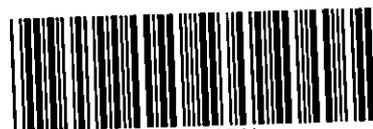


**Meerbrook Finance Number Two Limited**  
**Directors' report and financial statements**  
**for the year ended 31 December 2008**

Registered Number 4683419

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**Meerbrook Finance Number Two Limited  
Directors' report and financial statements  
for the year ended 31 December 2008**

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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 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

### **Solicitors**

Allen & Overy LLP  
One Bishops Square  
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 2008

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

### **Principal activities**

The principal activity of the company is to receive deferred consideration for both currently and previously owned mortgage portfolios.

### **Review of business and future developments**

During the year the company sold previously owned mortgage portfolios to Meerbrook Finance Number Four Limited. The deemed loan assets have decreased in line with the residential mortgage portfolios they reflect, the decrease being due to the mortgage repayments received during the year.

The company's deemed loan liabilities, have increased in 2008 due to the sale of previously owned mortgage portfolios to Meerbrook Finance Number Four Limited. The deemed loan liabilities bought forward and the new deemed loan liabilities in the year have decreased in line with the residential mortgage portfolios they reflect, the decrease being due to the mortgage repayments received during the year.

### **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.

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, see also note 8 to the accounts.

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, as endorsed by the European Union. All financial information given in this directors' report is taken solely from the statutory results prepared on the above basis.

### **Results and dividends**

The loss for the year, after tax, amounted to £2,552k (2007 profit after tax: £1,342k). The net liabilities of the company at 31 December 2008 were £2,262k (2007 net assets: £290k). The directors do not propose a dividend for the year (2007: nil).

The loss for the year is due to a large increase in interest expense and similar charges, in part due to no deferred purchase consideration being receivable from its related parties, (this is expected to correct itself in future years when the related parties return to profit), and in part to an increase in interest payable to the Society which notably started to decrease in November 08 following repayment of subordinated debt a month earlier.

### **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.

# Meerbrook Finance Number Two Limited

## Directors' report for the year ended 31 December 2008 (continued)

### Going concern

As stated above the reason behind the loss for the year is due to a rise in interest payable and similar charges. The subordinated interest has already started to reduce and the related parties are expected to return to profit in future years. Therefore, the directors are satisfied that the company will become profitable in future years, and consider that the company will have adequate resources to continue in business for the foreseeable future, and that it is appropriate to adopt the going-concern basis in preparing the financial statements.

### 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 2008 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.

### 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



**D J McCarthy** for PCSL Services No.1 Limited  
Director  
23 April 2009

# 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 2008 which comprise the income statement, the balance sheet, the statement of changes in equity, the cashflow statement, the 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 2008 and of its losses 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  
Chartered Accountants and Registered Auditors  
Manchester  
23 April 2009

# Meerbrook Finance Number Two Limited

## Income statement for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Interest receivable and similar income	2	57,437	38,007
Interest expense and similar charges	3	(58,994)	(34,665)
<b>Net interest income</b>		<b>(1,557)</b>	<b>3,342</b>
Fee and commission expense	4	(1,536)	(927)
<b>Total net income</b>		<b>(3,093)</b>	<b>2,415</b>
Other operating expenses		(119)	(516)
<b>(Loss) / profit before tax</b>		<b>(3,212)</b>	<b>1,899</b>
Taxation	6	660	(557)
<b>Net (loss) / profit</b>	<b>13</b>	<b>(2,552)</b>	<b>1,342</b>

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

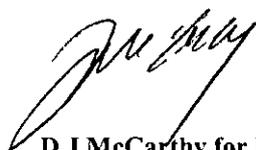
# Meerbrook Finance Number Two Limited

## Balance sheet as at 31 December 2008

	Notes	2008 £000	2007 £000
<b>Assets</b>			
Cash and cash equivalents	7	-	118
Deemed loans due from group undertakings	8	801,508	889,958
Other receivables	9	310	77,879
Deferred tax asset	6	347	-
<b>Total assets</b>		<b>802,165</b>	<b>967,955</b>
<b>Liabilities</b>			
Deposits from banks	10	-	590,457
Deferred tax liability	6	-	313
Deemed loans due to group undertakings	11	803,086	306,519
Other payables	12	1,341	70,376
<b>Total liabilities</b>		<b>804,427</b>	<b>967,665</b>
<b>Equity</b>			
Called-up share capital	14	-	-
Retained earnings	13	(2,262)	290
<b>Total equity and liabilities</b>		<b>802,165</b>	<b>967,955</b>

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

Approved by the board of directors on 23 April 2009 and signed on their behalf by:



**D J McCarthy for PCSL Services No.1 Limited**  
Director

## Meerbrook Finance Number Two Limited

### Statement of changes in equity for the year ended 31 December 2008

	Share Capital	Retained Earnings	Total
Year ended 31 December 2008	£000	£000	£000
At 1 January	-	290	290
Loss for the year	-	(2,552)	(2,552)
At 31 December	-	(2,262)	(2,262)

	Share Capital	Retained Earnings	Total
Year ended 31 December 2007	£000	£000	£000
At 1 January	-	(1,052)	(1,052)
Profit for the year	-	1,342	1,342
At 31 December	-	290	290

# Meerbrook Finance Number Two Limited

## Cashflow statement for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
<b>Cash flows from operating activities</b>	15	654,497	(649,497)
<b>Cash flows from financing activities</b>			
Net (decrease) / increase in subordinated debt		(64,158)	59,158
Net (decrease) / increase in deposits from banks		(590,457)	590,457
<b>Net movement in cash and cash equivalents</b>		<b>(118)</b>	<b>118</b>
Cash and cash equivalents at start of year		118	-
<b>Cash and cash equivalents at end of year</b>	7	-	<b>118</b>

# Meerbrook Finance Number Two Limited

## Statement of accounting policies for the year ended 31 December 2008

### Basis of preparation

Meerbrook Finance Number Two Limited is a company incorporated and domiciled in England and Wales.

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 IAS 1 Presentation of Financial Statements (revised) which fundamentally revises the format of the financial statements. This pronouncement is not mandatory for the year ended 31 December 2008 and would not have any material effect if it had been adopted. The pronouncement will be mandatory for the accounts for the year ended 31 December 2009. Further new pronouncements which were issued in 2008 but do not affect this company are listed in note 19.

The 2007 numbers have been restated in note 17 related party disclosures to ensure that they agreed with the other related parties.

There are no significant uncertainties applied in the basis of preparing these financial statements. Key estimates applied are discussed below.

### Functional and presentation currencies

The financial statements are presented in sterling, which is the company's functional currency (i.e. the primary currency in which it transacts business) and presentation currency.

### Interest income and expense

This comprises:

- Interest income and expense for financial assets and 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 impairment; and
- Deferred purchase consideration.

#### *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 purchase 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.

# Meerbrook Finance Number Two Limited

## Statement of accounting policies for the year ended 31 December 2008 (continued)

### *Deferred purchase 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.

### **Tax**

Tax on the results for the year comprises current tax and deferred tax.

### *Current Tax*

The expected tax payable on the results for the year is called current tax. It is calculated using the tax rates in force at the balance sheet date. The current tax charge includes adjustments to tax payable in prior periods.

### *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.

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.

### **Deemed loans due from and to group undertakings**

The company purchased the beneficial title of mortgage portfolios and subsequently sold these to special purpose entities (SPEs). The beneficial ownership of the loans and advances to customers sold to and sold by the company fail the derecognition criteria of IAS 39 and, therefore, these loans remain on the balance sheet of the originator. IAS 39 therefore requires the company to recognise a "deemed loan" financial asset with the resulting "deemed loan" liability being recognised on the originator's balance sheet. IAS 39 also requires the company to recognise a "deemed loan" financial liability for sale of beneficial title of mortgage portfolios; the resulting "deemed loan" asset is recognised on the SPE'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 loans and advances to customers; this is subsequently adjusted for repayments and redemptions of mortgages from the originator's customers.

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

### *Deferred purchase consideration payable*

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

### *Deferred purchase consideration receivable*

Deferred purchase consideration receivable 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 2008 (continued)**

### **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.

### **Cash and cash equivalents**

For the purposes of the cashflow statement, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition.

### **Segmental reporting**

The company 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 2008

### 1 Loss before tax

Loss before tax is stated after charging:

	2008	2007
	£000	£000
Audit fee for the audit of the company's financial statements	6	5

### 2 Interest receivable and similar income

	2008	2007
	£000	£000
On financial assets not at fair value through income and expense		
Deemed loan interest receivable	54,185	36,412
Interest receivable from Britannia Building Society	3,252	1,595
	57,437	38,007

### 3 Interest expense and similar charges

	2008	2007
	£000	£000
On financial liabilities not at fair value through income and expense		
Interest expense on deposits from banks	9,286	13,311
Deemed loan interest payable	45,044	21,744
Deferred purchase consideration receivable (note 11)	-	(2,471)
Interest payable to Britannia Building Society	4,664	2,081
	58,994	34,665

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 4 Fee and commission expense

	2008	2007
	£000	£000
On financial liabilities not at fair value through income and expense		
Arrangement fees	750	300
Facility fees	786	627
	<b>1,536</b>	<b>927</b>

### 5 Directors' emoluments and employees

The directors received no emoluments from Britannia Building Society group companies for services rendered during the year.

There are no directors to whom benefits are accruing under the Britannia Building Society pension schemes (2007: none).

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

### 6 Taxation

	2008	2007
	£000	£000
UK tax at 20.75% (2007: 19.75%)		
Deferred tax		
Current year	(675)	557
Adjustments in respect of prior years	15	-
	<b>(660)</b>	<b>557</b>

#### 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 of 20.75%, (2007: 19.75%). The differences are explained below:

	2008	2007
	£000	£000
(Loss) / profit on ordinary activities before tax	(3,211)	1,899
(Loss) / profit before tax multiplied by standard rate of tax	(666)	380
Effects of:		
Losses not recognised	-	190
Adjustments in respect of prior years	15	-
Change of rate	(9)	(13)
	<b>(660)</b>	<b>557</b>

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 6 Taxation (continued)

The recognised deferred tax asset / (liability) includes the following amounts:

	2008	2007
	£000	£000
Other short-term timing differences	347	(313)
	<b>347</b>	<b>(313)</b>

The reconciliation of the opening and closing deferred tax asset / (liability) is shown below:

	2008	2007
	£000	£000
At 1 January	(313)	244
Restatement of opening balance	(15)	-
Deferred tax provided during the year	675	(557)
At 31 December	<b>347</b>	<b>(313)</b>

#### Factors affecting the tax charge for the year

The average effective rate of corporation tax assessed for the year is equal to the standard rate of corporation tax for small companies in the UK of 20.75% (2007: 19.75%).

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 ending before 1 January 2008.

Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006. This legislation ensures that companies who met the definition of a 'securitisation company' before 1 January 2007 may elect that, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the retained profit of the securitisation company required to be retained under the agreement that governs the company. This company has made such an election.

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

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes related to the same fiscal authority.

### 7 Cash and cash equivalents

	2008	2007
	£000	£000
Bank deposits	-	118

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 8 Deemed loans due from group undertakings

	2008	2007
	£000	£000
Deemed loans recoverable	810,791	899,241
Deferred purchase consideration payable	(9,283)	(9,283)
	<b>801,508</b>	<b>889,958</b>

The deemed loans recoverable are repaid as and when the cash is received by the originator from the customers as 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.

#### Deferred purchase consideration payable

Deferred purchase consideration is payable to Mortgage Agency Service Number Five Limited, Mortgage Agency Services Number Six Limited and Platform Funding Limited dependent on the extent to which the surplus income generated by the mortgage books, purchased by Meerbrook Finance Number Four Limited from that company, exceeds the administration costs of the mortgage book.

Deferred purchase consideration payable:

	2008	2007
	£000	£000
Amounts owed to Mortgage Agency Services Number Six Limited	6,828	6,828
Amounts owed to Platform Funding Limited	2,455	2,455
	<b>9,283</b>	<b>9,283</b>

The movements in deferred purchase consideration are as follows:

	2008	2007
	£000	£000
At 1 January	9,283	6,654
Arising on acquisition	-	2,436
Repayments during the year	-	193
At 31 December	<b>9,283</b>	<b>9,283</b>

### 9 Other receivables

	2008	2007
	£000	£000
Amounts owed by group undertakings	310	77,127
Other	-	752
	<b>310</b>	<b>77,879</b>

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 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 2008 (continued)

### 10 Deposits from banks

	2008	2007
	£000	£000
Deposits from banks	-	590,457

The amount in 2007 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 would 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 21 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

	2008	2007
	£000	£000
Deemed loan repayable	809,231	316,697
Deferred purchase consideration receivable	(6,145)	(10,178)
	803,086	306,519

During the year the company sold the beneficial title of two mortgage portfolios to Meerbrook Finance Number Four Limited. The deemed loan repayable is repaid as and when the cash is received by the originator from its mortgagors 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 2008 (continued)

### 11 Deemed loans due to group undertakings (continued)

#### Deferred purchase consideration receivable

	2008	2007
	£000	£000
Amounts owed by Leek Finance Number Sixteen plc	3,772	7,805
Amounts owed by Leek Finance Number Nineteen plc	2,373	2,373
	<b>6,145</b>	<b>10,178</b>

The movements in deferred consideration are as follows:

	2008	2007
	£000	£000
At 1 January	10,178	7,041
Arising on acquisition	-	2,354
Additional consideration receivable	-	2,471
Amounts received during the year	(4,033)	(1,688)
At 31 December	<b>6,145</b>	<b>10,178</b>

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

	2008	2007
	£000	£000
Subordinated debt owed to Britannia Building Society	1,330	66,939
Amounts owed to group undertakings	-	222
Accruals and deferred income	11	3,210
Other	-	5
	<b>1,341</b>	<b>70,376</b>

The subordinated loan is secured by a second charge on the mortgage assets to which the company's deemed loans relate. The subordinated loan is not repayable until all obligations to the noteholders have been met. Interest is calculated on the loan at the prevailing three month LIBOR plus 21 basis points.

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 Mortgage Agency Services Number Five Limited, Mortgage Agency Services Number Six Limited, Platform Funding Limited and Leek Finance Number Ten plc.. There is no formal repayment schedule for these monies, which are repayable on demand.

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 13 Retained earnings

	2008	2007
	£000	£000
Balance at 1 January	290	(1,052)
(Loss) / profit for the year	(2,552)	1,342
At 31 December	(2,262)	290

### 14 Called up share capital

	2008	2007
	£	£
<b>Authorised</b>		
100 ordinary shares of £1 each	100	100
<b>Issued and fully paid</b>		
1 ordinary share of £1	1	1

The company's funding consists of share capital, debt securities issued to Britannia Building Society and intercompany funding provided by Britannia Building Society. The intercompany funding is managed at a group level.

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

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

	2008 £000	2007 £000
(Loss) / profit before tax	(3,212)	1,899
(Decrease) / increase in accruals	(3,200)	3,187
Interest payable on subordinated loan	4,664	2,081
Cash flows from operating profits before changes in operating assets and liabilities	(1,748)	7,167
Net decrease / (increase) in deemed loans due from group undertakings	88,450	(795,920)
Net increase in deemed loans due to group undertakings	496,568	212,342
Net decrease / (increase) in other receivables	77,569	(69,677)
Net decrease in other payables	(6,342)	(3,409)
<b>Net cash flows from operating activities</b>	<b>654,497</b>	<b>(649,497)</b>

### 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.

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 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:

	Interest and other income £000	Interest and other expense £000	Balance due to/(from) Meerbrook Finance Number Two Ltd £000
<b>Year ended 31 December 2008</b>			
Britannia Building Society	3,252	4,664	(1,020)
Leek Finance Number Ten plc	1,606	-	14,661
Leek Finance Number Sixteen plc	-	2,183	(25,613)
Leek Finance Number Nineteen plc	-	15,579	(221,381)
Meebrook Finance Number Four Limited	-	27,282	(556,092)
Mortgage Agency Services Number Five Limited	36,358	100	557,589
Mortgage Agency Services Number Six Limited	2,347	-	22,522
Platform Funding Limited	13,875	-	206,736
<hr/>			
<b>Year ended 31 December 2007 (Restated)</b>			
Britannia Building Society	1,595	2,081	77,103
Leek Finance Number Ten plc	2,215	-	19,648
Leek Finance Number Sixteen plc	2,471	6,151	(52,871)
Leek Finance Number Nineteen plc	-	15,348	(253,679)
Mortgage Agency Services Number Five Limited	12,965	122	582,447
Mortgage Agency Services Number Six Limited	6,721	1,789	53,581
Platform Funding Limited	14,510	45	233,892

During the year £5k (2007: £5k) was paid to corporate directors in respect of the provision of management services. The amount outstanding at 31 December 2008 was nil (2007: £3k).

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (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 consist principally of amounts due to and from deemed loans, subordinated debt, other receivables, cash and cash equivalents and deposits from banks.

#### Fair values of financial instruments

Set out in the table below is a comparison of carrying and fair values of some of the company's financial instruments by category. Where available, market values have been used to determine fair values.

	Carrying value 2008 £000	Fair value 2008 £000
Cash and cash equivalents	-	-
Deemed loans due from group undertakings	801,508	803,318
Other receivables	310	310
Deemed loans due to group undertakings	(803,086)	(804,896)
Other payables	(1,341)	(1,341)

	Carrying value 2007 £000	Fair value 2007 £000
Bank deposits	118	118
Deemed loans due from group undertakings	889,958	889,958
Other receivables	77,879	77,879
Deemed loans due to group undertakings	(306,519)	(306,519)
Other payables	(70,376)	(70,376)

#### Deemed Loans

The estimated fair value of deemed loans and debt securities in issue represent the estimated future cash flows expected to be received/paid. Expected cash flows are discounted at current market rates to determine fair value.

#### Risk management and control

The financial risks faced by the company are as follows:

- credit risk and
- liquidity risk

At the inception of the company the material risks are considered in relation to the overall low risk appetite of the company. Where necessary the directors have put in place various measures to ensure any significant risks are mitigated and these are disclosed in the notes to the financial statements.

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 18 Financial instruments (continued)

#### Credit risk

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to the company as they become due. Credit risk arises on cash and cash equivalents, deemed loans, derivative financial instruments and other receivables.

The table below represents a worst-case scenario of credit risk exposure to the company at 31 December 2008 and 2007, 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	2008 £000	2007 £000
Loans and receivables	Deemed loans	801,508	889,958
Other receivables	Other receivables	310	77,879
		<b>801,818</b>	<b>967,837</b>

#### *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.

#### *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, as described further in note 8.

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.

# Meerbrook Finance Number Two Limited

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 19 New pronouncements issued in 2008

Further to the basis of preparation within the accounting policies there have been a number of other pronouncements issued in 2008. These pronouncements are listed below and are not mandatory for the year ended 31 December 2008, they will be mandatory for accounts for the year ended 31 December 2009:

- IFRS 8 Operating Segments, which requires that information on operating segments is reported based on how it is reported and evaluated internally;
- IAS 23 Borrowing Costs (revised) which removes the option to recognise all borrowing costs immediately as an expense. Borrowing costs on assets that take a substantial time to get ready for intended use or sale must be capitalised.
- IAS 32 Financial Instruments : Presentation and IAS 1 Presentation of Financial Statements – puttable financial instruments and obligations arising on liquidations (amended);
- IFRS 3 Business Combinations (revised);
- IAS 27 Consolidated and Separate Financial Statements (amended); and
- IFRICs 13,15,16,17 and 18.

The above pronouncements are expected to have no impact on the accounts for this company.