

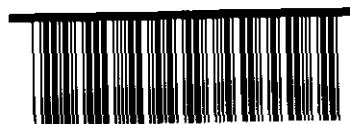
SPECIALIST MORTGAGE SERVICES LIMITED

CERTIFICATE OF INCORPORATION

NUMBER 2466320

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 30 APRIL 1999



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SPECIALIST MORTGAGE SERVICES LIMITED

Directors' Report

The Directors have pleasure in submitting their annual report and accounts for the year ended 30 April 1999.

Principal Activity And Future Developments

The principal activity of the company is the administration of mortgages and will continue to be so for the foreseeable future.

Review Of The Business

The profit for the year amounts to £552,000 (1998 - £254,000).

The Directors recommend that no dividend be paid for the year (1998 : £ nil).

Directors

Directors during the year were as follows:-

- | | |
|---------------------------|--------------------|
| ■ J J Carrier (Chairman). | ■ J C F Schofield. |
| ■ R L Grunwell. | |

No Director had an interest in either shares or share options of any Group undertakings during the year.


Year 2000

The Company's ultimate parent undertaking, Scarborough Building Society, has undertaken a review across the Group to assess the potential impact and extent of the Year 2000 problem on the business. Full details of this review and the potential costs involved are included in the financial statements of Scarborough Building Society. The Directors of the Company do not consider that the impact of Year 2000 issues on the business will be significant and accordingly any rectification costs are not expected to be material.

Re-appointment of Auditors

The auditors, KPMG Audit PLC, have expressed their willingness to continue in office and in accordance with Section 77 of the Building Societies Act 1986, a resolution for the re-appointment of KPMG Audit PLC as auditors is to be proposed at the Annual General Meeting.

On behalf of the Board


John J. Carrier
Director

25 June 1999

SPECIALIST MORTGAGE SERVICES LIMITED

Statement Of Directors' Responsibilities

Company law requires the Directors to prepare accounts 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 period. In preparing those accounts, the Directors are required to:-

- Select suitable accounting policies and 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 accounts.
- Prepare the accounts 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 accounts 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.

AUDITORS' REPORT TO THE MEMBER OF SPECIALIST MORTGAGE SERVICES LIMITED

We have audited the accounts on pages 4 to 9.

Respective Responsibilities of Directors and Auditors

As described on page 2, the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

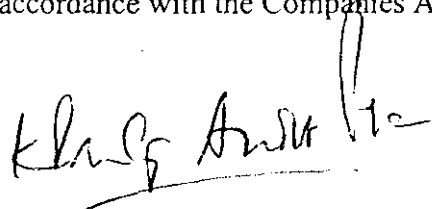
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 30 April 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit PLC
Chartered Accountants
Registered Auditor
Leeds

25 June 1999

SPECIALIST MORTGAGE SERVICES LIMITED

Profit and Loss Account For The Year Ended 30 April 1999

	Note	1999 £'000	1998 £'000
Turnover	1	1,254	770
Other interest receivable and similar income		<u>102</u>	<u>80</u>
		1,356	850
Administrative expenses		<u>568</u>	<u>480</u>
Profit on ordinary activities before taxation	4	788	370
Taxation on profit on ordinary activities	6	<u>(236)</u>	<u>(116)</u>
Profit on ordinary activities after taxation		552	254
Retained profit brought forward		<u>1,404</u>	<u>1,150</u>
Retained profit carried forward		<u>1,956</u>	<u>1,404</u>

All operations are continuing; there have been no acquisitions or disposals during the year ended 30 April 1999 (1998 : £nil).

There are no recognised gains or losses, other than those included in the profit and loss account above (1998 : £nil).

The notes on pages 6 to 9 form part of these accounts.

SPECIALIST MORTGAGE SERVICES LIMITED

Balance Sheet As at 30 April 1999

	Note	1999 £'000	1998 £'000
Current Assets			
Debtors:			
Amounts owed by parent undertaking		1,854	1,468
Mortgage administration contract pre-payment		121	76
(Includes amounts falling due after more than one year of £88,000 (1998 : £49,000))			
Other debtors		<u>326</u>	<u>91</u>
		2,301	1,635
 Creditors: Amounts falling due within one year			
Corporation Tax		(222)	(112)
Accruals and deferred income		<u>(85)</u>	<u>(51)</u>
		(307)	(163)
 Creditors: Amounts falling due after more than one year			
Accruals and deferred income		<u>-</u>	<u>(47)</u>
		(307)	(210)
		1,994	1,425
Provision for liabilities and charges	7	<u>(38)</u>	<u>(21)</u>
Net Assets		<u>1,956</u>	<u>1,404</u>
Capital and Reserves			
Called up equity share capital	9	-	-
Profit and loss account		<u>1,956</u>	<u>1,404</u>
Equity Shareholder's Funds	10	<u>1,956</u>	<u>1,404</u>

These accounts were approved by the Board of Directors
on 25 June 1999 and signed on their behalf by:-

John J Carrier
Director

25 June 1999



The notes on pages 6 to 9 form part of these accounts.

SPECIALIST MORTGAGE SERVICES LIMITED

Notes To The Accounts For The Year Ended 30 April 1999

1 Accounting Policies

■ Basis of Preparation

The Accounts have been prepared under historical cost convention and in accordance with applicable accounting standards.

■ Cash Flow Statement

Under Financial Reporting Standard No 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement as all of its voting rights are controlled by Scarborough Building Society, whose Group Annual Report and Accounts are publicly available.

■ Turnover

Turnover is defined as gross fees received excluding Value Added Tax.

■ Mortgage Administration Contract Set Up Costs

Costs incurred in preparing for and acquiring new mortgage administration contracts are accounted for as a pre-payment and written off over the shorter of the life of the contract or five years.

■ Related Party Transactions

Under Financial Reporting Standard No 8, the company is exempt from the requirement to disclose transactions with entities within the Scarborough Building Society Group as all its voting rights are controlled by Scarborough Building Society, whose Group Annual Report and Accounts are publicly available.

2 Parent Undertaking

The Company is a wholly owned subsidiary of Scarborough Building Society. Group Annual Report and Accounts are available from the Society's Head Office.

SPECIALIST MORTGAGE SERVICES LIMITED

Notes To The Accounts For The Year Ended 30 April 1999

3 Staff Numbers and Costs

	1999 £'000	1998 £'000
Wages and Salaries	374	293
Social Security Costs	28	22
Pension Costs (note 8)	<u>17</u>	<u>21</u>
	<u>419</u>	<u>336</u>

The average number of employees of the Company during the year, excluding the 3 Directors, was 32 administration staff, (1998 : 27 administration staff).

4 Profit On Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after charging:-

	1999 £'000	1998 £'000
Auditors' Remuneration:		
Audit Fees	<u>8</u>	<u>7</u>

5 Directors' Emoluments

The highest paid Director received £62,000 (1998 : £63,000). The Chairman did not receive any remuneration in 1999 or 1998. Directors received remuneration as follows:-

	1999 £'000	1998 £'000
Aggregate Emoluments	54	55
Company Pension contributions to defined Benefit Pension Schemes	8	8

Retirement benefits are accruing to only one Director under a defined benefit pension scheme (1998: one).

SPECIALIST MORTGAGE SERVICES LIMITED

Notes To The Accounts For The Year Ended 30 April 1999

6 Taxation on Profit on Ordinary Activities

The taxation charge for the year comprises:-

	1999 £'000	1998 £'000
Corporation Tax at 31% (1998 : 31%)	224	111
Corporation Tax in Prior Years	(5)	1
Deferred Tax (Note 7)	<u>17</u>	<u>4</u>
	<u>236</u>	<u>116</u>

7 Deferred Taxation

	£'000
At 1 May 1998	21
Charge For The Year	<u>17</u>
At 30 April 1999	<u>38</u>

The amount provided for deferred tax at a rate of 31%, representing the full potential liability, is set out below:-

	1999 £'000	1998 £'000
Other Timing Differences	<u>38</u>	<u>21</u>

8 Pension Scheme

The company contributes to both a non contributory and contributory funded defined pension benefit schemes operated by the parent undertaking. Both schemes funds are administered by trustees and are independent of the parent undertaking's finances. Particulars of the actuarial valuation of these schemes are contained within the Group Annual Report and Accounts of Scarborough Building Society.

SPECIALIST MORTGAGE SERVICES LIMITED

Notes To The Accounts For The Year Ended 30 April 1999

9 Called Up Equity Share Capital

	1999 £	1998 £
Authorised : 100 £1 Ordinary Shares	<u>100</u>	<u>100</u>
Issued and fully paid : 2 £1 Ordinary Shares	<u>2</u>	<u>2</u>

10 Reconciliation of Movements in Equity Shareholders' Funds

	1999 £'000	1998 £'000
Profit for the year	<u>552</u>	<u>254</u>
Net increase in equity shareholder's funds for the year	552	254
Equity shareholder's funds at 1 May	<u>1,404</u>	<u>1,150</u>
Equity shareholder's funds at 30 April	<u>1,956</u>	<u>1,404</u>