

MORTGAGES BY PHONE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2007

(Registered Number 05969141)



MORTGAGES BY PHONE LIMITED

Directors' Report

The directors present their first annual report and the audited financial statements for the fourteen month period ended 31 December 2007

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

This first period has been spent developing the infrastructure of the business, recruiting and training staff. Solid foundations have been laid for the future growth of Mortgages By Phone (MBP) which now employs a total of 21 staff including 13 qualified mortgage advisers. Emphasis has been placed on the recruitment, induction and training of our people, which is considered to be a key investment for the future. Following the setup phase, customer transactions began in April.

The delivery of mortgage advice over the telephone requires a clearly defined and structured sales process, investment in the latest telephone and mortgage placement technology has helped our staff to deliver an efficient, compliant and consistent service to our customers. Indeed many of our customers have indicated that it has been an excellent experience arranging their mortgage through MBP and naturally in a competitive market delivering outstanding customer service is one of the key objectives of our business.

MBP continues to diversify its distribution, sourcing customers from estate agency branches, internet leads and via its own website. Further investment will be made in advertising in 2008.

Despite the much publicised deterioration in trading conditions in the mortgage industry towards the end of 2007, MBP further strengthened its position by posting its best sales performance figures of the year in December.

DIVIDENDS

No interim dividend was declared during the period. The directors do not propose the payment of a final dividend.

DIRECTORS

The directors who served during the period were

R S Shipperley	(appointed 10 January 2007)
A Gill	(appointed 10 January 2007)
D Livesey	(appointed 10 January 2007)
C Haresnape	(appointed 10 January 2007)
D Broadhead	(appointed 10 January 2007)

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 2007 creditor days were nil.

CHARITABLE AND POLITICAL DONATIONS

During the period the company made no donations to charities. No contributions were made for political purposes.

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.

MORTGAGES BY PHONE LIMITED

Directors' Report (continued)

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

DISCLOSURE OF INFORMATION TO AUDITORS

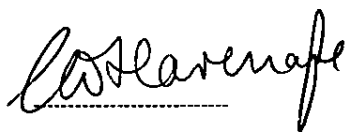
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make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

AUDITORS

KPMG Audit Plc were appointed as auditors during the period, a resolution to re-appoint KPMG Audit Plc as auditors of the company will be proposed at the next Annual General Meeting

By order of the board

C Haresnape
Director



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

MORTGAGES BY PHONE LIMITED

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 period ended 31 December 2007 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 2007 and of its loss for the period from incorporation on 17 October 2006 to 31 December 2007, and
- 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

9 June, 2008

MORTGAGES BY PHONE LIMITED

Income Statement

FOR THE FOURTEEN MONTH AND FIFTEEN DAY PERIOD ENDED 31 DECEMBER 2007

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

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 15 form part of these financial statements

MORTGAGES BY PHONE LIMITED

Balance Sheet

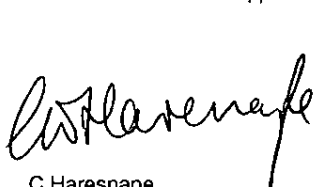
AS AT 31 DECEMBER 2007

	Notes	£'000	£'000
Current assets			
Trade and other receivables	7	18	
Tax receivable	6	175	
Cash and cash equivalents		57	
Total current assets			250
Non-current assets			
Property, plant and equipment	8	123	
Deferred tax asset	10	1	
Total non-current assets			124
Total assets			374
Current liabilities			
Trade and other payables	9	396	
Tax payable		-	
Total current liabilities			396
Non-current liabilities			-
Total liabilities			396
Equity			
Share capital	11	400	
Reserves			
Retained earnings	12	(422)	(22)
Total equity and liabilities			374

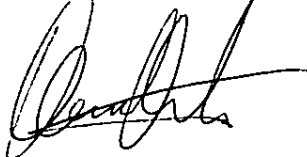
These accounts were approved by the board of directors on

9th May

2008 and signed on its behalf by



C Haresnape
Director



D Broadhead
Director

The notes on pages 9 to 15 form part of these accounts

MORTGAGES BY PHONE LIMITED

Cash Flow Statement

FOR THE FOURTEEN MONTH AND FIFTEEN DAY PERIOD ENDED 31 DECEMBER 2007

	Notes	14 month and 15 day period ended 31 December 2007 £'000
Cash flows from operating activities		
Loss for the period		(422)
Adjustments for:		
Depreciation charges		18
Loss on disposal of tangible fixed assets		-
Financial income		(1)
Tax credit		(176)
Operating loss before changes in working capital and provisions		<u>(581)</u>
Increase in trade and other receivables		(18)
Increase in trade payables		396
Cash expended from operations		<u>(203)</u>
Income taxes paid		-
Net cash outflow from operating activities		<u>(203)</u>
Cash flows from investing activities		
Interest received		1
Proceeds on disposal of property, plant and equipment		-
Purchases of property, plant and equipment	8	(141)
Net cash outflow from investing activities		<u>(140)</u>
Cash flows from financing activities		
Dividends paid		-
Proceeds from issue of shares	12	400
Net cash inflow from financing activities		<u>400</u>
Net increase in cash and cash equivalents		57
Cash and cash equivalents at 17 October		<u>-</u>
Cash and cash equivalents at 31 December		<u>57</u>

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 drawn up under the historic cost convention and in accordance with applicable accounting standards

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 2007

The Directors have adopted IAS 1 *Presentation of Financial Statements - Capital Disclosure* and IFRS 7 *Financial Instruments Disclosure*. The Directors have not adopted IAS 1 *Presentation of Financial Statements (2007)* or IFRS 8, *Operating Segments*, which although endorsed by the EU, are currently not mandatory until 2008

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) Leases

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

f) 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

g) Government grants

Government grants relate to financial grants from governments. They 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

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies (continued)

h) Employee benefits

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

i) 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

j) 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

14 month and
15 day period
ended
31 December
2007
£'000

Included in loss are the following

Depreciation of property, plant and equipment	11
Staff costs (see note 5)	565
Rentals payable under operating leases	22
Auditors' remuneration and expenses	3
Audit of these financial statements	-
All other services	-

3 Other operating income

14 month and
15 day period
ended
31 December
2007
£'000

Grants received	18
Other	-
	<u>18</u>

4 Financial income

14 month and
15 day period
ended
31 December
2007
£'000

Interest on bank deposits	1
Interest receivable from group undertakings	-
	<u>1</u>

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

	14 month and 15 day period ended 31 December 2007 Number
Directors	5
Other	16
	<u>21</u>

The aggregate payroll costs of these persons were as follows

	£'000
Wages and salaries	492
Social security costs	51
Pension costs	22
	<u>565</u>

Directors' emoluments

	£'000
Directors' emoluments	179
Company contributions to money purchase pension plans	22
	<u>201</u>

Three of the Directors are remunerated by another group company, and do not receive any remuneration from Mortgage By Phone Limited. The aggregate emoluments of the highest paid director were £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

	14 month and 15 day period ended 31 December 2007 £'000
a) Analysis of tax income in the year at 30%	
Current tax credit	
Current tax at 30%	(175)
Adjustment for prior years	-
Total current tax credit	<u>(175)</u>
Deferred tax credit	
Origination and reversal of temporary differences	(1)
Total deferred tax	<u>-</u>
Income tax credit	<u>(176)</u>
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	<u>(598)</u>
Tax on loss at UK standard rate of 30%	(179)
Effects of	
• Origination and reversal of temporary differences	(1)
• Expenses not deductible for tax purposes	4
• Income not taxable for tax purposes	-
Income tax credit	<u>(176)</u>

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7 Trade and other receivables

	31 December 2007 £'000
Prepayments and accrued income	18
	<u>18</u>

8 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	<u>76</u>	<u>65</u>	<u>141</u>
Accumulated depreciation and impairment			
On incorporation	-	-	-
Depreciation charge for the period	7	11	18
Eliminated on disposals	-	-	-
At 31 December 2007	<u>7</u>	<u>11</u>	<u>18</u>
Carrying amounts			
On incorporation	-	-	-
At 31 December 2007	<u>69</u>	<u>54</u>	<u>123</u>

9 Trade and other payables

	31 December 2007 £'000
Other creditors	11
Amounts owed to parent undertaking	363
Accruals and deferred income	22
	<u>396</u>

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Deferred tax

The movement on the deferred tax account is as shown below

	31 December 2007 £'000
On incorporation	-
Income statement credit	1
At 31 December	1

Deferred tax asset

	Accelerated tax allowances £'000	Total £'000
On incorporation	-	-
Credit to income statement	1	1
At 31 December 2007	1	1

Net deferred tax asset

At 31 December 2007	1
On incorporation	-

11 Share Capital

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

	£'000
Issued and fully paid	
£1 Ordinary A shares	300
£1 Ordinary B shares	100
	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.

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 Reconciliation of movement in capital and reserves

	Share capital £'000	Retained Earnings £'000	Total Equity £'000
On incorporation	-	-	-
Share capital subscribed	400	-	400
Loss for the period	-	(422)	(422)
Balance at 31 December 2007	400	(422)	(22)

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 £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 2007, the following related party transactions were entered into with related parties

	Notes	Amount 31 December 2007 £'000	Outstanding Balance 31 December 2007 £'000
Sale of services			
Connells Residential	(a)	-	
Sequence (UK) Limited	(a)	-	
		<u>-</u>	
Purchase of services			
Connells Residential	(a)/(b)	11	
Sequence (UK) Limited	(a)	18	
		<u>29</u>	

Year-end balances

Receivables from related parties

Connells Residential

Payables to related parties

Connells Residential

(363)

(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

MORTGAGES BY PHONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15 Operating lease commitments

The Company has annual commitments due under operating leases. At the balance sheet date these were payable as follows

	31 December 2007 £'000
Less than one year	87
Between one and five years	347
More than five years	794
	<u>1,228</u>

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 retain full public confidence in the 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, maintaining an appropriate mix between savings and deposit funding balances 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. These risks are measured and managed at a Group level.

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.

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 spread of shareholders, as well as 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. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

17 Ultimate Parent Undertaking

The company is a 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
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North Yorkshire
BD23 1DN