

Leek Finance Number Two PLC
Directors' report and financial statements
for the year ended 31 December 2006

Registered Number 3588441



Leek Finance Number Two PLC

Directors' report and financial statements

for the year ended 31 December 2006

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Leek Finance Number Two PLC

Directors and advisors

Directors

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

Secretary

Clifford Chance Secretaries (CCA) Limited

Auditors

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

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Registered Office

10 Upper Bank Street
London
E14 5JJ

Registered Number

3588441

Leek Finance Number Two PLC

Directors' report for the year ended 31 December 2006

The directors present their report and the audited financial statements of the company for the year ended 31 December 2006.

Principal activities

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

Review of business and future development

During the year the company paid on all interest it received for its previously held mortgages. Deemed loan assets and liabilities decreased in line with the Mortgage portfolio they reflect. The decrease is due to the mortgage repayments received during the year. The deemed loan interest, which is based on the outstanding capital, decreased in line with the decrease in mortgage portfolio, which is performing 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 are expected to decrease in future years. The rate of decrease is dependent on future redemptions and further advances. Management expect the company to continue to be profitable in future years.

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.

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 the sale of the beneficial title of mortgage portfolios; the resulting "deemed loan" asset is recognised on the SPE's Balance sheet.

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.

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

Results and dividends

The profit for the year, after tax, amounted to £500 (2005: £551). The net liabilities of the company at 31 December 2006 are £71k (2005:£71k). The directors do not propose a dividend for the year (2005: £nil).

Directors and their interests

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

A W Gower (resigned 31 October 2006)

PCSL Services No. 1 Limited

Capita Trust Company Limited

Capita Trust Corporate Services Limited (appointed 31 October 2006)

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.

Leek Finance Number Two PLC

Directors' report for the year ended 31 December 2006 (continued)

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 2006 and that applicable International Financial Reporting Standards have been followed.

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

Disclosure of information to auditors

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

Financial risk management

The directors have considered the financial risks affecting the company and have disclosed the relevant policies in the Notes to the financial statements.

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.

By order of the Board



P A Lee for PCSL Services No.1 Limited

Director

23 March 2007

Leek Finance Number Two PLC

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

We have audited the financial statements of Leek Finance Number Two PLC for the year ended 31 December 2006 which comprise the Income statement, the Balance sheet, the Cash flow statement, the Statement of recognised income and expenditure 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 2006 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

23 March 2007

Leek Finance Number Two PLC

Income statement for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Interest income	2	571	749
Interest expense	3	(564)	(741)
Net interest income		7	8
Other operating expenses		(7)	(7)
Profit before tax		-	1
Taxation	5	-	-
Net profit	11	-	1

The accounting policies and notes on pages 7 to 17 form part of these financial statements.

Statement of recognised income and expenditure for the year ended 31 December 2006

There was no income or expenditure in the period ended 31 December 2006 or 31 December 2005, other than that shown above.

Leek Finance Number Two PLC

Balance sheet as at 31 December 2006

	Notes	2006 £000	2005 £000
Assets			
Deemed loans due from group undertakings	6	9,082	11,442
Other assets	7	214	214
Total assets		9,296	11,656
Liabilities			
Deemed loans due to group undertakings	8	9,334	11,694
Other liabilities	9	33	33
Total liabilities		9,367	11,727
Equity			
Called up share capital	10	12	12
Retained earnings	11	(83)	(83)
Total equity and liabilities		9,296	11,656

The disclosure of the Balance sheet comparatives has been amended to ensure presentation is consistent with other group companies. Deferred purchase consideration is now netted off against deemed loans due from/to group undertakings.

The accounting policies and notes on pages 7 to 17 form part of these financial statements.

Approved by the Board of directors on 23 March 2007 and signed on their behalf by:



P A Lee for PCSL Services No.1 Limited
Director

Cash flow statement for the year ended 31 December 2006

No Cash flow statement is presented since the disclosure has been amended to ensure presentation is consistent with other group companies. Taxation cash flows are now disclosed within Note 12: Reconciliation of operating profit to net cash flows from operating activities.

Leek Finance Number Two PLC

Statement of accounting policies for the year ended 31 December 2006

Basis of preparation

Leek Finance Number Two PLC is a company incorporated and domiciled in the United Kingdom. The accounts of the company are presented in £ Sterling unless otherwise stated.

From 1 January 2005, the company has prepared its annual financial statements in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

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

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

Interest income and expense

Interest income and expense are recognised in the Income statement using the effective interest rate method.

Effective interest rate

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

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

Deferred consideration payable

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

Deferred consideration receivable

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

Financial assets

Beneficial ownership of loans and advances to customers are classified as loans and receivables and are carried at amortised cost using the effective interest rate method with all movements being recognised in the Income statement.

Leek Finance Number Two PLC

Statement of accounting policies for the year ended 31 December 2006 (continued)

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 on the originator's Balance sheet. IAS 39 also requires the company to recognise a "deemed loan" financial liability for the sale of the 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 loans and advances to customers and is subsequently adjusted due to repayments made on 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 deemed loan assets.

Deferred consideration receivable and payable

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

Segmental reporting

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

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006

1 Profit before tax

Profit before tax is stated after charging:

	2006 £000	2005 £000
Auditors' remuneration	3	3

2 Interest income

	2006 £000	2005 £000
Deemed loan interest receivable	800	1,059
Deferred purchase consideration payable	(236)	(320)
Interest receivable from Britannia Building Society	7	9
Other	-	1
	571	749

3 Interest expense

	2006 £000	2005 £000
Deemed loan interest payable	800	1,059
Deferred purchase consideration receivable	(236)	(318)
	564	741

4 Directors' emoluments and employees

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

There are no directors to whom benefits are accruing under the Britannia Building Society Pension schemes (2005:nil).

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

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

5 Taxation

There is no tax charge in the current or prior period.

Factors affecting tax charge for the year

The average effective rate of corporation tax assessed for the period is lower than the standard rate of corporation tax in the UK (19%). A reconciliation is shown below:

	2006	2005
	£	£
Profit on ordinary activities before tax	500	551
Profit before tax multiplied by standard rate of tax	95	105
Effects of:		
Utilisation of previously unrecognised tax losses	(95)	(105)
	-	-

The above comparatives have been amended to show the detail of this note in pounds.

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004, for accounting periods ended before 1 January 2007.

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 profit of the securitisation company required to be retained under the agreement that governs the company. As a consequence, the taxation treatment of securitisation companies will remain largely unchanged as a result of the introduction of IFRS.

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

As at 31 December 2006, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No. 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS37).

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

6 Deemed loans due from group undertakings

	2006 £000	2005 £000
Deemed loans recoverable	9,413	12,067
Deferred purchase consideration payable	(331)	(625)
	9,082	11,442

The effective interest rate on the deemed loan during the year was 7.45% (2005: 8.0%).

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 purchase consideration payable

Deferred consideration is payable to Mortgage Agency Services Number Two Limited dependent on the extent to which the surplus income generated by the mortgage books, that Leek Finance Number Two PLC holds the beneficial title to, exceeds the administration costs of the mortgage books. The surplus income generated during the year ended 31 December 2006 amounted to £236k (2005: £320k). The deferred consideration is payable as follows:

	2006 £000	2005 £000
Amounts owed to Mortgage Agency Services Number Two Limited	331	625
	331	625

The movements in deferred consideration are as follows:

	2006 £000	2005 £000
At start of period	625	617
Additional consideration payable	236	320
Repayments made during the year	(530)	(312)
At end of period	331	625

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

7 Other assets

	2006	2005
	£000	£000
Amounts owed by group undertakings	214	214
	214	214

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.

8 Deemed loans due to group undertakings

	2006	2005
	£000	£000
Deemed loan repayable	9,413	12,067
Deferred purchase consideration receivable	(79)	(373)
	9,334	11,694

The effective interest rate on the deemed loan during the year was 7.45% (2005: 7.50%).

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

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

8 Deemed loans due to group undertakings (continued)

Deferred purchase consideration receivable

	2006	2005
	£000	£000
Amounts owed by Meerbrook Finance Number One Limited	79	373
	79	373

The movements in deferred consideration are as follows:

	2006	2005
	£000	£000
At start of period	373	367
Additional consideration receivable	236	318
Amounts received during the year	(530)	(312)
At end of period	79	373

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.

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

9 Other liabilities

	2006 £000	2005 £000
Amounts owed to Leek Finance Holdings Number Two Limited	27	27
Accruals and deferred income	6	6
	33	33

The amounts owed to Leek Finance Holdings Number Two Limited are expected to be settled on the wind up of Leek Finance Number Two PLC. Management do not anticipate that this will occur within the next 12 months. No interest is payable on this intercompany balance.

10 Called up share capital

	2006 £	2005 £
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

11 Retained earnings

Movements in Retained earnings were as follows:

	2006 £000	2005 £000
Balance at start of period	(83)	(84)
Profit for the period	-	1
At 31 December	(83)	(83)

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

	2006 £000	2005 £000
Profit before tax	-	1
Cash flows from operating profits before changes in operating assets and liabilities:	-	1
Net decrease in deemed loans due from group undertakings	2,361	4,118
Net decrease in deemed loans due to group undertakings	(2,361)	(4,116)
Net increase in other assets	-	(31)
Taxation	-	28
Net cash flows from operating activities	-	-

13 Ultimate parent undertaking and controlling entity

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

Royal Exchange Trust Company Limited holds 100% of the issued share capital of Leek Finance Holdings Number Two Limited, subject to terms of a declaration of trust for general charitable purposes.

The ultimate parent undertaking of Leek Finance Number Two 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, 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.

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

14 Related party disclosures

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

	<u>Interest income</u>	<u>Interest expense</u>	<u>Balance due to/(by) Leek Finance Number Two</u>
Year ended 31 December 2006	£000	£000	£000
Britannia Building Society	7	-	214
Leek Finance Holdings Number Two Limited	-	-	(27)
Mortgage Agency Services Number Two Limited	800	236	9,082
Meerbrook Finance Number One Limited	236	800	(9,334)

	<u>Interest income</u>	<u>Interest expense</u>	<u>Balance due to/(by) Leek Finance Number Two</u>
Year ended 31 December 2005	£000	£000	£000
Britannia Building Society	9	-	214
Leek Finance Holdings Number Two Limited	-	-	(27)
Mortgage Agency Services Number Two Limited	1,059	320	11,442
Meerbrook Finance Number One Limited	318	1,059	(11,694)

Leek Finance Number Two PLC

Notes to the financial statements for the year ended 31 December 2006 (continued)

15 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 and various tranches of loan notes.

Interest rate risk

The company has no derivative financial instruments as at 31 December 2006 and has no significant interest rate re-pricing exposure.

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

Fair values of financial instruments

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

	Book Value	Fair Value
	2006	2006
	£000	£000
Deemed loans due from group undertakings	9,082	9,082
Other assets	214	214
Deemed loans due to group undertakings	(9,334)	(9,334)
Other liabilities	(33)	(33)

	Book Value	Fair Value
	2005	2005
	£000	£000
Deemed loans due from group undertakings	11,442	11,442
Other assets	214	214
Deemed loans due to group undertakings	(11,694)	(11,694)
Other liabilities	(33)	(33)

Credit risk

Deemed loans:

Credit risk on deemed loans 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.

Effective interest rates

The effective interest rates of those monetary financial instruments not carried at fair value through income and expense as at 31 December 2006 are disclosed in the relevant notes to the accounts.