MORTGAGES BY PHONE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2008

(Registered Number 05969141)

MORTGAGES BY PHONE LIMITED

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The company was incorporated on 17 October 2006 and started to trade from 1 February 2007.

The company operates principally as an agent for mortgages and insurance related products, and will continue to do so for the foreseeable future.

Mortgages By Phone Limited is a private limited company registered in England and Wales, registered number 05969141.

BUSINESS REVIEW

The financial results and income statement are set out on page 6.

During the company's second year of operation processes have been refined and embedded. Mortgages By Phone Limited continues to diversify its distribution, sourcing customers from internet leads, its own website and partnerships with lenders. Despite the much publicised deterioration in trading conditions in the mortgage industry the company continues to earn income from a diverse range of clients and products.

DIVIDENDS

No interim dividend was declared during the year (2007: nil). The directors do not propose the payment of a final dividend (2007: nil).

DIRECTORS

The directors who served during the period were:

RS Shipperley
AS Gill
DC Livesey
C Haresnape
D Broadhead (resigned 26 June 2008)

CREDITOR PAYMENT POLICY

The company's policy concerning the payment of suppliers is to agree terms of payment in advance and to make the payment in accordance with those agreed terms and any other legal obligations.

At 31 December 2008 creditor days were nil (2007 nil).

CHARITABLE AND POLITICAL DONATIONS

During the year the company made no donations to charities (2007: nil). No contributions were made for political purposes (2007: nil).

EMPLOYEES

It is company policy to provide employees with information concerning their roles and responsibilities and the trading performance of the company. This policy is to ensure opportunities are available at every level to improve employees' and corporate performance. Regular meetings are held which involve directors, managers and staff.

DISABLED PERSONS

The company continues to recognise its social and statutory duty to employ disabled persons and will do all that is practicable to meet this responsibility.

Full consideration will be given to the recruitment of disabled persons where a handicapped or disabled person can adequately fulfil the requirements of the job.

If an employee becomes disabled he or she will continue wherever possible to be employed in the same job. If this action is not practicable or possible, then every effort will be made to find a suitable alternative employment.

MORTGAGES BY PHONE LIMITED

Directors' Report (continued)

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the board

C Haresnape
Director

Cumbria House
16-20 Hockliffe Street
Leighton Buzzard
Bedfordshire
LU7 1GN

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law to present fairly the financial position of the company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the 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 they have been prepared in accordance with IFRSs as adopted by the EU; 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 enable them to ensure that its financial statements comply with the Companies Act 1985. They have a 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORTGAGES BY PHONE LIMITED

We have audited the financial statements of Mortgages By Phone Limited for the year ended 31 December 2008, which comprise the Income Statement, Balance Sheet, Cash Flow Statement and Related Notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Altius House
One North Fourth Street
Milton Keynes
MK9 1NE

25 March, 2009.

MORTGAGES BY PHONE LIMITED

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year Ended 31 December 2008	14 month and 15 day period ended 31 December 2007 £'000
Revenue	1	487	161
Other operating income	3	55	18
Administrative expenses		(909)	(778)
Loss from operations		**(367)**	**(599)**
Financial income	4	-	1
Loss before tax		**(367)**	**(598)**
Tax credit	6	104	176
Loss for the period		**(263)**	**(422)**
Attributable to:			
Equity holders of the parent		(263)	(422)
		(263)	(422)

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

The company was incorporated on 17 October 2006 and started to trade on 1 February 2007.

There were no recognised income and expense items in the current period other than those reflected above.

The income statement is prepared on an unmodified historical cost basis.

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

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2008	400	(422)	(22)
Profit for the year	-	(263)	(263)
Balance at 31 December 2008	**400**	**(685)**	**(285)**
On incorporation	-	-	-
Share capital subscribed	400	-	400
Profit for the year	-	(422)	(422)
Balance at 31 December 2007	400	(422)	(22)

MORTGAGES BY PHONE LIMITED

Balance Sheet

AS AT 31 DECEMBER 2008

	Notes	Year Ended 2008 £'000	Year Ended 2008 £'000	Year ended 2007 £'000	Year ended 2007 £'000
Current assets					
Trade and other receivables	7	11		18	
Tax receivable		62		175	
Cash and cash equivalents		32		57	
Total current assets			105		250
Non-current assets					
Intangible assets	8	3		-	
Property, plant and equipment	9	100		123	
Deferred tax asset	11	6		1	
Total non-current assets			109		124
Total assets			**214**		**374**
Current liabilities					
Trade and other payables	10	499		396	
Tax payable		-		-	
Total current liabilities			499		396
Non-current liabilities			-		-
Total liabilities			499		396
Equity					
Share capital	12	400		400	
Reserves					
Retained earnings		(685)		(422)	
			(285)		(22)
Total equity and liabilities			**214**		**374**

These accounts were approved by the board of directors on 17 march 2009 and signed on its behalf by:

C Haresnape
Director

AS Gill
Director

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

MORTGAGES BY PHONE LIMITED

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year Ended 31 December 2008 2008	14 month and 15 day period ended 31 December 2007 £'000
Cash flows from operating activities			
Loss for the period		(263)	(422)
Adjustments for:			
Depreciation charges		23	18
Financial income		-	(1)
Tax credit		(104)	(176)
Operating loss before changes in working capital and provisions		(344)	(581)
Decrease/(increase) in trade and other receivables		2	(18)
Increase in trade payables		103	396
Cash expended from operations		(239)	(203)
Income taxes received		217	-
Net cash outflow from operating activities		**(22)**	**(203)**
Cash flows from investing activities			
Interest received		-	1
Purchases of intangible assets		(3)	
Purchases of property, plant and equipment	9	-	(141)
Net cash outflow from investing activities		**(3)**	**(140)**
Cash flows from financing activities			
Proceeds from issue of shares	12	-	400
Net cash inflow from financing activities		**-**	**400**
Net increase in cash and cash equivalents		(25)	57
Cash and cash equivalents at beginning of period		57	-
Cash and cash equivalents at 31 December		**32**	**57**

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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 accounts:

a) Basis of accounting

The Financial Statements are presented in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the EU and effective at 31 December 2008.

The directors have adopted IFRS 7, Financial Instruments: Disclosures – Amendments.

The Directors have not adopted IAS 1, *Presentation of Financial Statements (2007)*, IFRS 8, *Operating Segments*, and IAS 23, *Borrowing Costs (Revised), which* although endorsed by the EU, are currently not mandatory. There would be no impact on these financial statements on adopting these accounting standards.

These accounts have been prepared on the going concern basis, which assumes the Company will continue to trade, without significant curtailment for the foreseeable future. Confirmation has been received from Connells Limited, that it will provide such support as Mortgages By Phone Limited requires to enable it to meet its liabilities as and when they fall due for a period of not less than one year from the date of approval of these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

b) Revenue recognition

Revenue, which excludes value added tax, represents total invoiced sales of the company.
Interest income is recognised on an accruals basis.
Mortgage Services income is recognised when payment is received from the life company or lender. A provision for clawback is made as considered appropriate.

c) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives on the following bases:

Buildings	-	25 years on a straight line basis, 5 years straight line basis for office re-furbishments.
Fixtures & Fittings	-	5 years straight line basis
Office equipment	-	3 to 5 years straight line
Motor Vehicles	-	25% reducing balance – on an annual basis.

d) Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

e) Trade and other payables

Trade and other payables are stated at their fair value.

f) Leases

Costs of operating leases are charged to the Income Statement on a straight-line basis over the lease term.

g) Taxation

Income tax on the profits for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except where items are recognised directly in equity, in which case the associated income tax asset or liability is recognised via equity.
Current tax is the expected tax payable on the income for the year, using tax rates enacted or substantially enacted on the balance sheet date, and any adjustment to tax payable in respect of previous years.
Deferred tax is provided using the balance sheet liability method, which recognises temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.
the treatment of certain items for taxation and accounting purposes, in accordance with IAS 12, Income Taxes.

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued).

h) Government grants

Government grants are recognised when the company complies with the conditions attaching to them and the grants are received. Government grants relating to assets are included in the balance sheet as deferred income and recognised over the useful life of the assets. Government grants that relate to expenses are recognised in the income statement as other income.

i) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

j) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises cash in hand and loans and advances to credit institutions repayable on demand, and cash and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

The cash flow statement has been prepared using the indirect method.

k) Provisions for liabilities and charges

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2. Expenses and auditors' remuneration

	Year Ended 31 December 2008 £'000	14 month and 15 day period ended 31 December 2007 £'000
Included in loss are the following:		
Depreciation of property, plant and equipment	23	11
Staff costs (see note 5)	566	565
Rentals payable under operating leases	47	22
Auditors' remuneration and expenses:		
Audit of these financial statements	5	3
All other services	-	-

3. Other operating income

	Year Ended 31 December 2008 £'000	14 month and 15 day period ended 31 December 2007 £'000
Grants received	55	18
Other	-	-
	55	18

4. Financial income

	Year Ended 31 December 2008 £'000	14 month and 15 day period ended 31 December 2007 £'000
Interest on bank deposits	-	1
Interest receivable from group undertakings	-	-
	-	1

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Staff numbers and costs

The average monthly number of persons employed by the company (including directors) during the period was as follows:

	Year Ended 31 December 2008 Number	14 month and 15 day period ended 31 December 2007 Number
Directors	4	5
Other	17	16
	21	21

The aggregate payroll costs of these persons were as follows:	£'000	£'000
Wages and salaries	512	492
Social security costs	51	51
Pension costs	3	22
	566	565

Directors' emoluments	£'000	£'000
Directors' emoluments	89	179
Compensation for loss of office	30	-
Company contributions to money purchase pension plans	2	22
	121	201

Three of the Directors are remunerated by another group company, and do not receive any remuneration from Mortgages By Phone Limited. The aggregate emoluments of the highest paid director were £63,600 (2007 £127,059).

6. Tax credit

A reconciliation of current tax on the loss at the standard UK corporation tax rate to the actual current tax credit is as follows:

	Year Ended 31 December 2008 £'000	14 month and 15 day period ended 31 December 2007 £'000
a) Analysis of tax income in the year at 28% (2007: 30%)		
Current tax credit		
Current tax at 28.5% (2007: 30%)	(103)	(176)
Adjustment for prior years	4	-
Total current tax credit	(99)	(176)
Deferred tax credit		
Origination and reversal of temporary differences	(1)	(1)
Adjustment for prior years	(4)	(1)
Total deferred tax	(5)	-
Income tax credit	(104)	(176)

b) Factors affecting current tax income in the period
The credit for the year can be reconciled to the loss per the income statement as follows:

Loss before tax	(367)	(598)
Tax on loss at UK standard rate of 28.5% (2007: 30%)	(104)	(179)
Effects of:		
• Origination and reversal of temporary differences	-	(1)
• Expenses not deductible for tax purposes	1	4
• Adjustments to tax in respect of prior years	(1)	-
Income tax credit	(104)	(176)

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Trade and other receivables

	31 December 2008 £'000	31 December 2007 £'000
Prepayments and accrued income	11	18
	11	**18**

8. Intangible assets

	Purchased Software £'000	Total £'000
Cost		
At 1 January 2008	-	-
Additions	3	3
Disposals	-	-
At 31 December 2008	**3**	**3**
Accumulated depreciation and impairment		
At 1 January 2008	-	-
Depreciation charge for the period	-	-
Eliminated on disposals	-	-
At 31 December 2008	-	-
Carrying amounts		
At 1 January 2008	-	-
At 31 December 2008	**3**	**3**

9. Property, plant and equipment

	Land and Buildings £'000	Office Equipment £'000	Total £'000
Cost			
At 1 January 2008	76	65	141
Additions	-	-	-
Disposals	-	-	-
At 31 December 2008	**76**	**65**	**141**
Accumulated depreciation and impairment			
At 1 January 2008	7	11	18
Depreciation charge for the year	8	15	23
Eliminated on disposals	-	-	-
At 31 December 2008	**15**	**26**	**41**
Carrying amounts			
At 1 January 2008	**69**	**54**	**123**
At 31 December 2008	**61**	**39**	**100**

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Property, plant and equipment

	Land and Buildings £'000	Office Equipment £'000	Total £'000
Cost			
On incorporation	-	-	-
Additions	76	65	141
Disposals	-	-	-
At 31 December 2007	76	65	141
Accumulated depreciation and impairment			
On incorporation	-	-	-
Depreciation charge for the period	7	11	18
Eliminated on disposals	-	-	-
At 31 December 2007	7	11	18
Carrying amounts			
On incorporation	-	-	-
At 31 December 2007	69	54	123

10. Trade and other payables

	31 December 2008 £'000	31 December 2007 £'000
Other creditors	20	11
Amounts owed to parent undertaking	451	363
Accruals and deferred income	28	22
	499	396

11. Deferred tax

The movement on the deferred tax account is as shown below:	31 December 2008 £'000	31 December 2007 £'000
On 1 January 2008 / incorporation	1	-
Income statement credit	5	1
At 31 December	6	1

Deferred tax asset

	Accelerated capital allowances £'000	Total £'000
At 1 January 2008	1	1
Credit to income statement	5	5
At 31 December 2008	6	6

Net deferred tax asset

At 31 December 2008	6
At 1 January 2008	1

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Share Capital

Authorised	31 December 2008 Number	31 December 2007 Number
£1 Ordinary A shares	350,000	300,000
£1 Ordinary B shares	50,000	100,000
	400,000	400,000

Issued and fully paid	£'000	£'000
£1 Ordinary A shares	350	300
£1 Ordinary B shares	50	100
	400	400

Each shareholder is entitled to the number of votes as equal to the number of shares held by them save that where the A shares constitute more than 50% of the Company's issued equity share capital they shall have such number of votes as represents at least 75% of the votes capable of being cast on the resolution concerned. In all other respects the A and B ordinary shares rank pari passu.

The Shareholders agreement includes an annual option entitling the ordinary "B" shareholders to require Connells Limited to purchase their entire shares at a price to be determined by an independent valuation of the company. This option can be exercised on or after 1 April 2011.

On 26 June 50,000 Ordinary B shares of £1 each were converted into Ordinary A shares of £1 each.

13. Employee benefits

Defined contribution pension scheme

The company operates a stakeholder scheme, which is administered by Legal & General. Contributions are charged to the income statement and are included in staff costs. One of the company directors' is currently part of the defined contribution pension scheme, the assets of which are held separately from those of the company, as independently administered funds. The amount paid by the company for the directors was £2,108 (2007 £23,374). There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

14. Related Party Transactions

During the period to 31 December 2008, the following related party transactions were entered into:

	Notes	Amount		Outstanding Balance	
		31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
Purchase of services					
Connells Residential	(a)/(b)	20	11		
Sequence (UK) Limited	(a)	18	18		
		38	29		
Year-end balances					
Receivables from related parties:					
Connells Residential					-
Payables to related parties:					
Connells Residential				(451)	(363)
				(451)	(363)

(a) Connells Residential and Sequence (UK) Limited provide referrals to the company.
(b) Connells Residential supplies group services support to the company.
All transactions are provided under normal trade credit terms.

15. Operating lease commitments

The Company has annual commitments due under operating leases. At the balance sheet date total commitments under non-cancellable operating leases are as follows:

	31 December 2008 £'000	31 December 2007 £'000
Amounts falling due:		
Less than one year	87	87
Between one and five years	348	347
More than five years	754	794
	1,189	1,228

16. Financial instruments

Financial risks

The principal financial risks to which the company is exposed are liquidity risk, market risk and credit risk. Each of these is considered below.

Liquidity risk

Liquidity risk is the risk that the company is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The company's liquidity policy is to maintain sufficient liquid resources to cover imbalances and fluctuations in funding, to maintain solvency of the company and to enable the company to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and through rigorous management control of the growth of the business.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk.

Currency risk

The company is not exposed to any currency risk as all transactions are denominated in Sterling.

Interest rate risk

The company has no interest bearing liabilities, other than loans from group undertakings.

Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations, and arises principally from the company's receivables from customers. Based on historic default rates, the company believes that no impairment provision is necessary in respect of most trade receivables not over due or over due by up to 90 days. Specific impairment provisions are made for customers who do not have a good payment record with the company before 90 days.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital and level of dividends to ordinary shareholders.

There were no changes in the company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Ultimate Parent Undertaking

The company is a 87.5% (2007: 75%) owned subsidiary of Connells Limited. The ultimate parent undertaking is the Skipton Building Society, which is registered in the United Kingdom. The largest group in which the results are consolidated is that headed by Skipton Building Society. The smallest group is that headed by Connells Limited, whose financial statements are not available to the public. A copy of the Skipton Building Society 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