

## **Alltel Mortgage Solutions Limited**

Annual report and financial statements for the year ended 31 December 2001

Registered number: 3960644



## **Directors' report**

For the year ended 31 December 2001

The directors present their annual report on the affairs of ALLTEL Mortgage Solutions Limited ("the company"), together with the financial statements and auditors' report, for the year ended 31 December 2001.

### **Principal activity and business review**

The company operates through an agreement between ALLTEL Information Services International Holdings, Inc. ("AISIHI"), (Shareholding-74.9%), and Bradford and Bingley Investments ("BBI"), (Shareholding-25.1%). AISIHI is a wholly owned subsidiary of ALLTEL Information Services, Inc. ("AIS") while BBI is a wholly owned subsidiary of Bradford and Bingley plc ("BB"). AISIHI and BBI loaned the company a total of £25,685,479 for funding of the company's operations during the year; they also committed to provide additional funding to the company as the company's operations progress.

During the year, the company's principal activities consisted of providing consulting and other support services to its investee Bradford and Bingley Homeloans Management Limited ("BBHML"), performing development work on AIS' new residential lending software that is being developed for BB and the European market, and providing other additional consulting services to BB.

### **Results and dividends**

The results for the year are shown in the accompanying profit and loss account on page 5.

The directors do not recommend the payment of a dividend.

### **Directors and their interests**

The following directors held office during the year:

James Milligan  
Peter Kaplan  
Jeff Fox  
Susan Mosley  
Christopher Rodrigues  
Rosemary Thorne

None of the directors held any beneficial interests in the shares of the company during the year nor hold any interests in the shares of the company at present.

The directors' interests in the ultimate parent company, AIS, are disclosed in those financial statements.

Directors' report (continued)  
For the year ended 31 December 2001

**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 of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

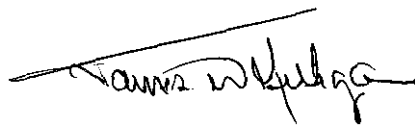
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Liability insurance for company officers**

As permitted by the Companies Act 1985, the company has purchased insurance cover for the directors against liabilities in relation to the company.

212 Main Street  
Bingley  
West Yorkshire  
BD16 2HQ

By order of the Board,



Director

30 July 2002

## Independent Auditors' report

### **Independent Auditors' Report to the Shareholders of Alltel Mortgage Solutions Limited**

We have audited the financial statements of ALLTEL Mortgage Solutions Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, cash flow statement and the related notes numbered 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

#### **Basis of opinion**


We conducted our audit in accordance with United Kingdom 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 judgments 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, 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.

## Independent Auditors' report (continued)

### Opinion

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



**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

1 City Square

Leeds

LSI 2AL

30 July 2002

# Profit and loss account

For the period ended 31 December 2001

	Notes	2001 (12 months) £	2000 (6 months) £
<b>Turnover</b>	1c	12,414,102	4,668,206
Cost of sales		(20,648,235)	(5,630,252)
<b>Gross loss</b>		(8,234,133)	(962,046)
Administrative expenses		(2,275,315)	(2,289,800)
<b>Operating loss</b>		(10,509,448)	(3,251,846)
Interest receivable (net)	5	92,464	36,094
<b>Loss on ordinary activities before taxation</b>	3	(10,416,984)	(3,215,752)
Tax on loss on ordinary activities	6	1,404,138	410,935
<b>Loss on ordinary activities after taxation</b>		(9,012,846)	(2,804,817)
<b>Retained loss, brought forward</b>		(2,804,817)	-
<b>Retained loss, carried forward</b>	14	(11,817,663)	(2,804,817)

There are no recognised gains or losses in either period other than the loss for that period.

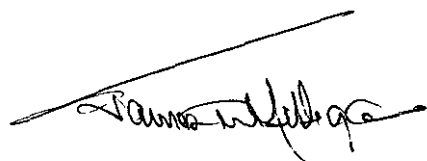
All of the results relate to continuing operations.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet  
31 December 2001

	Notes	2001 £	2000 £
<b>Fixed assets</b>			
Intangible fixed assets	7	12,938,461	2,875,052
Tangible fixed assets	8	3,976,967	1,509,614
Investments	9	49	49
		<u>16,915,477</u>	<u>4,384,715</u>
<b>Debtors:</b> Amounts falling due within one year	10	7,756,250	5,489,294
Cash at bank and in hand		2,924,490	814,896
		<u>10,680,740</u>	<u>6,304,190</u>
<b>Creditors:</b> Amounts falling due within one year	11	(7,355,173)	(7,120,494)
<b>Net current assets/(liabilities)</b>		<u>3,325,567</u>	<u>(816,304)</u>
<b>Creditors:</b> Amounts falling due after more than one year	11	(32,057,707)	(6,372,228)
<b>Net liabilities</b>		<u>(11,816,663)</u>	<u>(2,803,817)</u>
<b>Capital and reserves</b>			
Called-up equity share capital	12	1,000	1,000
Profit and loss account	14	(11,817,663)	(2,804,817)
<b>Total equity shareholders' deficit</b>	13	<u>(11,816,663)</u>	<u>(2,803,817)</u>

The financial statements on pages 5 to 19 were approved by the board of directors on 30 July 2002 and signed on behalf by:



Director

The accompanying notes are an integral part of this balance sheet.

## Cash flow statement

For the year ended 31 December 2001

	Note	2001 £	2000 £
<b>Net cash outflow from operating activities</b>	16a	(10,218,080)	(995,935)
Returns on investments and servicing of finance	16b	92,464	36,094
Capital expenditures	16c	(13,450,269)	(4,598,491)
<b>Cash outflow before financing</b>		<u>(23,575,885)</u>	<u>(5,558,332)</u>
Financing	16d	25,685,479	6,373,228
<b>Increase in cash</b>		<u>2,109,594</u>	<u>814,896</u>

<b>Reconciliation of net debt</b>		2001 £	2000 £
<b>Net debt at start of year</b>		(5,557,332)	-
Increase in cash in the year		2,109,594	814,896
Cash inflow from increase in debt		<u>(25,685,479)</u>	<u>(6,372,228)</u>
<b>Net debt at end of year</b>	16e	<u>(29,133,217)</u>	<u>(5,557,332)</u>

The accompanying notes are an integral part of this cash flow statement.



## Notes to financial statements

For the year ended 31 December 2001

### 1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the period, are set out below.

#### *a) Basis of accounting*

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting and financial reporting standards.

#### *b) Basis of preparation*

The company incurred a loss of £9,012,846 during the year ended 31 December 2001 and had net liabilities of £11,816,663 at 31 December 2001. The company is dependent, in the absence of other funding, on the continued support of AISIHI and BBI. The directors have received an undertaking from AISIHI and BBI that further support will continue to be available to the company. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that might be necessary if further support is not provided.

#### *c) Turnover and revenue recognition*

Turnover consists of management fees charged to BBHML and consulting fees charged to BB and is attributable to the company's principal activities of providing consulting and other support services to BBHML and providing consulting services to BB. All turnover is earned within the United Kingdom.

#### *d) Tangible fixed assets*

Tangible fixed assets are shown at cost less accumulated depreciation and provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life as follows:

Leasehold improvements	term of lease
Fixtures and fittings	3 to 5 years
Computer equipment	3 years
Motor vehicles	4 years

#### *e) Intangible Assets – Research and development*

Research expenditure is written off as incurred. Development expenditures is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the company is expected to benefit. This period is expected to be that when benefits accrue to the company, being over the remaining life of the contracts commencing when the system is operational, which it supports. Provision is made for any impairment.

## Notes to financial statements (continued)

### 1 Accounting policies (continued)

#### *f) Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

#### *g) Foreign currency*

The accounting records of the company are maintained in pounds sterling. Transactions in foreign currencies are recorded in pounds sterling at exchange rates approximating those prevailing at the transaction dates. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into pounds sterling at rates of exchange at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

#### *h) Leases*

The company enters into operating leases as described in note 15. Rentals under operating leases are charged on a straight-line basis over the lease term even if the payments are not made on such a basis.

#### *i) Pension costs and other post retirement benefits*

For the defined contribution scheme, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## Notes to financial statements (continued)

### 2 Pension costs

The majority of the company's employees are members of the Bradford & Bingley Plc pension scheme. Membership of this scheme is entitled to employees of the company who were previously employed by BB. This is a funded defined benefit staff pension scheme, administered by trustees. The fund is independent from that of the company. The normal pension age of employees in the scheme is 60 years. Pension costs are assessed in accordance with the advice of a qualified actuary using the projected unit method. The most recent actuarial valuation of the schemes was at 30 June 2000. The aggregate actuarial value of the scheme's 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 scheme's assets at 30 June 2000 was £329.5m.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments 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 present and future pensions by 2.0% per annum.

The company also operates a defined contribution scheme for all joiners since the company started trading.

The total pension cost for the year for both schemes was £724,785 (2000: £282,737).

The following information relates to the whole Bradford and Bingley Plc Pension scheme. Currently the company accounts for contributions in accordance with SSAP 24. Upon adoption of FRS 17, as the scheme is multi employer, the company can take advantage of the exemptions available for such schemes and to account for the contributions as though it were a defined contribution scheme. Hence the deficit highlighted below will not be included in the company's balance sheet.

The valuation at 30 June 2000 has been updated by the actuary on an FRS 17 basis at 31 December 2001. The major assumptions used in this valuation were:

	%
Rate of increase in salaries	4.5
Rate of increase in pensions in payment	2.5
Discount rate	6.0
Inflation assumption	2.5

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

## Notes to financial statements (continued)

### 2 Pension costs (continued)

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Expected rate of return %	Value at 31 December 2001 £m
Equities	7.5	212.1
Gilts	5.0	37.1
Property	7.5	36.8
Bonds	5.8	<u>10.7</u>
Total market value of scheme's assets		296.7
Present value of scheme's liabilities		<u>(318.3)</u>
Deficit in the scheme		(21.6)
Related notional deferred tax asset		<u>6.5</u>
Net pension deficit		<u>(15.1)</u>

### 3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2001 (12 months) £	2000 (6 months) £
Depreciation	915,610	213,825
Operating lease rentals		
- Land and buildings	812,000	400,000
Auditors' remuneration for audit services	30,000	33,852
Auditors' remuneration for non-audit services	34,489	6,447
Staff costs (see note 4)	9,129,259	2,817,232
Research and development expenditure	7,475,804	1,972,000
Foreign exchange (gain)/loss	(29,757)	58,800
Profit on disposal of fixed assets	<u>(12,509)</u>	<u>-</u>

## Notes to financial statements (continued)

### 4 Staff costs

Particulars of employees are stated below.

	2001 (12 months) £	2000 (6 months) £
Employee costs during the period amounted to:		
Wages and salaries	7,846,423	2,358,668
Pension costs	724,785	282,737
Social security costs	558,051	175,827
	<u>9,129,259</u>	<u>2,817,232</u>

The average monthly of employees (including executive directors) was as follows:

	2001 (12 months) Number	2000 (6 months) Number
Administration and support	<u>159</u>	<u>109</u>

All of the directors are provided by AISIHI and BBI, and no part of their remuneration is borne by those companies.

### 5 Interest receivable (net)

	2001 (12 months) £	2000 (6 months) £
Bank interest	<u>92,464</u>	<u>36,094</u>

## Notes to financial statements (continued)

### 6 Tax on loss on ordinary activities

The tax credit for the period comprises:

	2001 (12 months) £	2000 (6 months) £
Losses relieved to consortium	1,409,141	410,935
Prior period adjustment	(5,003)	-
	<u>1,404,138</u>	<u>410,935</u>

The effective rate is less than 30% as the whole of the loss could not be utilised or surrendered.

At the end of the year, the company had unrelieved losses of £10,378,214 (2000: £1,700,487).

### Deferred tax

The total amount of deferred tax assets/(liabilities) are as follows:

	Provided 2001 £	Provided 2000 £	Unprovided 2001 £	Unprovided 2000 £
Losses	962,136	-	2,151,328	510,146
Accelerated capital allowances	(962,136)	-	-	19,927
	<u>-</u>	<u>-</u>	<u>2,151,328</u>	<u>530,073</u>

## Notes to financial statements (continued)

### 7 Intangible fixed assets

Development  
costs  
£

#### Cost

1 January 2001	2,875,052
Additions	9,934,707
Transfers	128,702
31 December 2001	<u>12,938,461</u>

#### Amortization

1 January 2001	-
Charge	-
31 December 2001	<u>-</u>

#### Net book value

1 January 2001	<u>2,875,052</u>
31 December 2001	<u>12,938,461</u>

The purpose of the development expenditure is to develop and enhance residential lending software to be sold and marketed in the United Kingdom and the rest of Europe. The company capitalizes eligible internally developed software costs upon establishing product technological feasibility. The net realizable value of capitalized software development costs is evaluated annually by the company. This evaluation requires considerable judgement by management with respect to certain external factors, including, but not limited to, anticipated future revenues generated by the software, estimated economic life of the software and changes in software and hardware technologies.

## Notes to financial statements (continued)

### 8 Tangible fixed assets

The movement in the year was as follows:

	Vehicles £	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Computer Software £	Total £
<b>Cost</b>						
1 January 2001	185,273	195,740	735,000	607,426	-	1,723,439
Additions	93,405	1,622,377	444,451	1,209,156	250,352	3,619,741
Disposals	(95,895)	-	-	(58,376)	-	(154,271)
Transfers	-	(636,153)	106,898	298,939	85,208	(145,108)
31 December 2001	182,783	1,181,964	1,286,349	2,057,145	335,560	5,043,801
<b>Depreciation</b>						
1 January 2001	41,617	-	102,083	70,125	-	213,825
Charge	102,548	60,474	328,021	385,406	39,161	915,610
On disposals	(52,872)	-	-	(9,729)	-	(62,601)
31 December 2001	91,293	60,474	430,104	445,802	39,161	1,066,834
<b>Net book value</b>						
1 January 2001	143,656	195,740	632,917	537,301	-	1,509,614
31 December 2001	91,490	1,121,490	856,245	1,611,343	296,399	3,976,967

### 9 Investments

The company has an investment in the following company at 31 December 2001:

	Country of incorporation and operation	Principal activity	Holding	%
BBHML	United Kingdom	Residential loan origination and processing services to BB	Direct	49



## Notes to financial statements (continued)

### 10 Debtors: Amounts falling due within one year

	2001 £	2000 £
Amounts owed by related companies	4,657,672	4,521,852
Amounts owed by parent undertaking	2,035,037	177,037
VAT recoverable	439,581	14,638
Prepayments	623,960	541,840
Accrued income	-	233,927
	<u>7,756,250</u>	<u>5,489,294</u>

Included within amounts by from related companies is £1,245,613 (2000: £233,898) in respect of loss relief surrendered by the company. The amount owed from parent undertaking includes £569,460 (2000: £177,037) in respect of loss relief surrendered by the company.

### 11 Creditors: Amounts falling due within one year

	2001 £	2000 £
Amounts owed to parent undertaking	2,628,644	3,795,532
Amounts owed to related companies	413,267	-
Accruals and deferred income	4,313,262	3,324,962
	<u>7,355,173</u>	<u>7,120,494</u>

### Amounts falling due after one year

	2001 £	2000 £
Amounts owed to parent undertaking	22,391,367	3,745,000
Amounts owed to related companies	9,666,340	2,627,228
	<u>32,057,707</u>	<u>6,372,228</u>

Creditors falling due in more than one year relate to funding loans from the shareholders. No interest is charged on these loans.

### 12 Called-up equity share capital

	2001 £	2000 £
<i>Authorised</i>		
1,000 ordinary shares of £1 each	1,000	1,000
<i>Allotted, called-up and fully-paid</i>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

## Notes to financial statements (continued)

### 13 Reconciliation of movement in equity shareholders' deficit

	2001 £	2000 £
Loss for the period	(9,012,846)	(2,804,817)
Issue of share capital	-	1,000
Opening equity shareholders' deficit	(2,803,817)	-
Closing equity shareholders' deficit	<u>(11,816,663)</u>	<u>(2,803,817)</u>

### 14 Reserves

	Profit and loss account £
At 1 January 2001	(2,804,817)
Retained loss for the year	<u>(9,012,846)</u>
At 31 December 2001	<u>(11,817,663)</u>

### 15 Guarantees and other financial commitments

#### a) Capital commitments

At the end of the year, capital commitments contracted for but not provided for were £nil (2000: £nil)

#### b) Lease commitments

The company leases certain office space, office equipment and motor vehicles. The future minimum annual rentals under the foregoing leases are as follows:

	2001 £	2000 £
Operating leases which expire:		
- after 5 years	<u>824,000</u>	<u>800,000</u>
	<u>824,000</u>	<u>800,000</u>

## Notes to financial statements (continued)

### 16 Notes to the cash flow statement

#### *a) Reconciliation of operating loss to net cash outflow from operating activities*

	2001 £	2000 £
Operating loss	(10,509,448)	(3,251,846)
Depreciation	915,610	213,825
Profit on disposal of fixed assets	(12,509)	-
Fixed assets expensed	16,406	-
Increase in debtors	(862,818)	(5,078,359)
Increase in creditors	234,679	7,120,445
Net cash outflow from operating activities	<u>(10,218,080)</u>	<u>(995,935)</u>

	2001 £	2000 £
<i>b) Returns on investments and servicing of finance</i>		
Interest received	<u>92,464</u>	<u>36,094</u>
<i>c) Capital expenditures</i>		
Payments to acquire intangible fixed assets	9,934,707	2,875,052
Payments to acquire tangible fixed assets	3,619,741	1,723,439
Proceeds from sale of tangible fixed assets	<u>(104,179)</u>	<u>-</u>
	<u>13,450,269</u>	<u>4,598,491</u>

#### *d) Financing*

Issue of ordinary share capital	-	1,000
Funding from parent company	18,646,367	3,745,000
Funding from related party	<u>7,039,112</u>	<u>2,627,228</u>
	<u>25,685,479</u>	<u>6,373,228</u>

## Notes to financial statements (continued)

### 16 c) Analysis and reconciliation of net debt

	1 January 2001 £	Cashflow £	31 December 2001 £
Cash	814,896	2,109,594	2,924,490
Debt due after one year	(6,372,228)	(25,685,479)	(32,057,707)
Net debt	<u>(5,557,332)</u>	<u>(23,575,885)</u>	<u>(29,133,217)</u>

### 17 Related Party Transactions

The company received funding for operating capital during the year from AISIHI and BBI that totalled £25,685,479.

The company also had the following significant transactions with affiliates

	2001 £	2000 £
Revenue earned from management fees from BBHML	11,642,158	4,273,285
Other revenues earned from BB	<u>771,944</u>	<u>394,921</u>

### 18 Ultimate parent

The company's ultimate parent company is ALLTEL Corporation, which is incorporated in the United States. The smallest group in which the results are consolidated is that headed by its parent company, ALLTEL Information Services International Holdings, Inc. ("AISIHI"), to the public. The largest group in which the results are consolidated is that headed by ALLTEL, whose principal place of business is One Allied Drive, Little Rock, Arkansas 72202. The consolidated financial statements of this company are available to the public and may be obtained from this address.