to the extent that it is probable that a liability or asset will crystallise in the future.

Pension Costs

Contributions to the group's employee pension schemes are charged in the accounts so as to spread the cost of providing pension benefits over the average remaining service lives of the employees.

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Notes to the Accounts Period Ended 31 December 1998

Leases

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a *tangible asset* and is *depreciated over its estimated useful life or the term of the lease*, whichever is shorter. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance charge element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

Hire purchase contracts which have the characteristics of a finance lease are accounted for on a basis similar to that set out above for finance leases, except that the asset is depreciated over its useful life.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account over the period of the leases.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on cost in equal annual instalments over the lives of the assets - in the case of assets acquired from Cityscape UK, depreciation is provided on their original purchase costs. The rates of depreciation are as follows:

Computer equipment	33% per annum
Furniture, fixtures and office equipment	20% per annum
Motor vehicles	25% per annum

Premium on Acquisition of Mortgages

Premium on acquisition of mortgages is included within debtors and is amortised against interest receivable on a reducing balance basis over the anticipated life of the acquired mortgage portfolio, which is estimated to be 5 years.

Cash Flow

A cash flow statement is not required as Ocwen Financial Corporation, the company's ultimate parent undertaking, included a consolidated cash flow statement in its published financial statements for the year ended 31 December 1998.

Negative Goodwill

Negative goodwill arising from the acquisition of business represents the excess of the fair value of net tangible assets acquired over cost. Negative goodwill is capitalised and recognised in the profit and loss account over the period in which the non-monetary assets, being the tangible fixed assets, are depreciated.

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Notes to the Accounts Period Ended 31 December 1998

Related Party Transactions

The directors regard Ocwen Financial Corporation, a public company incorporated in the state of Florida, United States of America, as the ultimate controlling party. Therefore the group has applied the exemption in paragraph 3 (c) of *Financial Reporting Standard 8 "Related Party Disclosures"* which permits the non-disclosure of transactions and balances with related parties that are included in the consolidated financial statements of Ocwen Financial Corporation. Other related party transactions are reported in note 22.

Securitisation Costs

The group defers certain costs associated with the securitisation of assets to match the recognition of those costs with the income arising from the securitised assets. Currently these costs are amortised to the profit and loss account using the reducing balance method at 5% per month.

Pre-completion Costs

Pre-completion costs comprise brokerage commissions, valuation fees and other expenses related to the origination of mortgage loans. These costs are deferred and included within debtors and charged in the profit and loss account in line with the income generated from these mortgage loans.

2. Interest Receivable

	1 April 1998 to 31 December 1998	16 June 1997 to 31 March 1998
	£'000	£'000
Mortgage interest	14,314	-
Amortisation of premium on acquisition of mortgages	(1,636)	-
Other interest	683	-
	13,361	-

3. Interest Payable

	1 April 1998 to 31 December 1998	16 June 1997 to 31 March 1998
	£'000	£'000
Loan facilities	7,359	-
Finance lease interest	84	-
Bank interest	13	-
Other interest	67	-
	7,523	-

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Notes to the Accounts Period Ended 31 December 1998

4. Loss on Ordinary Activities Before Taxation

	1 April 1998 to £'000	16 June 1997 to £'000
Loss on ordinary activities before taxation is stated after		
Staff costs (note 5)	7,094	-
Amortisation of deferred pre-completion and securitisation costs	1,797	-
Depreciation - owned assets	1,279	-
- leased assets	401	-
Operating lease payments - Property rents	698	-
- Others	205	-
Provision for mortgage losses	1,149	-
Legal and professional fees	1,048	-
Write back of negative goodwill (note 9)	(1,993)	-
Auditors' remuneration		
Audit services	123	-
Non audit services	15	-

5. Information Regarding Directors and Employees

	1 April 1998 to 31 December 1998 £'000	16 June 1997 to 31 March 1998 £'000
Directors' emoluments		
Total emoluments	218	-
Pension contributions	-	-
	218	-
Remuneration of the highest paid director	218	-

No director has any retirement benefits accrued under the group's pension schemes.

The remuneration of a director in respect of his services to the group was partly borne by the ultimate parent undertaking. This amounted to £174,000 for the period from 1 April 1998 to 31 December 1998 and has been included in the above analysis. (Period to 31 March 1998: Nil)

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Notes to the Accounts Period Ended 31 December 1998

	1 April 1998 to 31 December 1998	16 June 1997 to 31 March 1998
	£'000	£'000
Staff costs		
Wages and salaries	6,512	-
Social security costs	517	-
Pension costs	65	-
	7,094	-

The average number of employees for the period ended 31 December 1998 is 396. (Period to 31 March 1998: Nil)

6. Taxation

	1 April 1998 to 31 December 1998	16 June 1997 to 31 March 1998
	£'000	£'000
Deferred taxation at 30%	990	-

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Notes to the Accounts Period Ended 31 December 1998

7. Tangible Fixed Assets

	Motor vehicles	Furniture, fixtures and office equipment	Computer equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 1998	-	-	-	-
Assets acquired from Cityscape UK	201	3,612	2,593	6,406
Other additions	42	4	81	127
Disposals	(118)	-	(1)	(119)
At 31 December 1998	125	3,616	2,673	6,414
Accumulated depreciation				
At 1 April 1998	-	-	-	-
Charge for the period	60	625	995	1,680
Disposals	(34)	-	(1)	(35)
At 31 December 1998	26	625	994	1,645
Net book value				
At 1 April 1998	-	-	-	-
At 31 December 1998	99	2,991	1,679	4,769

As at 31 December 1998 assets held under finance leases are capitalised in the various fixed asset categories as follows :

	Motor vehicles	Furniture, fixtures and office equipment	Computer equipment	Total
	£'000	£'000	£'000	£'000
Cost	100	1,452	181	1,733
Aggregate depreciation	31	281	89	401
Net book value	69	1,171	92	1,332

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Notes to the Accounts Period Ended 31 December 1998

8. Acquisition

As noted in the Report of the Directors, on 24 April 1998 the group acquired certain assets and liabilities of Cityscape UK. Prior to this the group had been dormant. The results of the group are therefore wholly attributable to this acquisition.

The operating assets and liabilities of Cityscape UK acquired by the group were as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Fixed assets	6,548	(142)	6,406
Loans	246,845	7,576	254,421
Debtors	4,950	371	5,321
Cash	424	-	424
Creditors and accruals	(6,273)	(2,190)	(8,463)
	252,494	5,615	258,109
Purchase consideration			250,826
Negative goodwill (Note 9)			7,283

The following fair value adjustments were made to the book value of the assets and liabilities:

	£'000
Revaluation	
Tangible fixed assets	(142)
Mortgage loans	7,576
Others	
Liabilities in respect of purchase contracts	(2,744)
Other assets and liabilities	925
	5,615

The unaudited profit and loss account for the Cityscape (UK) group for the period from 1 January 1998 to 23 April 1998 is as set out below:

	£'000
Interest receivable	2,333
Interest payable	(7,007)
Net interest income	(4,674)
Fees and commission receivable	5,029
Total operating income	355
Operating expenses	(14,776)
Loss on ordinary activities before taxation	(14,421)
Taxation	(251)
Retained loss	(14,672)

The result for the financial year ended 31 December 1997 was an unaudited loss after taxation of £143.6 million.

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Notes to the Accounts Period Ended 31 December 1998

9. Intangible Assets

	31 December 1998	31 March 1998
	£'000	£'000
Negative goodwill arising from acquisition of business (Note 8)	(7,283)	-
Amount written back to the profit and loss account	1,993	-
	(5,290)	-

Negative goodwill arising from the acquisition of Cityscape UK is being written back to the profit and loss account in the periods in which the non-monetary assets are depreciated, which is approximately 4 years.

10. Mortgage Loans - Unsecuritised Balances

	31 December 1998	31 March 1998
	£'000	£'000
Cost	74,811	-
Less: provisions	(1,569)	-
	73,242	-

11. Mortgage Loans -- Securitised Balances

During the period, a subsidiary undertaking, Ocwen Limited, sold approximately £331.0 million of residential mortgage assets to two special purpose companies, Ocwen Mortgage Loans 1 plc ("OML1") and Ocwen Mortgage Loans 2 plc ("OML2") which funded the purchase by issuing notes secured on the mortgages.

The directors confirm that the group is not obliged to support losses of the securitisation companies beyond the amount of the finance it has provided nor does it intend to do so. The providers of the external non-recourse finance have agreed, in writing, that they will seek repayment of the finance, as to both interest and principal, only from proceeds of the underlying securitised assets and will not seek recourse in any other form.

The group has no interest in the share capital of any of the purchasers of the securitised assets. All of the purchasers' issued share capital is held by Ocwen Holdings Limited, all of the share capital of which is held by SPV Management Limited, as trustee for certain charitable purposes.

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Notes to the Accounts Period Ended 31 December 1998

When OML1 and OML2 have met all their operational expenses and their obligations to redeem the notes, Ocwen Limited is entitled to receive any surplus generated from the mortgages. The amount of this surplus received during the period amounted to £1.7 million.

The terms of each of the transactions entered into meet the conditions for disclosure using a linked presentation as specified in Financial Reporting Standard 5 "Reporting the Substance of Transactions".

12. Investments

	31 December 1998	31 March 1998
	£	£
Investments in subsidiary undertakings, at cost	9	-

The company's subsidiary undertakings, all of which are wholly owned and consolidated, are set out below:

Company	Principal activity
Ocwen Limited	Provision of mortgages and secured personal loans
Ocwen 2 Limited	Provision of mortgages and secured personal loans
Ocwen UK Servicing Limited	Provision of loan administration services
Ocwen Financial Services Limited	Provision of insurance brokerage services
Ocwen BDA Limited	Investment holding
Midland and General Direct Limited	Provision of loan brokerage services
Midland and General Mortgages Limited	Provision of loan brokerage services

Quasi-subsiidiaries

The directors consider that the following companies are quasi-subsiidiaries as defined in Financial Reporting Standard 5 "Reporting the Substance of Transactions":

Company	Principal activity
Ocwen Mortgage Loans 1 plc	Securitisation vehicle
Ocwen Mortgage Loans 2 plc	Securitisation vehicle

The issued share capital of all the company's subsidiaries and quasi-subsiidiaries consists of ordinary share capital and all companies are registered and operate in England and Wales.

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Notes to the Accounts Period Ended 31 December 1998

13. Debtors

	Group 31 December 1998	Company 31 December 1998	Group 31 March 1998	Company 31 March 1998
	£'000	£'000	£'000	£'000
Trade debtors	1,845	-	-	-
Amounts owed by group undertakings	-	10,516	-	-
Interest receivable	1,810	-	-	-
Securitisation costs capitalised	3,673	-	-	-
Premium on acquisition of mortgages	7,185	-	-	-
Deferred commission and pre-completion costs	8,035	-	-	-
Deferred taxation	990	-	-	-
Other debtors	3,412	1,875	-	-
	26,950	12,391	-	-

The amounts owed by group undertakings are unsecured, interest-free and are repayable on demand.

The following debtors are included in the above balances which fall due after one year:

	Group 31 December 1998	Company 31 December 1998	Group 31 March 1998	Company 31 March 1998
	£'000	£'000	£'000	£'000
Securitisation costs capitalised	1,985	-	-	-
Premium on acquisition of mortgages	3,882	-	-	-
Deferred commission and pre-completion costs	4,342	-	-	-
	10,209	-	-	-

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Notes to the Accounts Period Ended 31 December 1998

14. Creditors

	Group 31 December 1998 £'000	Company 31 December 1998 £'000	Group 31 March 1998 £'000	Company 31 March 1998 £'000
Amounts falling due within one year				
Trade creditors	1,066	-	-	-
Amount owed to ultimate parent undertaking	30,296	12,268	-	-
Finance lease creditors	586	-	-	-
Other creditors and accruals	4,375	-	-	-
Cash held on behalf of third parties	1,392	-	-	-
Bank loans (note 15)	74,077	-	-	-
	111,792	12,268	-	-
Amounts falling due after more than one year				
Bank loans (note 15)	14,165	-	-	-
Finance lease creditors	715	-	-	-
	14,880	-	-	-
	126,672	12,268	-	-

The amount owed to ultimate parent undertaking is unsecured, interest-free and repayable on demand. Subsequent to the year end £14.4 million of the amount owed to the ultimate parent undertaking has been converted into share capital as described in note 16.

15. Borrowings

	Group 31 December 1998 £'000	31 March 1998 £'000
Bank loans maturing:		
In one year or less, or on demand	74,077	-
In more than one year, but not more than two years	10,649	-
In more than two years, but not more than five years	-	-
In more than five years	3,516	-
	88,242	-

All bank loans are denominated in Pounds Sterling and bear interest based on the London Inter-bank Offered Rate. These loans are used to fund the provision of mortgage loans and are secured on either the mortgages or the future cash flows derived from the mortgages.

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Notes to the Accounts Period Ended 31 December 1998

All bank loans are denominated in Pounds Sterling and bear interest based on the London Inter-bank Offered Rate. These loans are used to fund the provision of mortgage loans and are secured on either the mortgages or the future cash flows derived from the mortgages.

16. Share Capital

	31 December 1998	31 March 1998
	£'000	£'000
Authorised		
50,000 Ordinary shares of £1 each	50	50
Issued, called up and partly paid		
50,000 Ordinary shares, 25 pence paid up	13	13

By a special resolution passed on 27 May 1999, the company's authorised share capital was increased to 16,000,000 ordinary shares of £1 each. On the same day, 14,400,000 ordinary shares were issued at par to Ocwen Financial Corporation. These shares rank pari passu with the existing ordinary shares.

17. Reserves

Profit and loss account	Group	Company
	£'000	£'000
At 1 April 1998	-	-
(Loss) / profit for the period	(1,632)	77
At 31 December 1998	(1,632)	77

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Notes to the Accounts Period Ended 31 December 1998

18. Reconciliation of Movements in Shareholders' Funds

	Group 1 April 1998 to 31 December 1998	Company 1 April 1998 to 31 December 1998	Group 16 June 1997 to 31 March 1998	Company 16 June 1997 to 31 March 1998
	£'000	£'000	£'000	£'000
Issue of share capital	-	-	13	13
(Loss) / profit for the period	(1,632)	77	-	-
Net (decrease) / increase in shareholders' funds	(1,632)	77	13	13
Opening shareholders' funds	13	13	-	-
Closing shareholders' funds	(1,619)	90	13	13

19. Capital Commitments

There were no capital commitments for the group and the company at 31 December 1998.

20. Financial Commitments

On 31 December 1998, the group had annual commitments to make payments under operating leases which expire as follows:

	Land & buildings £'000	Others £'000
Leases which expire:		
Within one year	-	27
Between two and five years	-	56
After five years	951	-
	951	83

On 31 December 1998, the company had commitments to make payments under operating leases which expire as follows:

	Land & buildings £'000
Lease which expires after 5 years	763

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Notes to the Accounts Period Ended 31 December 1998

21. Pension Schemes

The group operates 2 pension schemes:

- i. a defined benefit pension scheme operated by Legal & General Assurance (Pensions Management) Limited with assets held in a separately administered fund.

The total net pension cost in respect of this scheme was £49,499. The cost is assessed in accordance with the advice of independent consulting actuaries Wolanski & Co. The latest actuarial valuation of the scheme was performed as at 30 April 1998 covering the period from the inception of the scheme on 1 November 1996, using the attained age method. The principal assumptions adopted in the valuation were that, over the long term, the investment return would be 9.0% per annum, the rate of salary increase would be 6.0% per annum and the rate of pension increase would be 4.5% per annum.

At the date of the latest actuarial valuation at 30 April 1998, the market value of the assets of the scheme was £2,804,206 and the actuarial value of the assets was sufficient to cover 100% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The contributions of the group and the employees remain at 11.2% and nil respectively.

- ii. a defined contribution (money purchase) pension scheme, operated by Standard Life Trustee Company Limited, with the assistance of the group's financial advisors Ashby London Financial Services Limited. The scheme forms part of the Standard Life Trustee Company Limited Stanplan A Scheme. The assets of this pension scheme are held in a separately administered fund.

The total net pension cost in respect of this scheme was £16,268. The cost is assessed in accordance with the advice of Ashby London Financial Services Limited.

The latest review of the scheme was performed for the year ended 15 November 1997 whereby a review of contributions paid and investments made thereon was undertaken.

At the date of the latest review for the year ended 15 November 1997, it was confirmed that contributions payable to the scheme were paid in accordance with scheme rules and the Trustees were satisfied with the financial development of the scheme throughout the year.

The contributions of the group and employees will remain at 2.5% and 2% (plus AVC as required) respectively. An amount of £1,313 is included in creditors, which represents the excess of the accumulated pension cost over the payment of contributions to the pension fund.

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Notes to the Accounts

Period Ended 31 December 1998

22. Related Party Transactions

Michael Moss, the Head of Servicing, is a director and shareholder of some of the companies within the Equity Management Group Limited ("EMG"), for which the group services loans and provides bookkeeping support. These services are charged on the principal balance of loans serviced. During the period, service charges amounting to £33,654 were paid by EMG to the group. As at 31 December 1998 the outstanding receivable from EMG amounted to £4,973.

Keith Ainsworth, a director of the company, is a partner in Edge Ellison which acts as solicitors to the group. All fees are charged on a commercial basis. During the period legal fees and securitisation fees paid to Edge Ellison amounted to £1,157,734 and the balance outstanding at 31 December 1998 amounted to £664,502.

23. Majority Shareholder

The immediate and ultimate parent company and ultimate controlling party of the group is Ocwen Financial Corporation ("OFC"), a company incorporated in the United States of America. OFC is the parent undertaking of the smallest and largest group to consolidate the company's financial statements. Copies of the accounts of OFC are available from:

The Company Secretary
Ocwen Financial Corporation
The Forum, Suite 1000
1675 Palm Beach Lakes Blvd.
West Palm Beach
Florida 33401
United States of America