# Leek Finance Number Eighteen PLC

# Directors' report and financial statements

# for the year ended 31 December 2008

**Registered Number 05659996**

# Leek Finance Number Eighteen PLC

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# Leek Finance Number Eighteen PLC

## Directors and advisors

**Directors**
PCSL Services No. 1 Limited
Capita Trust Corporate 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
E1 6AD

**Registered Office**
10 Upper Bank Street
London
E14 5JJ

**Registered Number**
05659996

# Leek Finance Number Eighteen PLC

## 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 that of a securitisation vehicle with beneficial ownership of mortgage loans secured by first charges over residential properties within the United Kingdom.

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 deemed loan asset decreased in line with the mortgage portfolio they reflect, the decrease being due to the mortgage repayments received during the year. The note holders' balance fell by a lower proportion due to the GBP weakening against the Euro and US dollar. The mortgage interest, which is based on the outstanding capital, decreased by a greater proportion than the mortgage portfolio due to the fall in interest rates and is in line with management's expectations.

Due to repayments decreasing the capital value of the mortgages each year, both the balance sheet and interest income will decrease in future years. The rate of decrease is dependent on future redemptions and further advances.

*Key performance indicators (KPIs)*
The directors monitor the progress of the company by reference to two KPIs firstly the net interest margin and secondly the notes outstanding balance.

The net margin is 0.33% (2007: 1.01%) calculated by dividing interest receivable by deemed loan balance (after deducting interest payable to note holders). Both the interest receivable and deemed loan balance are calculated with reference to the actual mortgage balance and accrued interest in accordance with UK GAAP excluding FRS 26, which is consistent with the calculation of deferred consideration for a securitised company. The margin is expected to decrease in future years as the lower rate bonds are repaid first leaving the higher rate bonds outstanding.

Under the terms of the notes the company can repurchase the outstanding notes of a securitisation issue at par once the outstanding principal amount of the notes falls below 10% of the amount originally issued. The current notes outstanding as a percentage of the principal balance is 66%.

*Principal risks and uncertainties*
Instruments used for risk management purposes are set up at inception of the securitisation and include derivative financial instruments (derivatives), such as interest rate swaps. This reflects the overall low risk appetite of the company. After inception no significant decisions regarding the risk management of the company are required.

The financial risks faced by the company are credit risk, interest rate risk, liquidity risk and currency risk. A summary of these risks is included below and more detail regarding the management of these risks is included in note 12 to the financial statements:

- 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 ability of the originator's customers to repay their loans is impacted by economic factors in the United Kingdom. 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.
- Interest rate risk arises from movements in interest rates. The company manages its exposure to interest rate risk, including basis risk, using derivative financial instruments.
- 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. Liquidity risk arises on the company's debt securities in issue.

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

*Principal risks and uncertainties (continued)*

- Currency risk arises as a result of activities undertaken by the company when raising funds in currencies other than Sterling. The company is exposed to movements in US dollar and Euro exchange rates. Currency swaps that are perfectly matched are put in place at the inception of the securitisation with JP Morgan Chase Bank to manage and mitigate these exposures.

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 (EU). All financial information given in this directors' report is taken solely from the statutory results prepared on the above basis.

For further information regarding arrears of the underlying mortgage loans that the deemed loans relate to please visit www.britannia.co.uk/bts/leek_prog/overview.html and refer to the investor reports for the company.

**Results and dividends**

The loss for the year, after tax, amounted to £3,840,404 (2007: profit £1,587,187). The directors do not propose a dividend for the year (2007: nil). Net assets at the end of the year amounted to £2,065,900 (2007: £5,906,303).

The loss in the year is mainly due to the impairment of the carrying value of the deemed loans due to write offs of the underlying mortgage assets. The high retained profit in 2007 was due to deferred consideration payable being based on the profit of the company under UK GAAP, as required by the capital market arrangement, which in 2007 and 2008 gave rise to a lower profit figure than that calculated under International Financial Reporting Standards.

**Directors and their interests**

The directors who held office during the year are given below:

PCSL Services No. 1 Limited
Capita Trust Corporate 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 year under review.

**Going Concern**

After preparing and reviewing forecasts and projections, stressed to take account of reasonable possible changes in assumptions, the directors are satisfied 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 year 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 year. 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 year ended 31 December 2008 and that applicable International Financial Reporting Standards have been followed.

# Leek Finance Number Eighteen PLC

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

**Statement of directors' responsibilities (continued)**
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
26 March 2009

# Leek Finance Number Eighteen PLC

## Independent auditors' report to the members of Leek Finance Number Eighteen PLC

We have audited the financial statements of Leek Finance Number Eighteen PLC 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 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 European Union, of the state of the company's affairs as at 31 December 2008 and of its loss 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
26 March 2009

# Leek Finance Number Eighteen PLC

## Income statement for the year ended 31 December 2008

| | Notes | 2008 £000 | Restated* 2007 £000 |
|---|---|---|---|
| Interest income | 2 | **49,982** | 66,479 |
| Interest expense | 3 | **(54,001)** | (63,079) |
| **Net interest (expense)/income** | | **(4,019)** | 3,400 |
| Fee and commission expense | 4 | **(49)** | (60) |
| **Net fee and commission expense** | | **(49)** | (60) |
| **Total net income** | | **(4,068)** | 3,340 |
| Other operating expenses | | **(701)** | (833) |
| **(Loss)/profit before tax** | | **(4,769)** | 2,507 |
| Taxation | 7 | **929** | (920) |
| **Net (loss)/profit** | | **(3,840)** | 1,587 |

The accounting policies and notes on pages 10 to 29 form part of these financial statements.

* Interest income has been restated due to interest on basis swaps being reclassified to be consistent with the Group accounts.

# Leek Finance Number Eighteen PLC

## Balance sheet as at 31 December 2008

| | Notes | 2008 £000 | 2007 £000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 8 | **36,627** | 12 |
| Derivative financial instruments | 12 | **170,603** | 17,762 |
| Deemed loans due from group undertakings | 9 | **685,650** | 901,101 |
| Other receivables | 10 | **2,646** | 48,382 |
| **Total assets** | | **895,526** | 967,257 |
| **Liabilities** | | | |
| Deposits from banks | 11 | **2,034** | 3,564 |
| Derivative financial instruments | 12 | **121** | 33,801 |
| Debt securities in issue | 13 | **861,586** | 895,433 |
| Other payables | 14 | **29,181** | 27,079 |
| Deferred tax liability | 7 | **531** | 1,467 |
| Current tax liability | | **7** | 7 |
| **Total liabilities** | | **893,460** | 961,351 |
| **Equity** | | | |
| Called up share capital | 15 | **13** | 13 |
| Retained earnings | 16 | **2,053** | 5,893 |
| **Total equity and liabilities** | | **895,526** | 967,256 |

The accounting policies and notes on pages 10 to 29 form part of these financial statements.

Approved by the board of directors on 26 March 2009 and signed on their behalf by:

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

# Leek Finance Number Eighteen PLC

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

| **Year ended 31 December 2008** | **Share Capital £000** | **Retained Earnings £000** | **Total £000** |
|---|---|---|---|
| At 1 January | **13** | **5,893** | **5,906** |
| Loss for the year | **-** | **(3,840)** | **(3,840)** |
| At 31 December | **13** | **2,053** | **2,066** |

| Year ended 31 December 2007 | Share Capital £000 | Retained Earnings £000 | Total £000 |
|---|---|---|---|
| At 1 January | 13 | 4,306 | 4,319 |
| Profit for the year | - | 1,587 | 1,587 |
| At 31 December | 13 | 5,893 | 5,906 |

# Leek Finance Number Eighteen PLC

## Cashflow statement for the year ended 31 December 2008

| | Notes | 2008 £000 | 2007 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | 17 | **39,622** | 1,111 |
| Taxation paid | | **(7)** | - |
| **Cash flows from financing activities** | | | |
| Interest paid on subordinated debt | | **(1,262)** | - |
| Initial expense loan interest paid | | **(214)** | (250) |
| Repayment of initial expense loan | | **(1,524)** | (944) |
| **Net cash used in financing activities** | | **(3,000)** | (1,194) |
| **Net movement in cash and cash equivalents** | | **36,615** | (83) |
| Cash and cash equivalents at start of year | | **12** | 95 |
| **Cash and cash equivalents at end of year** | 8 | **36,627** | 12 |

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

## Basis of preparation

Leek Finance Number Eighteen PLC is a company incorporated and domiciled in England and Wales.

The company's financial statements have been prepared under the historical cost convention as modified by the revaluation of all derivative contracts.

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 20.

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

## Foreign currency translation

***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.

***Transactions and balances***

Foreign currency transactions are converted into sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the conversion and settlement of currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies (for example, Euro and US dollar denominated debt securities) are recognised in the income statement.

## 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
- Interest income and expense on derivatives, which are measured at fair value.

***Effective interest rate***

The effective interest 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 year. 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 year, 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.

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

## Interest income and expense (continued)

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 depends on the extent to which the surplus income generated by the underlying mortgage books to which the company has a beneficial interest, exceeds the administration costs of the mortgage books, and 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 years is recorded in the income statement in the year in which it arises

## Tax

Tax on the loss 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 years.

***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.

## Financial assets

The company's financial assets are categorised as follows:

**a. Financial assets at fair value through income or expense**

This category covers assets acquired principally for the purpose of selling in the short term or if so designated at initial recognition by management. It includes the company's derivative financial instruments, which meet IAS 39 requirements.

Financial assets at fair value through income and expense are initially recognised at fair value on the date that the company commits to purchase the derivative. The fair values of quoted investments in active markets are based on current bid prices. Associated transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair values are included in the income statement in the year in which they arise.

**b. Loans and receivables**

Loans and receivables are assets with fixed or determinable payments that are not quoted in an active market. They include beneficial ownership of loans and advances to customers.

Loans and receivables are recognised when the cash is advanced. They are carried at amortised cost using the effective interest rate method, with all movements being recognised in the income statement.

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

## Financial assets (continued)

Financial assets are derecognised when:

- the rights to receive cash flows from the assets have ceased; or
- the company has transferred substantially all the risks and rewards of ownership of the assets.

## Derivative financial instruments and hedge accounting

Derivatives are financial instruments such as interest rate and currency swaps used by the company to manage its interest rate and foreign exchange risks arising from the normal course of business.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, or based on recent market transactions where no active market exists. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

***Derivatives that do not qualify for hedge accounting***
No derivative instruments qualify for hedge accounting. Changes in the fair value of any such instruments are recognised in the income statement.

## Deemed loans due from company 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 purchasing 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 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 from banks;
- derivatives;
- debt securities; 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.

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

### Financial liabilities (continued)

Financial liabilities, other than derivatives, 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.

Issue costs, including premiums and discounts, commissions and other costs incurred in the issuing of fixed and floating rate notes and subordinated liabilities, are amortised 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' maturity from the date of acquisition.

### Segmental reporting

A business segment is a company of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The company's only geographical segment is considered to be the United Kingdom.

### 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.

*a. Effective interest rate*

The calculation of an effective interest rate requires the company to make assumptions around the expected lives of mortgages to which the company has beneficial ownership and the likely levels of early repayment fees (ERFs) to be received on the loans to which the company has beneficial ownership. The most critical assumption is on the level of future ERFs.

Were the ERF assumptions to change by 10% there would be an adjustment to profit of an estimated £108k (2007: £284k).

# Leek Finance Number Eighteen PLC

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

### 1 Loss before tax

Loss on ordinary activities before taxation is stated after charging:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Audit fee for the audit of the company's financial statements | **8** | 12 |

Non-audit fees classified as other audit services relating to securitisation are capitalised on the balance sheet and amortised over five years, being the period until the step-up date, on which the company may exercise its option to redeem the notes. At 31 December 2008, the unamortised non-audit fees included on the balance sheet were £76k (2007: £104k).

### 2 Interest income

| | 2008 £000 | Restated* 2007 £000 |
|---|---|---|
| On financial assets not at fair value through income and expense | | |
| Deemed loan interest receivable | **44,202** | 77,705 |
| Deferred consideration payable to group undertakings (note 10) | **-** | (1,583) |
| Adjustments to the carrying value of deemed loans | **(4,651)** | (1,714) |
| Interest receivable from Britannia Building Society | **2,356** | 3,463 |
| Cash and short term funds | **1,974** | - |
| | **43,881** | 77,871 |
| On financial assets at fair value through income and expense | | |
| Net income/(expense) on financial derivative instruments | **6,101** | (11,392) |
| | **49,982** | 66,479 |

* Net income/(expense) on financial derivative instruments has been restated to include interest on basis swaps, to be consistent with the Group accounts.

# Leek Finance Number Eighteen PLC

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

### 3 Interest expense

| | 2008 £000 | 2007 £000 |
|---|---|---|
| On financial liabilities not at fair value through income and expense | | |
| Interest expense on debt securities in issue | **51,483** | 60,490 |
| Interest payable to Britannia Building Society | **2,310** | 2,266 |
| Other borrowed funds | **208** | 323 |
| | **54,001** | 63,079 |

### 4 Fee and commission expense

| | 2008 £000 | 2007 £000 |
|---|---|---|
| On financial assets not at fair value through income and expense | | |
| Bank charges | **49** | 60 |

### 5 Gains less losses from derivative financial instruments

| | 2008 £000 | Restated* 2007 £000 |
|---|---|---|
| Gross foreign currency (loss)/gain on US dollar debt | **(122,778)** | 9,426 |
| Gross foreign currency loss on Euro debt | **(56,190)** | (18,045) |
| Gross foreign currency gain/(loss) on US dollar cross currency swap | **122,778** | (9,426) |
| Gross foreign currency gain on Euro cross currency swap | **56,190** | 18,045 |
| | **-** | - |

At inception the company implemented perfectly matched foreign currency swaps ensuring that the net value of gross foreign exchange gains and losses is nil. The foreign exchange risk exposure of the company is mitigated by the use of these highly effective foreign currency swaps and is described further in note 12.

* Interest on basis swap was reclassified under net income/(expense) on financial derivative instruments in note 2 to be consistent with the Group accounts.

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

## 6 Directors' emoluments and employees

The directors receive 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 scheme (2007: nil).

The company had no employees during the year or the previous period.

## 7 Taxation

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| UK tax at 20.75% (2007: 19.75%) | | |
| Corporation tax | | |
| Current | 7 | 7 |
| Total corporation tax | 7 | 7 |
| Deferred tax | (1,009) | 883 |
| Adjustments in respect of prior periods | 73 | 30 |
| | (929) | 920 |

**Factors affecting tax charge for the year**

The average effective rate of corporation tax assessed for the year is lower than the standard rate of corporation tax for small companies in the UK (20.75%) (2007: 19.75%). The differences are explained below:

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| Loss on ordinary activities before tax | (4,769) | 2,507 |
| Loss before tax multiplied by standard rate of tax | (990) | 501 |
| Effects of: | | |
| Adjustments in respect of prior periods | 73 | 419 |
| Change in rate of tax | (12) | - |
| | (929) | 920 |

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

## 7 Taxation (continued)

The recognised deferred tax liability includes the following amounts:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Short term timing differences | **531** | 1,467 |

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 which ensures 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. 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.

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 where the deferred income taxes relate to the same fiscal authority.

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

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Deferred tax liability at start of year | **1,467** | 554 |
| Restatement of opening balance | **73** | 29 |
| Income statement debit | **(1,009)** | 884 |
| Deferred tax liability at end of year | **531** | 1,467 |

Deferred tax liability expected to be repaid after one year is £531k (2007: £1,467k).

## 8 Cash and cash equivalents

For the purposes of the cashflow statement, cash and cash equivalents comprises the following balance with less than 3 months maturity from the date of acquisition:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Cash and balances with the Bank of England | **97** | 12 |
| Loans and advances to banks | **36,530** | - |
| | **36,627** | 12 |

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

## 9 Deemed loans due from group undertakings

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Deemed loans recoverable | 700,192 | 915,643 |
| Deferred consideration payable (see below) | (14,542) | (14,542) |
| | 685,650 | 901,101 |

The deemed loans recoverable are 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 recoverable will be repaid within 12 months, although the amount cannot be quantified.

Deferred consideration is payable to Meerbrook Finance Number One Limited and Platform Funding Limited dependent on the extent to which surplus income is generated by the underlying mortgage books, to which the company has a beneficial interest, exceeds the administration costs of the mortgage books. The surplus income generated during the year ended 31 December 2008 amounted to nil (2007: £1,583k). The deferred consideration payable is as follows:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Amounts owed to Meerbrook Finance Number One Limited | 4,434 | 4,434 |
| Amounts owed to Platform Funding Limited | 10,108 | 10,108 |
| | 14,542 | 14,542 |

| | 2008 £000 | 2007 £000 |
|---|---|---|
| At 1 January | 14,542 | 12,959 |
| Additional consideration payable | - | 1,583 |
| At 31 December | 14,542 | 14,542 |

It is anticipated that the majority of the above deferred consideration will be payable after one year. Payments 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 payable within one year.

## 10 Other receivables

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Amounts owed from Britannia Building Society | 2,524 | 48,377 |
| Prepayments and accrued income | 122 | 5 |
| | 2,646 | 48,382 |

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

## 10 Other receivables (continued)

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

The effective interest rate on the above amounts owed by group undertakings is 3 month LIBOR less 50 basis points.

## 11 Deposits from banks

| | **2008** | 2007 |
|---|---|---|
| | **£000** | £000 |
| Other deposits | **2,034** | 3,564 |

Of the above balance, £1,932k is expected to be settled more than 12 months after the balance sheet date. The deposits have a variable rate based on 3 month LIBOR plus 150 basis points.

## 12 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, various tranches of loan notes, cash and cash equivalents and amounts owed to/from group undertakings.

Numerical financial instruments disclosures are set out below:

| | **Assets** | **Liabilities** | Assets | Liabilities |
|---|---|---|---|---|
| | **2008** | **2008** | 2007 | 2007 |
| | **£000** | **£000** | £000 | £000 |
| Basis risk swaps | **-** | **121** | (10) | 145 |
| Cross-currency swaps | **170,603** | **-** | 17,772 | 33,656 |
| | **170,603** | **121** | 17,762 | 33,801 |

**Fair values of financial instruments**

Set out in the tables below are comparisons of book and fair values of the company's financial instruments by category. Where available, market values have been used to determine fair values.

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

## 12 Financial instruments (continued)

| | Book Value 2008 £000 | Fair Value 2008 £000 |
|---|---|---|
| Cash and cash equivalents | **36,627** | **36,627** |
| Deemed loans due from group undertakings | **685,650** | **686,426** |
| Other receivables | **2,646** | **2,646** |
| Deposits from banks | **(2,034)** | **(2,034)** |
| Other payables | **(29,181)** | **(29,181)** |
| Debt securities in issue | | |
| Notes A2a | **(132,731)** | **(96,761)** |
| Notes A2b | **(262,878)** | **(189,272)** |
| Notes A2c | **(88,655)** | **(64,435)** |
| Notes A2d | **(193,700)** | **(139,464)** |
| Notes Ma | **(12,500)** | **(2,745)** |
| Notes Mc | **(74,732)** | **(16,344)** |
| Notes Ba | **(25,900)** | **(2,479)** |
| Notes Bc | **(23,214)** | **(2,242)** |
| Notes Ca | **(6,000)** | **(412)** |
| Notes Cc | **(43,749)** | **(3,084)** |
| Floating rate notes interest payable | **400** | **400** |
| Unamortised issue costs | **2,073** | **2,073** |
| Total Debt securities in issue | **(861,586)** | **(514,765)** |

| | Book Value 2007 £000 | Fair Value 2007 £000 |
|---|---|---|
| Bank deposits | 12 | 12 |
| Deemed loans due from group undertakings | 901,101 | 901,101 |
| Other receivables | 48,382 | 48,382 |
| Deposits from banks | (3,564) | (3,564) |
| Other payables | (27,079) | (27,079) |

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

## 12 Financial instruments (continued)

| | Book Value 2007 £000 | Fair Value 2007 £000 |
|---|---|---|
| Debt securities in issue | | |
| Notes A1a | (29,271) | (29,251) |
| Notes A1b | (33,324) | (33,284) |
| Notes A2a | (171,100) | (168,585) |
| Notes A2b | (249,035) | (245,200) |
| Notes A2c | (83,987) | (82,694) |
| Notes A2d | (183,499) | (179,517) |
| Notes Ma | (12,500) | (11,684) |
| Notes Mc | (54,920) | (51,207) |
| Notes Ba | (25,900) | (23,064) |
| Notes Bc | (17,060) | (15,124) |
| Notes Ca | (6,000) | (5,079) |
| Notes Cc | (32,151) | (27,074) |
| Floating rate notes interest payable | 545 | 545 |
| Unamortised issue costs | 2,768 | 2,768 |
| Total Debt securities in issue | (895,433) | (868,449) |

Fair values have been determined as follows:

**Deposits and borrowings**

The estimated fair value of deposits with no stated maturity, which includes non interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

**Debt securities in issue**

The aggregate fair values are calculated based on estimates of quoted market prices from third party valuations.

Derivatives are excluded from the tables above as they are already recorded at fair value.

**Risk management and control**

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

- interest rate risk;
- credit risk;
- currency risk; and
- liquidity risk.

## 12 Financial instruments (continued)

At the inception of the securitisation the material risks are considered in relation to the overall low risk appetite of the company. Instruments used for risk management purposes are set up at inception of the securitisation and include interest rate and cross currency swaps. These are not used in trading activity or for speculative purposes.

**Interest rate risk**

The company is exposed to movements in interest rates and manages this exposure using derivatives. More specifically, the company is also exposed to basis risk due to the timing difference in interest payment dates on the notes and the deemed loan. This is hedged using a form of an interest rate swap known as a 'basis' swap, which is taken out on inception of the securitisation. The notional principal amounts of the outstanding basis swap contracts at 31 December 2008 were £526,866 (2007: £808,566k).

After taking into consideration the company's derivative instruments, the administered interest rate nature of the company's deemed loans, the regular re-pricing of the company's mortgage backed floating rate notes, together with the nature of the company's other assets and liabilities, the directors do not believe that the company has any significant interest rate re-pricing exposure.

The amounts of deferred consideration payable to Meerbrook Finance Number One Limited and Platform Funding Limited are non-interest bearing financial liabilities. As described in note 9, 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 mortgage backed floating rate notes and the subordinated loan owed to Britannia Building Society are classified as floating rate liabilities. The benchmark rates used for determining interest rate payments are disclosed in note 13 and note 14.

***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%.

**Credit risk**

The company is exposed to credit risk on cash and cash equivalents, deemed loans, derivative financial instruments and other receivables (excluding prepayments).

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.

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

## 12 Financial instruments (continued)

***Maximum exposure to credit risk (by class) before collateral held or other credit enhancements:***

| Category (as defined by IAS 39) | Class | 2008 £000 | 2007 £000 |
|---|---|---|---|
| Cash and cash equivalents | Cash and cash equivalents | **36,627** | 12 |
| Financial assets at FV through income and expense | Derivative financial instruments | **170,603** | 17,762 |
| Loans and receivables | Deemed loans | **685,650** | 901,101 |
| Loans and receivables | Other receivables | **2,646** | 48,382 |
| | | **895,526** | 967,257 |

***Derivatives:***
At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the company, (i.e. assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the company requires margin deposits from counterparties.

***Deemed loans:***
The above table shows the maximum exposure to credit risk on deemed loans.

The risk on the deemed loan is mitigated by the size and quality of the securitised loans and advances to customers. The average loan to value percentage of the underlying mortgage assets, to which the deemed loans relate, was 80.3% (2007: 66.9%) at the balance sheet date. The 2007 LTV percentage has been restated from 83.5% to 66.9% due to the prior year calculation using non indexed data.

An arrears analysis of the underlying mortgage portfolio is shown below:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Not in arrears | **526,201** | 777,007 |
| 1-3 months past due | **82,488** | 86,993 |
| 4-6 months past due | **42,740** | 21,457 |
| 7-12 months past due | **30,108** | 11,283 |
| Over 12 months past due | **13,090** | 7,564 |
| **Total** | **694,627** | 904,304 |

***Other receivables:***
The maximum exposure to credit risk on other assets as shown above represents amounts owed by the ultimate parent company, Britannia Building Society. Due to the way the intercompany balances are managed at a group level the actual exposure to credit risk on this balance is considered to minimal.

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

## 12 Financial instruments (continued)

### Currency risk

Currency risk arises as a result of activities undertaken by the company when raising funds in currencies other than sterling.

The notional principal amounts of the outstanding cross-currency contracts at 31 December 2008 were £699,999k (2007: £653,977k).

US dollar notes are exposed to movements in the US dollar exchange rate and the US dollar LIBOR rate (note 13). The company is also exposed to movements in the EURO exchange rate and the EURIBOR rate relating to EURO notes (note 13). Currency swaps that are perfectly matched are put in place at inception of the securitisation with JP Morgan Chase Bank to manage and mitigate these exposures. As a result of these highly effective swaps there is no sensitivity to movements in exchange rates.

### 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.

Funding has been obtained through the issue of floating rate loan notes. The company has in place a borrowing facility to ensure that sufficient liquidity is maintained to meet its obligations on the floating rate notes (note 14).

The notes issued by the company are repayable in line with the collections of principal from the securitised mortgage loans. Under the terms of the notes the company can repurchase the outstanding notes of a securitisation issue at par once the outstanding principal amount of the notes falls below 10% of the amount originally issued or in full on any interest payment date on or after 21 December 2011. The earliest contractual maturity of the debt securities in issue is 21 December 2011, when the balance outstanding on the notes may be repaid. Such repurchase options are considered to be closely related to the economic characteristics and risks of the notes themselves and are not separately accounted for as embedded derivatives.

The gross undiscounted contractual cash flows payable on debt securities in issue are provided below:

| | **2008** | 2007 |
|---|---|---|
| | **£000** | £000 |
| Up to 3 months | **22,402** | 21,165 |
| 3 to 12 months | **26,986** | 47,024 |
| 1 to 5 years | **92,880** | 927,265 |
| Over 5 years | **580,598** | - |
| | **722,866** | 995,454 |

The overall liquidity risk is effectively mitigated as a result of the structure of the repayment of capital being required only in line with the repayment of the principle repayment of the underlying mortgage loans.

The gross undiscounted cash flows for derivative financial instruments of £121k are all due in more than 1 year but not more than 3 years.

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

## 13 Debt securities in issue

| | 2008 £000 | 2007 £000 |
|---|---|---|
| £GBP Floating Rate Notes | **230,351** | 241,457 |
| $USD Floating Rate Notes | **456,578** | 465,858 |
| €EURO Floating Rate Notes | **174,657** | 188,118 |
| | **861,586** | 895,433 |

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **Due within one year** | | |
| Class A1a Mortgage Backed Floating Rate Notes due 2038 | - | 11,800 |
| Class A1b Mortgage Backed Floating Rates Notes due 2038 | - | 13,434 |
| Class A2a Mortgage Backed Floating Rate Notes due 2038 | **6,061** | - |
| Class A2b Mortgage Backed Floating Rate Notes due 2038 | **12,003** | - |
| Class A2c Mortgage Backed Floating Rate Notes due 2038 | **4,048** | - |
| Class A2d Mortgage Backed Floating Rate Notes due 2038 | **8,845** | - |
| Floating Rate Notes interest payable | **(400)** | (545) |
| Unamortised issue costs | **(74)** | (78) |
| | **30,483** | 24,611 |
| **Due in more than one year** | | |
| Class A1a Mortgage Backed Floating Rate Notes due 2038 | - | 17,471 |
| Class A1b Mortgage Backed Floating Rate Notes due 2038 | - | 19,890 |
| Class A2a Mortgage Backed Floating Rate Notes due 2038 | **126,670** | 171,100 |
| Class A2b Mortgage Backed Floating Rate Notes due 2038 | **250,875** | 249,035 |
| Class A2c Mortgage Backed Floating Rate Notes due 2038 | **84,607** | 83,987 |
| Class A2d Mortgage Backed Floating Rate Notes due 2038 | **184,855** | 183,499 |
| Class Ma Mortgage Backed Floating Rate Notes due 2038 | **12,500** | 12,500 |
| Class Mc Mortgage Backed Floating Rate Notes due 2038 | **74,732** | 54,920 |
| Class Ba Mortgage Backed Floating Rate Notes due 2038 | **25,900** | 25,900 |
| Class Bc Mortgage Backed Floating Rate Notes due 2038 | **23,214** | 17,060 |
| Class Ca Mortgage Backed Floating Rate Notes due 2038 | **6,000** | 6,000 |
| Class Cc Mortgage Backed Floating Rate Notes due 2038 | **43,749** | 32,151 |
| Unamortised issue costs | **(1,999)** | (2,691) |
| | **831,103** | 870,822 |
| Total debt securities in issue | **861,586** | 895,433 |

The mortgage backed floating rate notes due 2038 are secured over a portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom.

Prior to redemption of the notes on the final interest payment date falling in September 2038, the notes will be subject to mandatory and/or optional redemption in certain circumstances, on each interest payment date.

## 13 Debt securities in issue (continued)

Classes of mortgage backed floating rate notes are subject to interest as detailed below. The three month LIBORs are revised quarterly and the following margins, which are not subject to revision, apply to the classes of notes as follows:

| | **Until 21 December 2011** | **From 21 December 2011 until 21 September 2038** |
|---|---|---|
| Class A1a notes at 3 month Sterling LIBOR plus | **0.04%** | **0.08%** |
| Class A1b notes at 3 month Dollar LIBOR plus | **0.04%** | **0.08%** |
| Class A2a notes at 3 month Sterling LIBOR plus | **0.13%** | **0.26%** |
| Class A2b notes at 3 month Dollar LIBOR plus | **0.13%** | **0.26%** |
| Class A2c notes at 3 month EURIBOR plus | **0.13%** | **0.26%** |
| Class A2d notes at 3 month Dollar LIBOR plus | **0.13%** | **0.26%** |
| Class Ma notes at 3 month Sterling LIBOR plus | **0.22%** | **0.44%** |
| Class Mc notes at 3 month EURIBOR plus | **0.22%** | **0.44%** |
| Class Ba notes at 3 month Sterling LIBOR plus | **0.42%** | **0.84%** |
| Class Bc notes at 3 month EURIBOR plus | **0.40%** | **0.80%** |
| Class Ca notes at 3 month Sterling LIBOR plus | **0.78%** | **0.99%** |
| Class Cc notes at 3 month EURIBOR plus | **0.78%** | **0.99%** |

The company has not had any defaults on principal, interest or any other breaches with respect to their liabilities during the year.

The earliest contractual maturity of the debt securities in issue is 21 December 2011, where £861,586k at 31 December 2008 (£895,433k at 31 December 2007) may be repaid, dependent on the optional early redemption of notes clause being exercised (p.22 Leek 18 offering circular). 21 December 2011 represents the earliest contractual date that Leek 18 could be repaid. However any optional early redemption of notes would be taken in line with the principles of a prudent lender.

The expected maturity profile of the debt securities in issues as at 31 December 2008 was as follows:

| | **2008** **£000** | 2007 £000 |
|---|---|---|
| In less than one year | **30,483** | 24,611 |
| In more than one year but not more than two years | **18,188** | 21,165 |
| In more than two years but not more than five years | **54,550** | 63,490 |
| In more than five years | **758,365** | 786,167 |
| | **861,586** | 895,433 |

The maturity table above reflects the estimated timing of principal repayments on the notes, based on the contractual payment terms on the underlying mortgages.

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

## 14 Other payables

| | **2008** | 2007 |
|---|---|---|
| | **£000** | £000 |
| Amounts owed to Platform Funding Limited | **2,018** | 1,162 |
| Subordinated debt owed to Britannia Building Society | **26,975** | 25,927 |
| Accruals and deferred income | **160** | (34) |
| Other | **28** | 24 |
| | **29,181** | 27,079 |

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 note holders have been met. Interest is calculated on the loan at the prevailing three-month LIBOR plus a margin of 4.0%.

There is a liquidity facility of £20,774k (2007: £31,446k) provided by The Royal Bank of Scotland. At 31 December 2008 the drawing at the facility amounted to nil (2007: nil). Interest on any drawing is payable to the facility provider at Libor plus a margin of 0.4% (2007: 0.4%).

## 15 Called up share capital

| | **2008** | 2007 |
|---|---|---|
| | **£** | £ |
| **Authorised** | | |
| 50,000 ordinary shares of £1 each | **50,000** | 50,000 |
| **Issued and fully paid** | | |
| 2 ordinary shares of £1 each | **2** | 2 |
| **Allotted and partially paid** | | |
| 49,998 ordinary shares of £1 each of which 25p paid | **12,500** | 12,500 |

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

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

## 16 Retained earnings

Movements in retained earnings were as follows:

| | 2008<br>£ | 2007<br>£ |
|---|---|---|
| At 1 January | 5,893 | 4,306 |
| (Loss)/profit for the period | (3,840) | 1,587 |
| At 31 December | 2,053 | 5,893 |

The loss in the year is mainly due to the impairment of the carrying value of the deemed loans due to write offs of the underlying mortgage assets. The high retained profit in 2007 was due to deferred consideration payable being based on the profit of the company under UK GAAP, as required by the capital market arrangement, which in 2007 and 2008 gave rise to a lower profit figure than that calculated under International Financial Reporting Standards.

## 17 Reconciliation of operating (loss)/profit to net cash flows from operating activities

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| (Loss)/profit before tax | (4,769) | 2,507 |
| Interest payable on subordinated loan | 2,310 | 2,266 |
| Initial expense loan interest payable | 208 | 573 |
| Cashflows from operating (loss)/profits before changes in operating assets and liabilities: | (2,251) | 5,346 |
| Decrease in deemed loans due from group undertakings | 215,451 | 126,300 |
| Net increase in other receivables | (107,105) | (3,852) |
| Net decrease in debt securities | (33,847) | (132,596) |
| Net (decrease)/increase in other payables | (32,626) | 5,913 |
| **Net cash flows from operating activities** | 39,622 | 1,111 |

## 18 Ultimate parent undertaking and controlling entity

The company's immediate parent undertaking is Leek Finance Holdings Number Eighteen Limited.

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

The ultimate parent undertaking of Leek Finance Number Eighteen PLC 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, Cheadle Road, 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.

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

## 19 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 Britannia Building Society and its subsidiaries are disclosed in the financial statements as follows:

| **Period ended 31 December 2008** | **Interest and similar income £000** | **Interest and similar expense £000** | **Balance due to/(from) Leek Finance Number Eighteen PLC £000** |
|---|---|---|---|
| Meerbrook Finance Number One Limited | **17,440** | **-** | **255,804** |
| Platform Funding Limited | **33,247** | **643** | **427,829** |
| Britannia Building Society | **2,356** | **2,310** | **(24,451)** |

| **Year ended 31 December 2007** | Interest Income £000 | Interest expense £000 | Balance due to/(from) Leek Finance Number Eighteen PLC £000 |
|---|---|---|---|
| Meerbrook Finance Number One Limited | 23,802 | - | 329,593 |
| Platform Funding Limited | 41,907 | 784 | 570,347 |
| Britannia Building Society | 3,463 | 2,266 | 22,450 |

Capita Trust Company Limited, a director of the company received fees in respect of management services of £14k (2007: nil). The amount outstanding at the 31 December 2008 was nil (2007: nil).

## 20 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:

- IFRS8 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.