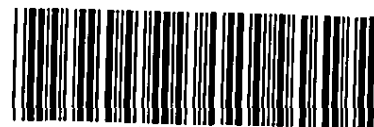


Meerbrook Finance Number Two Limited
Directors' report and financial statements
for the year ended 31 December 2007

Registered Number 4683419

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Meerbrook Finance Number Two Limited

Directors' report and financial statements

for the year ended 31 December 2007

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Meerbrook Finance Number Two Limited

Directors and advisors

Directors

PCSL Services No 1 Limited
Capita Trust Company Limited
Capita Trust Corporate Services Limited

Secretary

Clifford Chance Secretaries (CCA) Limited

Independent auditors

PricewaterhouseCoopers LLP
101 Barbican Square
Lower Mosley Street
Manchester
M2 3PW

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Registered Office

10 Upper Bank Street
London
E14 5JJ

Registered Number

4683419

Meerbrook Finance Number Two Limited

Directors' report for the year ended 31 December 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

Principal activities

The principal activity of the company is to receive deferred consideration for both currently and previously owned mortgage portfolios. The company has also obtained external funding to aid in the purchase of mortgage portfolios.

The beneficial ownership of the loans and advances to customers sold to the company by the seller fail the derecognition criteria of IAS 39 and, therefore, these loans remain on the Balance sheet of the originator. IAS 39, therefore, requires the seller to recognise a "deemed loan" financial liability on its Balance sheet and the resulting "deemed loan" asset is held on the company's Balance sheet.

Review of business and future developments

During the year the company obtained beneficial ownership of five additional mortgage portfolios, which have increased the deemed loan asset, and external funding on the Balance sheet, the additional interest income received and interest paid can be seen in the Income statement. The new books have performed in line with management's expectations.

In future years it is expected that the deemed loan asset will decrease in line with the residential mortgage portfolios they reflect due to the mortgage repayments received. The interest income, which is based on the outstanding capital, will decrease in proportion to the mortgage portfolio.

Key performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

Economic factors in the United Kingdom could affect the ability of the originator's customers to repay their loans.

Credit risk on the company's deemed loan assets is, however, considered to be minimal because management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Britannia Building Society.

Quantitative disclosure and further details regarding the financial risks of the company are included in the notes to the financial statements.

As set out more fully in the Statement of accounting policies, these financial statements have been prepared under the current International Financial Reporting Standards (IFRS) framework. All financial information given in this Directors' report is taken solely from the statutory results prepared on the above basis.

Results and dividends

The profit for the year, after tax, amounted to £1,342,314 (2006: £539,475). The net assets of the company at 31 December 2007 were £289,648 (2006: net liabilities of £1,052,666). The directors do not propose a dividend for the year (2006: £nil).

The profit for the year is due to deferred consideration payable being based on a profit that excludes the impact of IAS 39. The deferred consideration was based on profit of the securitisation company under UK GAAP required by the capital market arrangement, which in 2007 gave rise to a higher profit figure than that calculated under IAS 39. The difference in the two profits is a timing difference that will reverse over the life of the mortgages.

Meerbrook Finance Number Two Limited

Directors' report for the year ended 31 December 2007 (continued)

Directors and their interests

The directors who held office during the year are given below

PCSL Services No 1 Limited
Capita Trust Company Limited
Capita Trust Corporate Services Limited

No director had any beneficial interest in the share capital of the company or any other company in the group at any time during the period under review

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2007 and that applicable International Financial Reporting Standards have been followed.

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

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 they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Financial risk management

The material financial risks faced by the company include the following:

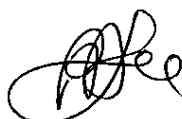
- interest rate risk,
- credit risk, and
- liquidity risk

The directors have put in place various measures to ensure any significant risks are mitigated and these are disclosed in the notes to financial statements.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

On behalf of the board



P A Lee for PCSL Services No.1 Limited
Director
31 March 2008

Meerbrook Finance Number Two Limited

Independent auditors' report to the members of Meerbrook Finance Number Two Limited

We have audited the financial statements of Meerbrook Finance Number Two Limited for the year ended 31 December 2007 which comprise the Income statement, the Balance sheet, the Cash flow statement, the Statement of changes in equity, the Statement of accounting policies and the related notes. 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in 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 judgments 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 European Union, of the state of the company's affairs as at 31 December 2007 and of its profit and cash flows 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
31 March 2008

Meerbrook Finance Number Two Limited

Income statement for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Interest receivable and similar income	2	38,007	9,277
Interest expense and similar charges	3	(34,665)	(8,026)
Net interest income		3,342	1,251
Fee and commission expense	4	(927)	(440)
Net fee and commission expense		(927)	(440)
Other operating expenses		(516)	(143)
Profit before tax		1,899	668
Income tax expense	6	(557)	(129)
Net profit	13	1,342	539

The accounting policies and notes on pages 9 to 23 form part of these financial statements

Meerbrook Finance Number Two Limited

Balance sheet as at 31 December 2007

	Notes	2007 £000	2006 £000
Assets			
Bank deposits	7	118	-
Deemed loans due from group undertakings	8	889,958	94,039
Other receivables	9	77,879	8,201
Deferred tax asset	6	-	244
Total assets		967,955	102,484
Liabilities			
Deposits from banks	10	590,457	-
Deferred tax liability	6	313	-
Deemed loans due to group undertakings	11	306,519	94,177
Other payables	12	70,376	9,359
Total liabilities		967,665	103,536
Equity			
Called up share capital	14	-	-
Retained earnings	13	290	(1,052)
Total equity		290	(1,052)
Total equity and liabilities		967,955	102,484

The accounting policies and notes on pages 9 to 23 form part of these financial statements

Approved by the board of directors on 31 March 2008 and signed on their behalf by



P A Lee for PCSL Services No.1 Limited
Director

Meerbrook Finance Number Two Limited

Statement of changes in equity for the year ended 31 December 2007

	Share Capital £000	Retained Earnings £000	Total £000
Year ended 31 December 2007			
Balance at start of period	-	(1,052)	(1,052)
Profit for the period	-	1,342	1,342
Dividends	-	-	-
At 31 December	-	290	290

	Share Capital £000	Retained Earnings £000	Total £000
Year ended 31 December 2006			
Balance at start of period	-	(1,591)	(1,591)
Profit for the period	-	539	539
Dividends	-	-	-
At 31 December	-	(1,052)	(1,052)

Meerbrook Finance Number Two Limited

Cash flow statement for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Cash flows from operating activities	15	(649,497)	(2,602)
Cash flows from financing activities			
Net increase in subordinated debt		59,158	2,592
Net increase in deposits from banks		590,457	-
Net increase in cash and cash equivalents		118	(10)
Cash and cash equivalents at start of period		-	10
Cash and cash equivalents at end of period	7	118	-

Meerbrook Finance Number Two Limited

Statement of accounting policies for the year ended 31 December 2007

Basis of preparation

Meerbrook Finance Number Two Limited is a company incorporated and domiciled in England and Wales. The accounts of the company are presented in £ Sterling unless otherwise stated.

The Company is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and implemented in the UK, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 1985 applicable to organisations reporting under IFRS.

The company has not applied 'IFRS8 Operating Segments' in these accounts. These disclosures will have no impact on the overall balance sheet or results of the company and will be mandatory for the accounts for the year ended 31 December 2009.

There are no significant uncertainties or key estimates applied in the basis of preparing these financial statements.

The company accounts have been prepared on a historical cost basis.

Interest income and expense

This comprises interest income and expense for financial assets and financial liabilities at amortised cost through the Income Statement, calculated using the effective interest rate method. This includes accrued interest income on financial assets written down as a result of an impairment.

Effective interest rate

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all amounts receivable or payable by the company that are an integral part of the overall return.

When a financial asset has been written down as a result of impairment or loss, subsequent interest income continues to be recognised using the original effective interest rate applied to the reduced carrying value of the financial instrument.

Deferred consideration payable

Deferred purchase consideration is deducted from interest income, since the company does not recognise income to which it is not beneficially entitled. Contingent deferred consideration arising in future periods is recorded in the Income statement in the period in which it arises.

Deferred consideration receivable

Deferred purchase consideration is deducted from interest expense since the company does not recognise expenditure which it has not incurred. Contingent deferred consideration arising in future periods is recorded in the Income statement in the period in which it arises.

Meerbrook Finance Number Two Limited

Statement of accounting policies for the year ended 31 December 2007 (continued)

Deferred tax

Deferred tax is provided in full using the liability method where there are temporary differences between the carrying value of assets and liabilities for accounting and for tax purposes

Deferred tax is calculated using the tax rates that are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled

The principal temporary differences arise due to differences in tax rules for securitisation companies

Deferred tax assets are only recognised as an asset where it is probable that there will be future taxable profits against which to offset them

Movements in deferred tax are recognised in the Income statement

Cash and cash equivalents

For the purposes of the Cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition

Deemed loans due from group undertakings

The beneficial ownership of the loans and advances to customers sold to the company by the originator fail the derecognition criteria of IAS 39 and, therefore, these loans remain on the Balance sheet of the originator. IAS 39, therefore, requires the seller to recognise a "deemed loan" financial liability on its Balance sheet and the resulting "deemed loan" asset is held on the company's Balance sheet

This deemed loan initially represents the consideration paid by the company in respect of the acquisition of the beneficial ownership of the securitised loans and advances to customers and is subsequently adjusted due to repayments made by the originator to the company

The deemed loan is carried at amortised cost using the effective interest method with all movements being recognised in the Income statement

Management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Britannia Building Society. Therefore, in accordance with IAS 39, there is no requirement to recognise any impairment loss against this deemed loan

Deferred consideration payable

Deferred purchase consideration payable is netted off against the deemed loans since they are due to and from the same counterparty

Meerbrook Finance Number Two Limited

Statement of accounting policies for the year ended 31 December 2007 (continued)

Deemed loans due to group undertakings and securitisation transactions

The company has entered into various securitisation transactions in which it sells mortgages to special purpose entities (SPEs). Management considers that the company retains substantially all the risks and rewards of ownership of the securitised assets. The company, therefore, continues to recognise these assets as loans and advances to customers and recognises a financial liability for consideration received. This financial liability is termed a deemed loan.

In subsequent periods, income from the securitised mortgages is recognised by the company in the normal manner using the effective interest rate method. Amounts payable to the SPE, together with the expenses of the securitisation, are accrued as an expense on the financial liability.

The deemed loan is carried at amortised cost using the effective interest method with all movements being recognised in the Income statement.

Where, as part of the securitisation, the company enters into a derivative with the SPE, the company's rights and obligations are reflected in the expense accrued on the financial liability and the derivative is not accounted for separately.

Deferred consideration receivable

Deferred purchase consideration receivable is netted off against the deemed loans since they are due to and from the same counterparty.

Financial liabilities

Financial liabilities are contractual obligations to deliver cash or some other asset to a third party. They include

- deposits,
- deposits from banks, and
- other borrowed funds and liabilities

Financial liabilities are recognised initially at fair value. Fair value includes the issue proceeds (the fair value of consideration received) net of issue costs incurred.

Financial liabilities are subsequently stated at amortised cost. Any difference between issue proceeds net of issue costs and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest rate method.

Critical accounting estimates and judgements in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Segmental reporting

Meerbrook Finance Number Two Limited operates in one business segment and all business is conducted in the UK, therefore, no segmental information is presented.

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007

1 Profit before tax

Profit before tax is stated after charging:

	2007 £000	2006 £000
Auditors' remuneration in respect of audit services	5	5

2 Interest receivable and similar income

	2007 £000	2006 £000
<u>On financial assets not at fair value through income and expense</u>		
Deemed loan interest receivable	36,412	9,881
Deferred purchase consideration payable (note 8)	-	(852)
Interest receivable from Britannia Building Society	1,595	248
	38,007	9,277

3 Interest expense and similar charges

	2007 £000	2006 £000
<u>On financial liabilities not at fair value through income and expense</u>		
Interest expense on deposits from banks	13,311	-
Deemed loan interest payable	21,744	9,223
Deferred purchase consideration receivable (note 11)	(2,471)	(1,613)
Interest payable to Britannia Building Society	2,081	416
	34,665	8,026

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

4 Fee and commission expense

	2007	2006
	£000	£000
<u>On financial liabilities not at fair value through income and expense</u>		
Arrangement fees	300	100
Facility fees	627	340
	927	440

5 Directors' emoluments and employees

One director received emoluments from Britannia Building Society group companies for services rendered to all companies in the group. However, these are not apportioned to the individual companies.

There are no directors to whom benefits are accruing under the Britannia Building Society Pension schemes (2006: none).

The company had no employees during the current or prior period.

6 Taxation

	2007	2006
	£000	£000
UK tax at 19% (2006: 19%)		
Corporation tax		
Current	-	-
Adjustments in respect of prior periods	-	-
Total corporation tax	-	-
Deferred tax		
Current	557	127
Adjustments in respect of prior periods	-	2
	557	129

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

6 Taxation (continued)

Factors affecting tax charge for the year

The average effective rate of corporation tax assessed for the period is higher than the standard rate of corporation tax in the UK (19%). The differences are explained below

	2007 £000	2006 £000
Profit on ordinary activities before tax	1,899	668
Profit before tax multiplied by standard rate of tax	380	127
Effects of		
Losses not recognised	190	-
Non taxable income	-	-
Expenses not deductible for tax purposes	-	-
Adjustments in respect of prior periods	-	2
Change of rate	(13)	-
	557	129

The recognised deferred tax asset includes the following amounts

	2007 £000	2006 £000
Other short term timing differences	(313)	99
Unused tax losses	-	145
	(313)	244

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004, for accounting periods ended before 1 January 2006

Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006 which ensures that, for periods commencing on or after 1 January 2006, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained under the agreement that governs the company. As a consequence, the taxation treatment of securitisation companies will remain largely unchanged as a result of the introduction of IFRS

The directors are satisfied that this company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise

As at 31 December 2007, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS37)

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

6 Taxation (continued)

The reconciliation of the opening and closing deferred tax asset is shown below

	2007	2006
	£000	£000
Deferred tax asset at start of period	244	373
Deferred tax provided during the period	(557)	(129)
Deferred tax liability at end of period	(313)	244

7 Cash and cash equivalents

	2007	2006
	£000	£000
Bank deposits	118	-

8 Deemed loans due from group undertakings

	2007	2006
	£000	£000
Deemed loans recoverable	899,241	100,693
Deferred purchase consideration payable	(9,283)	(6,654)
	889,958	94,039

The deemed loans recoverable are repaid as and when the cash is received by the originator from the customers towards principal repayments of the underlying mortgage loans. Consequently, a proportion of the deemed loan recoverable will be repaid within 12 months, although the amount cannot be quantified.

The company is exposed to credit risk on deemed loans due from group undertakings and this is further described in note 18.

Deferred purchase consideration payable

Deferred consideration is payable to Mortgage Agency Services Number Six Limited dependent on the extent to which the surplus income generated by the mortgage books, purchased by Meerbrook Finance Number Two Limited from that company, exceeds the administration costs of the mortgage book. The surplus income generated during the year ended 31 December 2007 amounted to £nil (2006: £852k).

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

8 Deemed loans due from group undertakings (continued)

Deferred purchase consideration payable

	2007	2006
	£000	£000
Amounts owed to Mortgage Agency Services Number Six Limited	6,828	6,654
Amounts owed to Platform Funding Limited	2,455	-
	9,283	6,654

The movements in deferred consideration are as follows

	2007	2006
	£000	£000
At start of period	6,654	6,000
Arising on acquisition	2,436	-
Additional consideration payable	-	852
Repayments during the year	193	(198)
At end of period	9,283	6,654

9 Other receivables

	2007	2006
	£000	£000
Amounts owed by group undertakings	77,127	8,150
Other	752	51
	77,879	8,201

The above amounts owed by group undertakings are expected to be settled more than 12 months after the Balance sheet date. These represent amounts due from Britannia Building Society. There is no formal repayment schedule for these monies, which are repayable on demand.

The company is exposed to credit risk on the above amounts owed by group undertakings and this is further described in note 18.

The effective interest rate on the above amounts owed by group undertakings is 3 month LIBOR less 25 basis points.

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

10 Deposits from banks

	2007 £000	2006 £000
Deposits from banks	590,457	-

The above amount represents the total amount drawn on a loan facility of £1,000,000,000 provided by J P Morgan during the year. The terms of the loan facility dictate that repayment of the drawn down amount will be either

- through a securitisation,
- quarterly from the proceeds of the underlying mortgage loan redemptions that the deemed loan asset represents, or,
- in full when the underlying mortgage loans are sold

At 31 December 2007 interest was payable on the drawn down amount at 3 month LIBOR plus 75 basis points. This was due to step up to 3 month LIBOR plus 125 basis points on 21 March 2008, therefore 21 March 2008 was the earliest contractual repayment date. On 20 March 2008 the loan was repaid by the company as a result of the sale of the underlying mortgage assets.

11 Deemed loans due to group undertakings

	2007 £000	2006 £000
Deemed loan repayable	316,697	101,218
Deferred purchase consideration receivable	(10,178)	(7,041)
	306,519	94,177

The deemed loan repayable is repaid as and when the cash is received by the originator from the customers towards principal repayments of the loans and advances. Consequently, a proportion of the deemed loan repayable will be repaid within 12 months, although the amount cannot be quantified.

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

11 Deemed loans due to group undertakings (continued)

Deferred purchase consideration receivable

	2007	2006
	£000	£000
Amounts owed by Leek Finance Number Sixteen PLC	7,805	7,041
Amounts owed by Leek Finance Number Nineteen PLC	2,373	-
	10,178	7,041

The movements in deferred consideration are as follows

	2007	2006
	£000	£000
At start of period	7,041	5,627
Arising on acquisition	2,354	-
Additional consideration receivable	2,471	1,613
Amounts received during the year	(1,688)	(199)
At end of period	10,178	7,041

It is anticipated that the majority of the above deferred consideration will be receivable within one year. However, an amount of the above balance will only become receivable after that time. Repayments of deferred consideration are dependent on market conditions, amongst other factors, and, therefore, the directors are unable to reliably estimate the amount that will fall to be receivable after one year.

12 Other payables

	2007	2006
	£000	£000
Subordinated debt owed to Britannia Building Society	66,939	9,272
Amounts owed to group undertakings	222	64
Accruals and deferred income	3,210	23
Other	5	-
	70,376	9,359

The above amounts owed to group undertakings are expected to be settled more than 12 months after the Balance sheet date. These represent amounts due to Britannia Building Society. There is no formal repayment schedule for these monies, which are repayable on demand.

The effective interest rate on the above amounts owed to group undertakings is 1 month LIBOR plus 21 basis points.

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

13 Retained earnings

	2007 £000	2006 £000
Balance at start of the year	(1,052)	(1,591)
Profit for the year	1,342	539
Dividends	-	-
At 31 December	290	(1,052)

The profit for the year is due to deferred consideration payable being based on a profit that excludes the impact of IAS 39. The deferred consideration was based on profit of the securitisation company under UK GAAP required by the capital market arrangement, which in 2007 gave rise to a higher profit figure than that calculated under IAS 39. The difference in the two profits is a timing difference that will reverse over the life of the mortgages.

14 Called up share capital

	2007 £	2006 £
Authorised		
100 ordinary shares of £1 each	100	100
Issued and fully paid		
1 ordinary share of £1	1	1

15 Reconciliation of operating profit to net cash flows from operating activities

	2007 £000	2006 £000
Profit before tax	1,899	668
Increase in accrued income	-	13
Increase in accruals	3,187	17
Interest payable on subordinated loan	2,081	416
Cash flows from operating profits before changes in operating assets and liabilities	7,167	1,114
Net (increase)/decrease in deemed loans due from group undertakings	(795,920)	27,556
Net increase/(decrease) in deemed loans due to group undertakings	212,342	(28,945)
Net increase in other receivables	(69,677)	(2,061)
Net increase in other payables	(3,409)	(266)
Net cash flows from operating activities	(649,497)	(2,602)

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

16 Ultimate parent undertaking and controlling entity

The company's immediate parent undertaking is Meerbrook Finance Holdings Number Two Limited, a company registered in England

Capita IRG Trustees Limited holds 100% of the issued share capital of Meerbrook Finance Holdings Number Two Limited, subject to terms of a declaration of trust for general charitable purposes

The ultimate parent undertaking of Meerbrook Finance Number Two Limited is Britannia Building Society by virtue of amendments introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004

Copies of the financial statements of Britannia Building Society may be obtained from

Britannia House, Leek, Staffordshire, ST13 5RG

The Society, the ultimate controlling entity of this company, is a mutual organisation owned by its members and, consequently, has no controlling body

17 Related party disclosures

As stated in the note above, the company is a subsidiary of Britannia Building Society. Consequently the directors of the company consider Britannia Building Society and its subsidiaries to be related parties of the company. Transactions with other companies within the group are detailed as follows

	<u>Interest and other income</u> £000	<u>Interest and other expense</u> £000	<u>Balance due to/(by) Meerbrook Finance Number Two</u> £000
Year ended 31 December 2007			
Britannia Building Society	1,595	2,081	77,103
Leek Finance Number Sixteen Plc	2,471	21,744	5
Leek Finance Number Nineteen Plc	-	-	(28)
Mortgage Agency Services Number Five Limited	12,965	-	(100)
Mortgage Agency Services Number Six Limited	6,721	6,396	(64)
Platform Funding Limited	14,510	13,133	(30)
Leek Finance Number Ten Plc	2,215	2,215	-
Year ended 31 December 2006			
Britannia Building Society	248	416	(1,121)
Leek Finance Number Sixteen PLC	1,613	9,223	(94,172)
Mortgage Agency Services Number Six Limited	9,881	852	93,976

During the year £5k (2006 £5k) was paid to corporate directors in respect of the provision of management services. The amount outstanding at 31 December 2007 was £3k (2006 £3k)

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

18 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The company's financial instruments comprise principally of amounts due from deemed loans, owed through deemed loans, subordinated debt, other receivables, cash and cash equivalents and deposits from banks.

Fair values of financial instruments

An assessment to estimate the fair value of financial instruments has been carried out based on margins on comparable transactions with similar group entities. The carrying values of financial instruments represent a reasonable approximation of the fair values.

Risk management and control

The material financial risks faced by the company are as follows:

- interest rate risk,
- credit risk and
- liquidity risk

As a subsidiary of Britannia Building Society, the company applies the Society's formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets and Liabilities Committee (ALCO), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Society. The minutes of ALCO are presented to the Board of the Society.

Interest rate risk

Deferred consideration payable to Mortgage Agency Number Six Limited is a non-interest bearing financial liability. As described in note 8, the dates of repayment are dependent on the extent to which surplus income is generated by the securitised mortgage book. Therefore, the weighted average period until maturity is unknown.

The subordinated loan owed to Britannia Building Society is classified as a floating rate liability. The benchmark rate used for determining interest rate payments is disclosed in note 12.

Sensitivity analysis

The following table describes the significant activities undertaken by the company where there is sensitivity to interest rate changes. There is also an explanation of how such risks are managed and the extent of the risk to the company.

Activity	Risk	Type of hedge	Extent of risk
Underlying mortgage lending	Exposure to increases in interest rates due to fixed rate lending	Pay fixed interest rate swaps	The company has never experienced significant financial losses as a result of movements in interest rates. In order to avoid any adverse effects in the future effective hedges will need to be maintained.
	Timing and basis differences on rate reset on Libor and fixed lending and rate reset on debt securities	Basis swaps	

There would be no material impact on profits or equity from a change in interest rates of 1%.

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

18 Financial instruments (continued)

Credit risk

The company is exposed to credit risk on deemed loans due from group undertakings (described in note 8) and amounts owed by group undertakings (described in note 9)

The table below represents a worst case scenario of credit risk exposure to the Company at 31 December 2007 and 2006, without taking into account any collateral held or other credit enhancements attached. The exposures set out below are based on net carrying amounts as reported in the balance sheet.

The maximum exposure to credit risk before collateral held or other credit enhancements is as follows

Category (as defined by IAS 39)	Class	2007 £000	2006 £000
Loans and receivables	Deemed loans	889,958	94,039
Other receivables	Other receivables	77,879	8,150
		967,837	102,189

Deemed loans:

The above table shows the maximum exposure to credit risk on deemed loans. However, the actual credit risk is considered to be minimal because management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Britannia Building Society. The weighted average LTV of customer lending as at 31 December 2007 calculated using the Halifax price index valuation was 79.10%.

Other receivables:

Other receivables loans represent amounts due from Britannia Building Society. There is no formal repayment schedule for these monies, which are repayable on demand. Due to the way the ultimate parent manages the inter company balances the actual credit risk on these loans is considered to be minimal.

Liquidity risk

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

The liquidity risk on deemed loans due to group undertakings is not considered to be material as in practice the contractual repayments coincide with the repayments of the deemed loans due from group undertakings, as they become due.

Liquidity risk arises on the deposits from banks. The contractual repayment terms of the loan are either

- through a securitisation,
- quarterly from the proceeds of the underlying mortgage loan redemptions that the deemed loan asset represents, or,
- in full when the underlying mortgage loans are sold.

As each scenario requires repayment only as a result of the company receiving funds in either settlement or redemption of the underlying mortgage loans the liquidity risk on the outstanding balance is considered to be minimal. The loan was repaid in full on 20 March 2008 as a result of the sale of the underlying mortgage assets.

Liquidity risk also arises on other payables, primarily made up of amounts due to group undertakings. There is no formal repayment schedule for these monies, which are repayable on demand. It is not expected that the ultimate parent will withdraw the funding in the foreseeable future and the actual liquidity risk on these loans is considered to be minimal.