# ALBA 2006-1 PLC

**Directors' Report and Financial Statements**

**For the year ended 31 December 2009**

**Registered number 5746554**

## Company information

### Directors

L D C Securitisation Director No 3 Limited
L D C Securitisation Director No 4 Limited

### Company secretary

Law Debenture Corporate Services Limited

### Registered office

Fifth Floor
100 Wood Street
London EC2V 7EX

### Auditors

KPMG Audit Plc
15 Canada Square
London E14 5GL

**Contents**

**Directors' report**

The directors present their directors' report and financial statements for the year ended 31 December 2009

**Principal activities**

The principal activity of the Company consists of the acquisition, consolidation and securitisation of residential mortgage portfolios

**Review of the business**

During the period, the Company redeemed £29,882,000 of its issued class A3a notes (being 25 09% of the issued notes in that class) and £20,072,000 of its issued class A3b notes (being 25 09% of the issued notes in that class)

The difficult economic climate has continued to affect the Company and its business The UK mortgage and housing sectors remained challenging during the year, with concerns about the levels of arrears, repossessions and loss severities from the sale of properties House prices declined for much of the year and although they began to stabilise towards the end of the year, they may not reach previous levels for some time Weighed against this, lower interest rates brought some relief for mortgage payers and this has helped the Company to some extent

During 2009, the Company has utilised some of its reserve fund to cushion any adverse performance in the mortgages The directors believe that excess spreads may generate sufficient income in the near future to allow some replenishment of the reserve fund

Following a downgrade by Standard & Poor's of the short term rating of Danske Bank, the Liquidity Service Provider, the Company issued a Standby Drawing Notice to Danske Bank and, on 12 February 2009, drew down in accordance with the Liquidity Facility Agreement a total of £23,300,162 in to a Standby Drawing Account as disclosed at note 24 The drawn down amount is reducing over time as the A3 Notes redeem There is no material impact on the Noteholders as a result of the Company's actions

In June 2009, it was identified that certain transaction expenses had not been recorded in accordance with the priority of payments as set out in the original transaction documents While the necessary reconciliations were being undertaken, the August and November 2009 interest payment date payments went ahead on time Following the reconciliation process, it was established that there had been over payments of amounts to certain Noteholders and this required a recall Payments to affected Noteholders have been adjusted to remedy this and revised investor reports published The results of the recall are included in the Company's accounts and were immaterial This matter led, however, to a downgrade of certain of the Company's Notes by Moody's as disclosed at Note 26

**Future developments**

The Company intends to continue trading as in prior years 2010 should see the continuation of low interest rates, which the directors believe will be broadly positive for the Company, notwithstanding that the outlook for the UK property market remains clouded Any increase in interest rates might adversely impact the housing market and the rate of repossessions, which may again increase The Company will continue, through its agents, to aim to reduce the number of repossessions on mortgages within the portfolio by careful arrears management

**Key Performance Indicators (KPIs)**

Financial KPIs - the directors monitor the actual receipts and payments of interest to and from the Company through the bank statements and measure these against schedules and forecasts prepared by the servicers of the mortgage pools, in accordance with the transaction documents The directors believe that all conditions of the transaction documents have been met

Non-financial KPIs – as the purpose of the business is entirely finance related, the directors are of the view that there are no meaningful non-financial KPIs that could be adopted

## Directors' report (continued)

### Internal controls, risk profile and risk management

The Board has overall responsibility for the Company's internal control system which encompasses all risks faced by the Company including business, operational and compliance risks The Board is responsible for approving the Company's risk management strategy, and the level of acceptable risks The principal risks faced by the Company are set out in the following paragraphs, and expanded upon at Note 21, including a description of how those risks are managed

### Foreign exchange risk

As the Company deals only in sterling denominated Notes, and all of its transactions are conducted in sterling, there is no foreign exchange risk

### Interest rate risk

The Company enters into interest rate derivative transactions in the nature of an interest rate swap to manage the difference between the variable interest rates applicable to the Notes and the fixed interest rate mortgage loans At the time of acquisition of the portfolio a LIBOR cap was purchased by the Company as part of the rating process to manage the effect of interest rate increases on the floating rate Notes

### Liquidity risk

Liquidity risk arises from a mismatch in the cash flows generated from current assets and liabilities The Company's policy is to ensure that interest and principal repayments due on the Notes are timed to coincide with amounts due to the Company

Also referred to the paragraph on review of business (page 1) for details regarding drawdown of liquidity facility from Danske Bank

### Credit risk

The Company has established a credit quality review process prior to acquiring a loan and for ongoing monitoring of existing exposures to assess any potential loss and appropriate corrective action All mortgages are secured on residential property, and the Company places strong emphasis on the market value of the properties and the borrower's ability to service the loan

Impairment provisions are recorded on loans in arrears where the value of the loan in arrears is in excess of the estimated forced sale value of the underlying property held as security based on the probability of the loan going to repossession

The directors are aware of wider economic factors which might impact the mortgage market The principal risk factors to Note holders are set out in the prospectus of the Note issue, dated 14 June 2006 The directors remind Note holders and others that, among the risk factors is that the Company will rely solely on monies received or recovered on mortgage loans, and that the risk of principal deficiencies and revenue shortfalls lie with Note holders

### Results and going concern

The results for the year are set out on page 7 The directors do not recommend the payment of a dividend (2008 Nil)

Derivatives are held at fair value and, as such, there is a difference between the profits and those which would be presented on a historical cost basis Reported loss is £5,196,000 for the year ended 31 December 2009 This is made up of the loss for the financial year of £4,196,000 and adds derivative fair value loss of £1,000,000

Key factors in determining going concern include cash flows, bad debts and bad debt provisions The legal structure of the Notes means that the Company is only required to pay out funds to the extent that it has received them from mortgage holders The Company will draw on the reserve fund when necessary and this might lead to a principal deficiency if there are insufficient cash flows or reserve funds to pay Noteholders and others

**Directors' report (continued)**

**Results and going concern (continued)**

However, the Company is not required to fund the deficiency until either contractual maturity or in the event of an early termination trigger event These trigger events are monitored for the Company by its agents and to the best knowledge of the directors, no such trigger events have occurred or are expected to occur in the foreseeable future The directors have considered the cash flows for the next 12 months and are satisfied that the Company will continue to be able to meet its liabilities as they fall due

Having reviewed these factors, and taking into account current market conditions, in the opinion of the directors, the Company remains a going concern and the accounts have been prepared on this basis

**Derivatives and other financial instruments**

The Company's financial instruments, other than derivatives and fixed and variable rate mortgages, comprise the Notes, cash and other liquid resources, and various items, such as debtors and creditors that arise directly from its operations Further details are set out in Note 21 of the accounts

**Directors and directors' interests**

The directors who held office during the period were

L D C Securitisation Director No 3 Limited
L D C Securitisation Director No 4 Limited

During the year none of the directors held beneficial interests in the shares of the Company

**Policy and practice on payment to creditors**

The Company's policy is to agree terms and conditions with its suppliers and service providers Payment is made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier The trade creditors figure has not been stated as the measure is not appropriate to the business

**Political and charitable contributions**

The Company made no political or charitable donations during the year (2008 Nil)

**Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

**Disclosure of information to auditors**

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

By order of the board,

Law Debenture Corporate Services Limited
Company Secretary

30 June 2010

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report that complies with that law and those regulations

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALBA 2006-1 PLC

We have audited the financial statements of ALBA 2006-1 PLC for the year ended 31 December 2009 set out on pages 7 to 24 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Emphasis of matter – going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in the basis of preparation section in note 1 to the financial statements concerning the Company's ability to continue as a going concern The Company incurred a net loss of £5 2m during the year ended 31 December 2009 and, at that date, the Company's total liabilities exceeded its total assets by £4 8m

The payment of interest and principal on finance issued by the Company is solely dependent on the performance on its pool of subprime mortgages Conditions in the UK mortgage and housing market remained challenging during 2009 Future deterioration in the mortgage and housing market could result in future estimated cash flows received from the Company's assets being significantly less than expected and impact on the Company's ability to repay its creditors If the Company defaults certain of its loan notes, as may be the case if there is reasonably possible further deterioration in the markets, then the Security Trustee may, at its discretion, choose to wind-up the Company

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALBA 2006-1 PLC (continued)

### Emphasis of matter – going concern (continued)

These conditions, along with other matters set out in note 1to the financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

**Jonathan Bingham (Senior Statutory Auditor)**
**for and on behalf of KPMG Audit Plc, Statutory Auditor**
Chartered Accountants
15 Canada Square
London E14 5GL
United Kingdom

30 June 2010

**Profit and loss account**
**For the year ended 31 December 2009**

| | Note | **31 December 2009 £000s** | 31 December 2008 £000s |
|---|---|---|---|
| Interest receivable and similar income | 2 | **5,035** | 27,049 |
| Fair value movements of derivatives | 3 | **(1,000)** | (2,030) |
| Interest payable and similar charges | 4 | **(4,515)** | (18,614) |
| **Net interest (expense) / income** | | **(480)** | 6,405 |
| Administration expenses | 5 | **(998)** | (1,475) |
| Impairment charge | 6 | **(3,980)** | (7,302) |
| **Loss on ordinary activities before taxation** | | **(5,458)** | (2,372) |
| Taxation | 7 | **262** | 569 |
| **Loss for the financial year** | | **(5,196)** | (1,803) |

All the Company's income is derived from continuing activities

There are no recognised gains or losses for the year other than as stated in the profit and loss account Accordingly, no statement of total recognised gains and losses is given

The notes on pages 10 to 24 form part of these financial statements

**Balance sheet**
**As at 31 December 2009**

| | Note | 2009 £000s | 2008 £000s |
|---|---|---|---|
| **Fixed assets** | | | |
| Mortgage loans | 8 | **181,742** | 216,996 |
| Derivative asset | 9 | **7** | 976 |
| **Total fixed assets** | | **181,749** | 217,972 |
| | | | |
| **Current assets** | | | |
| Debtors due within one year | 10 | **236** | 209 |
| Cash at bank and in hand | 11 | **28,181** | 24,668 |
| | | **210,166** | 242,849 |
| | | | |
| Creditors amounts falling due within one year | 12 | **(899)** | (1,498) |
| Derivative liability | 13 | **(67)** | (36) |
| **Total assets less current liabilities** | | **209,200** | 241,315 |
| | | | |
| Creditors amounts falling due after more than one year | 16 | **(190,742)** | (240,698) |
| Liquidity facility drawdown | 15 | **(23,300)** | - |
| Provision for liabilities | 14 | **-** | (263) |
| | | | |
| **Net (liabilities) / assets** | | **(4,842)** | 354 |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | 17 | **12** | 12 |
| Profit and loss account | | **(4,854)** | 342 |
| **Shareholders' (deficits) / funds** | 18 | **(4,842)** | 354 |

The notes on pages 10 to 24 form part of these financial statements

These financial statements were approved by the Board of Directors on 30 June 2010 and were signed on its behalf by

**per pro**
**L.D.C Securitisation Director No. 3 Limited**
**as Director**

**per pro**
**L.D.C Securitisation Director No. 4 Limited**
**as Director**

**Cash flow statement**
**For the year ended 31 December 2009**

| | Note | | 31 December 2009 £000s | | 31 December 2008 £000s |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 20 | | **969** | | 1,719 |
| **Taxation** | | | **(1)** | | (2) |
| **Capital expenditure and financial investment** | | | | | |
| Repayment of mortgages | 8 | | **29,199** | | 222,917 |
| **Net cash inflow before management of liquid resources and financing** | | | **30,167** | | 224,634 |
| **Financing** | | | | | |
| Drawdown of liquidity facility | | **23,300** | | - | |
| Loan notes repaid | | **(49,954)** | | (224,048) | |
| Residual note creditor | | **-** | | (838) | |
| | | | **(26,654)** | | (224,886) |
| Increase / (decrease) in cash in the year | | | **3,513** | | (252) |

**Reconciliation of net cash flow to movement in net debt**

| | Note | | 31 December 2009 £000s | | 31 December 2008 £000s |
|---|---|---|---|---|---|
| Net debt 1 January | | | **(216,020)** | | (440,654) |
| Less loan notes redeemed | | **49,954** | | 224,048 | |
| Drawdown of liquidity facility | | **(23,300)** | | - | |
| Residual note creditor | | **-** | | 838 | |
| | | | **26,654** | | 224,886 |
| | | | **(189,366)** | | (215,768) |
| Increase / (decrease) in cash in the year | | | **3,513** | | (252) |
| Net debt carried forward | 25 | | **(185,853)** | | (216,020) |

The notes on pages 10 to 24 form part of these financial statements

**Notes to the accounts**
**For the year ended 31 December 2009**

## 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

The directors have used the Provisions of FRS 26 relating to the option to designate financial instruments at fair value to the profit and loss account and to the (de)recognition of financial assets and liabilities

During the year, the Company adopted the requirements of the amendments to FRS 29 Financial Instruments Disclosures The amendments require an entity to classify its financial assets and liabilities held at fair value according to a hierarchy that reflects the significance of observable market inputs

**Basis of preparation**
The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention (except for the valuation of certain financial instruments, where required or permitted by FRS 26)

**Going concern**
Notwithstanding net liabilities of £4 8m at 31 December 2009, the directors consider that the Company will continue to trade for the foreseeable future by meeting its liabilities as they fall due for payment in cash and, accordingly, the financial statements have been prepared on a going concern basis

The Company holds a pool of sub-prime mortgages which were purchased by Oakwood Homeloans Limited and securitised in the Company The repayment of finance issued by the Company is solely dependent on the performance of this pool of mortgages Specifically, as mortgages in arrears and expected losses on repossession increase, there is less cash available in the structure to pay loan note holders.

There has been a significant deterioration in the UK mortgage and housing market since this finance was raised and the position remained challenging during the year Arrears amounted to 15% based on latest information available at May 2010 (May 2009 19%) Though house prices began to stabilise towards the end of the year, if there was any further deterioration expected losses on repossession are likely to increase and potential purchasers will experience difficulty in obtaining finance

At May 2010, the Company had a reserve fund of £1 9m available to cushion any adverse performance in the mortgages, compared to a target of £3 3m The directors believe in the near future there will be some replenishment of the reserve fund Additionally, the transaction documents permit deferral of interest payments on certain junior notes Taking these factors into account, the directors consider that they will be able to pay any interest actually due in cash over the next 12 months based on current expectations of the performance of the mortgage portfolio, although the Company will have only limited cash headroom

Should the headroom not be sufficient the Company may default on any loan note payments due In such circumstances, the Security Trustee may choose to dispose of the Company's assets and, potentially, wind-up the Company The directors consider that this is unlikely in the next 12 months and, therefore, believe it remains appropriate to prepare the financial statements on a going concern basis However, they believe that these matters represent material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern It may, therefore, be unable to continue realising its assets and discharging its liabilities in the normal course of Business

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 1. Accounting policies (continued)

### Going concern (continued)
The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern

### Mortgage loans and premiums
Mortgage loans are stated at amortised cost (on an effective interest rate basis) less impairment provision
As permitted by FRS 26, the Company has designated that the mortgage loans upon initial recognition are measured at amortised cost

### Mortgage impairment provisions
Individual provisions are made for loans or advances considered to be bad or doubtful Individual provisions are assessed on a case by case basis or, where this is not practical, as part of a portfolio of similar advances using loan loss estimation models Assessments are made of all loans and advances on properties which are in possession or in arrears

Provisions made during the year are charged to the profit and loss account, net of recoveries If the collection of interest is considered doubtful, it is suspended and excluded from interest income in the profit and loss account Provisions and suspended interest are written off to the extent that there is no longer any realistic prospect of recovery

### Offsetting financial instruments
Financial assets and liabilities are offset in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and liability simultaneously

### Recognition and derecognition of assets
The Company acquires mortgage portfolios which include mortgage loans, premiums and the rights, benefits and risks of these assets In accordance with FRS 26 and FRS 29 these assets are recognised in the balance sheet

Assets are derecognised only when either, the contractual rights to cash flows from the financial assets expire, or the transfer otherwise qualifies for de-recognition in accordance with FRS 26 and FRS 29

### Segmental reporting
The Company has not disclosed segmental information because in the opinion of the directors the Company operates in one business sector and generates all income in the United Kingdom

### Taxation
Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

The Company has elected to enter the permanent tax regime for securitisation companies The directors are satisfied that the company meets the definition of a 'securitisation company' as defined by both the Finance Act 2005 and subsequent secondary legislation and that no incremental unfunded tax liabilities will arise

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 1. Accounting policies (continued)

**Financial Instruments**
Derivative financial instruments used for non-trading purposes include interest rate swaps, which are used primarily as a risk management tool for hedging interest rate risk arising on balance sheet assets and liabilities are held at fair value

The Company has taken advantage of the exemption to exclude short term trade debtors and creditors from the financial instruments analysis

**Interest rate derivatives**
The Company uses derivative financial instruments to hedge its exposure to fluctuations in interest rates In accordance with FRS 26, derivative financial instruments are accounted for at fair value The Company has not adopted hedge accounting under FRS 26

The derivatives are initially recognised at fair value on the date that the contract is entered into and are subsequently re-measured at their fair value Changes in the fair value of derivative financial instruments are recognised in the profit and loss account as they arise

**Financial liabilities**
Financial liabilities comprise the mortgage backed floating rate notes, loans and deferred consideration Financial liabilities are initially recorded in the balance sheet as the proceeds received net of any direct issue costs On subsequent reporting dates, financial liabilities are measured at amortised cost based on the original effective interest rate

**Significant accounting judgements and estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period Although these estimates are based on management's knowledge of the amount, actual results may differ from these estimates If actual results differ from the estimates, the impact will be recorded in future periods

- **Impairment**

Impairment provisions are recorded on loans in arrears where the value of the loan in arrears is in excess of the estimated forced sale value of the underlying property held as security, based on the probability of the loan going to repossession Estimates are required of the likely forced sale discount on the property and likelihood of the loan going to repossession based on the limited historical experience of the vehicle

- **Effective interest rate (EIR)**

In order to determine the EIR applicable to the mortgage loans an estimate must be made of the expected life of each mortgage loan and the cash flows related thereto These estimates are based on historical data and reviewed as appropriate to reflect the expectations at the balance sheet date Any changes in these estimates will result in an adjustment to the carrying value of the deferred consideration The corresponding charge or release to the profit and loss will be included in the period in which the estimates are revised

For all financial assets and liabilities measured at amortised cost, income and expenses are recognised in the profit and loss on an EIR basis

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 1. Accounting policies (continued)

### Significant accounting judgements and estimates (continued)

- **Fair value**

Fair values are used in these financial statements for recognition (derivatives) and disclosure purposes

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction The existence of published price quotation in an active market is the best evidence of fair value and when they are available they are used. If the market for a financial instrument is not active, fair value is established using a valuation technique Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors

The fair value of derivatives is calculated as the present value of their estimated future cash flows and quoted market prices

The fair value of the mortgage assets is calculated as the net present value of expected future cash flows taking into account estimates of the amount of interest and fees that will be collected on the assets, prevailing interest rates, the portion of the assets that will be repaid before their scheduled maturity, expected credit losses, the fair value cost of servicing, and the rate at which to discount these estimated future cash flows

The carrying value of debtors and creditors, as well as other prepayments and accruals, approximates to their fair value

## 2. Interest receivable and similar income

| | **2009** | 2008 |
|---|---|---|
| | **£000s** | £000s |
| Bank interest | **234** | 2,125 |
| Swap interest (net) | **623** | 2,503 |
| EIR income adjustment | **(2,075)** | (95) |
| Interest receivable on mortgage loans | **6,253** | 22,516 |
| | **5,035** | 27,049 |

## 3. Fair value movements of derivatives

| | **£000s** | £000s |
|---|---|---|
| Fair value loss on derivatives | **885** | 1,979 |
| Fair value loss on interest rate cap | **115** | 51 |
| | **1,000** | 2,030 |

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 4. Interest payable and similar charges

| | 2009 £000s | 2008 £000s |
|---|---|---|
| Loan interest payable to MERC and residual holders | **195** | 1,030 |
| Loan interest payable to note holders | **4,320** | 17,584 |
| | **4,515** | 18,614 |

## 5. Administration expenses

| | £000s | £000s |
|---|---|---|
| Auditors remuneration for the audit of these financial statements | **32** | 31 |
| Other administrative fees | **966** | 1,444 |
| | **998** | 1,475 |

## 6. Impairment charge

| | £000s | £000s |
|---|---|---|
| Bad debt recovered previously written off | **-** | (56) |
| Written off in year | **4,405** | 5,047 |
| Provision for bad debt | **(425)** | 2,311 |
| | **3,980** | 7,302 |

## 7. Taxation
### (a) Analysis of taxation charge

| UK corporation tax | £000s | £000s |
|---|---|---|
| Current tax | **1** | 1 |
| Deferred tax at 28% | **-** | 263 |
| Effect of decreased tax rate | **-** | 59 |
| Deferred tax adjustment | **(263)** | (892) |
| Total tax credit | **(262)** | (569) |

The Company has made an election to be taxed under the permanent regime of taxation of securitisation companies as laid down by SI 2006/3296 As a result of this election the company will be subject to tax on its 'retained profits' as determined in the securitisation documents As a result, the Company has adjusted its expectation of the timing differences which will reverse on the fair value of derivatives Accordingly its estimate of the taxable timing differences is now nil

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

### 7. Taxation (continued)
### (b) Factors affecting the tax charge for the year

The tax assessed for the year is higher/lower than the standard rate of corporation tax in the UK of 28% (2008 30%) The difference is explained below

| | **2009** **£000s** | 2008 £000s |
|---|---|---|
| Loss on ordinary activities before tax for the year | **(5,458)** | (2,372) |
| UK corporation tax @ 28% | **(1,528)** | (664) |
| Loss not subject to tax | **1,529** | 665 |
| Total current tax expense | **1** | 1 |

### 8. Mortgage loans

| | **£000s** | £000s |
|---|---|---|
| **Mortgage assets movement - gross** | | |
| Mortgage assets brought forward | **215,989** | 443,953 |
| Redemptions | **(29,199)** | (222,917) |
| Bad debt written off in year | **(4,405)** | (5,047) |
| Mortgage assets carried forward | **182,385** | 215,989 |
| | | |
| **Analysis of net mortgage balance** | | |
| Gross mortgage assets | **182,385** | 215,989 |
| Effective interest rate adjustment | **5,401** | 7,476 |
| Provision for bad debt | **(6,044)** | (6,469) |
| At 31 December | **181,742** | 216,996 |

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

**9. Derivative asset**

| | **2009 £000s** | 2008 £000s |
|---|---|---|
| Interest rate derivatives | 7 | 898 |
| Interest rate cap | - | 78 |
| | 7 | 976 |

**10. Debtors: amounts falling due within one year**

| | **£000s** | £000s |
|---|---|---|
| Prepayments and accrued income | **227** | 143 |
| Accrued GIC interest | **9** | 66 |
| | **236** | 209 |

**11. Cash at bank and in hand**

| | **£000s** | £000s |
|---|---|---|
| Cash deposits with instant access | **4,881** | 24,668 |
| Deposit with Barclays Bank (note 24) | **23,300** | - |
| | **28,181** | 24,668 |

The cash deposits repayable on demand represent non-recourse borrowings that have not yet been invested in a specific mortgage portfolio, and to which therefore loan note holders have recourse to

**12. Creditors: amounts falling due within one year**

| | **£000s** | £000s |
|---|---|---|
| Corporation tax | **1** | 1 |
| Audit fees | **32** | 30 |
| Interest due to loan note holders | **781** | 1,347 |
| Sundry creditors | **85** | 120 |
| | **899** | 1,498 |

**13. Derivative liability**

| | **£000s** | £000s |
|---|---|---|
| Interest rate derivative | **31** | 36 |
| Fair value loss on interest rate cap | **36** | - |
| | **67** | 36 |

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

### 14. Provision for liabilities – deferred tax

| | 2009 £000s | 2008 £000s |
|---|---|---|
| At 1 January | **263** | 833 |
| Movement in year | **(263)** | (570) |
| At 31 December deferred tax liability | **-** | 263 |

### 15. Liquidity facility drawdown

| | £000s | £000s |
|---|---|---|
| Danske Bank – Liquidity facility (note 24) | **23,300** | - |

### 16. Creditors – amounts falling due after one year

| | £000s | £000s |
|---|---|---|
| Class A3a Floating Loan Notes 2037 | **51,623** | 81,505 |
| Class A3b Floating Loan Notes 2037 | **34,675** | 54,747 |
| Class B Floating loan Notes 2037 | **54,750** | 54,750 |
| Class C Floating Loan Notes 2037 | **19,200** | 19,200 |
| Class D Floating Loan Notes 2037 | **13,600** | 13,600 |
| Class E Floating Loan Notes 2037 | **9,200** | 9,200 |
| Subordinated Loan Notes | **3,338** | 3,338 |
| Residual Holders Creditors | **4,348** | 4,348 |
| Capitalisation of issue cost | **8** | 10 |
| | **190,742** | 240,698 |

All the notes are denominated in sterling Coupons are paid quarterly based on LIBOR plus relevant margin The range is LIBOR + 0 09% to 3 25% repayable at maturity in 2037

In each case the option for early repayment will only be exercised with the prior consent of the Irish Financial Services Regulatory Authority The note holders' rights are subordinate to those of the depositors and other creditors and also to those of the shareholders in respect of share principal and accrued interest

The Subordinated Loan Notes are recognised at their principal amount, but in the event of the Security Trustee serving an Enforcement notice, payments will be made in accordance to the "post-enforcement priority of payments" set out in the transaction documents

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 17. Called up share capital

| | 2009 £000s | 2008 £000s |
|---|---|---|
| *Allotted and part paid* | | |
| 49,998 £1 shares 25% paid and 2 ordinary shares of £1 each fully paid up | **12** | 12 |

## 18. Reconciliation of movements in shareholders' (deficits) / funds

| | £000s | £000s |
|---|---|---|
| Shareholders funds at 1 January | **354** | 2,157 |
| Loss for the year | **(5,196)** | (1,803) |
| **At 31 December** | **(4,842)** | 354 |

## 19. Fair values of financial assets and financial liabilities

The fair values of the long term borrowings are calculated using the current market price for the loan notes on 31 December 2009 The fair values of the mortgage loans have been adjusted to take account of the market yields implied by the loan notes valuations

Set out below is a comparison by category of book values and fair values of the Company's financial assets and liabilities as at year end

| **31 December 2009** **Financial assets** | Assets at fair value through the profit and loss £000s | Loans and receivables £000s | Total carrying value £000s | Fair value £000s |
|---|---|---|---|---|
| Cash at bank and in hand | - | 28,181 | 28,181 | 28,181 |
| Mortgage loans | - | 181,742 | 181,742 | 89,112 |
| Derivative asset | 7 | - | 7 | 7 |
| **Total financial assets** | **7** | **209,923** | **209,930** | **117,300** |

| **Financial liabilities** | Liabilities at fair value through the profit and loss £000s | Floating Rate Notes and Loans £000s | Total carrying value £000s | Fair value £000s |
|---|---|---|---|---|
| Liquidity facility drawdown | - | (23,300) | (23,300) | (23,300) |
| Long term borrowings | - | (190,742) | (190,742) | (98,112) |
| Derivative liability | (67) | - | (67) | (67) |
| **Total financial liabilities** | **(67)** | **(214,042)** | **(214,109)** | **(121,479)** |

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

**19. Fair values of financial assets and financial liabilities (continued)**

| 31 December 2008<br>Financial assets | Assets at fair value through the profit and loss | Loans and receivables | Total carrying value | Fair value |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| Cash at bank and in hand | - | 24,668 | 24,668 | 24,668 |
| Mortgage loans | - | 216,996 | 216,996 | 113,955 |
| Derivative asset | 976 | - | 976 | 976 |
| Total financial assets | 976 | 241,664 | 242,640 | 139,599 |

| Financial liabilities | Liabilities at fair value through the profit and loss | Floating Rate Notes and Loans | Total carrying value | Fair value |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| Long term borrowings | - | (240,698) | (240,698) | (137,657) |
| Derivative liability | (36) | - | (36) | (36) |
| Total financial liabilities | (36) | (240,698) | (240,734) | (137,693) |

**20. Reconciliation of operating profit to net cash inflow / (outflow) from operating activities**

| | Note | **2009** | 2008 |
|---|---|---|---|
| | | **£000s** | £000s |
| Operating loss | | **(5,458)** | (2,372) |
| (Increase) / decrease in debtors | 10 | **(27)** | 780 |
| Decrease in effective interest rate adjustment | 8 | **2,075** | 95 |
| Decrease in creditors | 12 | **(599)** | (6,170) |
| (Decrease)/ increase in provision for bad debt | 8 | **(425)** | 2,311 |
| Bad debt written off | 8 | **4,405** | 5,047 |
| Capitalisation issue cost | 16 | **(2)** | (2) |
| Decrease in derivative asset | 9 | **969** | 2,006 |
| Increase in derivative liability | 13 | **31** | 24 |
| Net cash inflow from operating activities | | **969** | 1,719 |

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 21. Derivatives and other financial Instruments

### a) General

The Company's financial instruments, other than the mortgage-backed floating rate notes it has issued, comprise mortgage assets, borrowings, some cash and liquid resources, and various items, such as debtors, creditors etc that arise directly from its operations The main purpose of these financial instruments is to fund the initial origination of mortgages and to provide the Company's working capital The note issue structure and interest payments thereon is designed to match the funding and risks inherent in the mortgage portfolios acquired by the Company

The Company enters into derivatives transactions in the nature of interest rate swaps to manage the interest rate risks associated with certain fixed and floating rate mortgages

The Company does not trade in financial instruments

The principal risks arising from the Company's financial instruments are credit risk, interest rate risk and liquidity risk

### b) Types of risk

*Credit risk*
Credit risk arises primarily from the potential for default in the mortgage pool This risk is managed via the Note Issue terms and conditions whereby credit risk is transferred to the Note holders All mortgages are secured on residential property, and the Company places strong emphasis on the market value of the properties

There are no significant concentrations of risk due to the large number of customers within the mortgage portfolio

The table below provides further information on residential loans by payment due status

| | | 2009 | | 2008 |
|---|---|---|---|---|
| | **£000s** | **%** | £000s | % |
| **Not impaired** | | | | |
| Neither past due nor impaired | **149,870** | **82.1** | 164,354 | 76 1 |
| **Impaired** | | | | |
| Past due 3 to 6 months | **13,427** | **7.4** | 24,613 | 11 4 |
| Past due 7 to 12 months | **11,978** | **6.6** | 6,111 | 2 8 |
| Past due over 12 months | **4,619** | **2.5** | 1,922 | 0 9 |
| | **30,024** | **16.5** | 32,646 | 15 1 |
| **Possessions** | **2,491** | **1.4** | 18,989 | 8 8 |
| | **182,385** | **100.0** | 215,989 | 100 0 |

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

**21. Derivatives and other financial instruments (continued)**

The maximum exposure to credit risk for the Company is represented by the carrying value of each financial asset as set out below

| | **2009** | 2008 |
|---|---|---|
| | **£000s** | £000s |
| Mortgage loans | **182,385** | 215,989 |
| Derivative asset | **7** | 976 |
| Cash at bank and in hand | **28,181** | 24,668 |
| **Total on-Balance Sheet and maximum exposure to credit risk** | **210,573** | 241,633 |

The table below sets out the carrying amount and the approximate fair value of collateral held against exposures to customers The estimate of fair value is based on the valuation performed at the time of borrowing or the most recent valuation if the loan has been individually assessed as impaired

| | Carrying value | Fair value of collateral |
|---|---|---|
| | **£000s** | **£000s** |
| Mortgage loans | 182,385 | 265,092 |

***Interest rate risk***
Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times

To this extent the Company has mitigated the risk by matching, the floating rates on the mortgage pool with floating rate liabilities The rates of interest on both the mortgage pool and floating rate liabilities are reset on the basis of LIBOR

The directors regularly monitor the risks associated with any timing differences that arise with the resetting of the LIBOR rates, and have entered into interest basis swap agreements with a third party to manage this risk The principal profiles for each swap are initially input as the expected redemption profile of the individual mortgage pools

If LIBOR for 3-month sterling deposits was 1% higher or lower, with all other variables held constant, the effect on the Company's net interest income would be immaterial due to the equivalent movements on interest on the Loan notes

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

**21. Derivatives and other financial instruments (continued)**
**b) Types of risk (continued)**

***Liquidity risk***
Mortgage assets are funded by the issue of non-recourse notes Liquidity risk is managed by issuing the notes prior to or at the same time as the assets are acquired Cash flow forecasts are used to determine the Company's liquidity requirements Liquidity risks generated by delinquencies and any ultimate credit losses are managed through the non-recourse nature of the Notes and through a liquidity facility with Danske Bank (set in note 24)

The contractual undiscounted cash flows associated with financial liabilities were as follows

| As at 31 December 2009 | In less than 1 month £000s | After 1 month but within 3 months £000s | After 3 months but within 1 year £000s | After 1 year but within 5 years £000s | After 5 years £000s | Total £000s |
|---|---|---|---|---|---|---|
| Liquidity facility drawdown | - | - | - | 23,300 | - | 23,300 |
| Derivative liability | - | - | 67 | - | - | 67 |
| Interest on loan | - | 480 | 1,440 | 7,682 | 176,676 | 186,278 |
| Long term borrowings | | 4,527 | 13,580 | 72,424 | 100,203 | 190,734 |
| | **-** | **5,007** | **15,087** | **103,406** | **276,879** | **400,379** |

| As at 31 December 2008 | In less than 1 month £000s | After 1 month but within 3 months £000s | After 3 months but within 1 year £000s | After 1 year but within 5 years £000s | After 5 years £000s | Total £000s |
|---|---|---|---|---|---|---|
| Derivative liability | - | - | 36 | - | - | 36 |
| Interest on loan | - | 2,650 | 5,815 | 31,013 | 178,392 | 217,870 |
| Long term borrowings | - | 28,300 | 21,689 | 115,674 | 75,025 | 240,688 |
| | - | 30,950 | 27,540 | 146,687 | 253,417 | 458,594 |

It should be noted that many financial instruments are settled earlier than the contractual maturity dates

***Foreign currency risk***
All the Company's assets and liabilities are denominated in sterling There is no currency risk

**22. Financial instruments held at fair value**

During the year, the Company adopted the requirements of the amendments to FRS 29 Financial Instruments Disclosures The amendments require an entity to classify its financial assets and liabilities held at fair value according to a hierarchy that reflects the significance of observable market inputs The three levels of the fair value hierarchy are defined below

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 22. Financial instruments held at fair value (continued)

### Quoted market prices - Level 1
Financial instruments, the valuation of which are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis

No financial asset or liability has been included in this category

### Valuation technique using observable inputs - Level 2
Financial instruments that have been valued using inputs other than quoted prices as described for level 1 but which are observable for the asset or liability, either directly or indirectly

This category includes derivative contracts for interest rate swaps The value of the interest rate swaps are driven by a number of factors, including market interest rates, and run-off of the mortgage portfolio (given that the swaps are adjusted to track the outstanding mortgage balance) Whilst the run-off of the mortgage portfolio is not market observable, it can be derived from historic data and therefore the directors consider that these derivatives should be regarded as level 2 fair values

### Valuation technique using significant unobservable inputs - Level 3
Financial instruments, the valuation of which incorporates significant inputs for the asset or liability that are not based on observable market data (unobservable inputs) Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product These inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques

No financial asset or liability has been included in this category

| | Valuation based on | | | |
|---|---|---|---|---|
| **31 December 2009** | Quoted Market Prices (Level 1) | Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| | £000s | £000s | £000s | £000s |
| Derivative Financial Assets | - | 7 | - | 7 |
| Total assets | - | 7 | - | 7 |
| | | | | |
| Derivative Financial liabilities | - | 67 | - | 67 |
| Total liabilities | - | 67 | - | 67 |
| | | | | |
| 31 December 2008 | | | | |
| Derivative Financial Assets | - | 976 | - | 976 |
| Total assets | - | 976 | - | 976 |
| | | | | |
| Derivative Financial liabilities | - | 36 | - | 36 |
| Total liabilities | - | 36 | - | 36 |

**Notes to the accounts (continued)**
**For the year ended 31 December 2009**

## 23. Maturity of financial assets and liabilities

The contractual maturity of the Company's liabilities at 31 December 2009 was as follows

| | £000s |
|---|---|
| In more than five years | 100,203 |

The mortgage-backed floating rate notes as included in the above analysis are repaid in line with the redemption profile of the mortgages

## 24. Borrowing facilities

The Company has drawn down its committed Liquidity Facility following the downgrade of Danske Bank short term rating The balance drawn and held by the Company at 31 December 2009, in a separate Barclays bank account was as follows

| | £000s |
|---|---|
| Liquidity facility drawn | 23,300 |

## 25. Analysis of net debt

| | **2009** | 2008 |
|---|---|---|
| | **£000s** | £000s |
| Cash in hand and in bank 31 December | **28,181** | 24,668 |
| Liquidity facility drawdown | **(23,300)** | - |
| Loan notes | **(190,734)** | (240,688) |
| Net debt carried forward | **(185,853)** | (216,020) |

## 26. Post balance sheet event

Moody's concluded in February 2010 that the operational issues surrounding the Company's servicing and cash management functions caused sufficient concern to cause a rating downgrade as follows

A3a notes downgraded to Aa1, previously Aaa,

A3a notes downgraded to Aa1, previously Aaa,

MERC certificates downgraded to Aa1, previously Aaa

## 27. Related party transactions

There are no related party transactions requiring disclosure under FRS 8

## 28. Ultimate parent undertaking

The Company's immediate parent Company is Oakwood Global Assets Limited, a Company registered in England and Wales, which is in turn wholly owned by The Law Debenture Intermediary Corporation plc with the shares being held on trust for charitable beneficiaries Copies of the financial statements of The Law Debenture Intermediary Corporation plc may be obtained from Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London, EC2V 7EX