ALBA 2006-1 PLC

Directors' Report and Financial Statements

For the year ended 31 December 2008

Registered number 5746554

ALBA 2006-1 PLC

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
8 Salisbury Square
London EC4Y 8BB

Contents

Directors' report

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

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 £67,700,017 of its issued class A1 notes (being 40.563% of the issued notes in that class), £93,500,000 of its issued class A2 notes (being 100.000% of the issued notes in that class), £37,595,388 of its issued class A3a notes (being 31.566% of the issued notes in that class) and £25,252,989 of its issued class A3b notes (being 31.566% of the issued notes in that class).

Future developments
The Company intends to continue trading as in prior years. Further details are set out in note 1 on page 10.

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.

Internal controls 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.

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 1 of the accounts.

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.

Directors' report (continued)

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.

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, including the 'credit crunch', 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 (2007: 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. Historical cost loss is £4,402,000 for the year ended 31 December 2008. This is made up of the loss for the financial year of £2,372,000 and adds derivative fair value loss of £2,030,000.

Key factors in determining going concern include bad debts, bad debt provisions and fair value adjustments.

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.

During 2009, the Company has utilised some of its reserve fund to cushion any adverse performance in the mortgages.

Directors' report (continued)

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. 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 (2007: Nil).

Auditors

The auditors, KPMG Audit Plc, were appointed on 19 December 2007, for the Company's first accounting period and have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

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

31 July 2009

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 1985. 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 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standard (UK Generally Accepted Accounting Practice) are set out in the statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, 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 information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- 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.

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 payment of interest and principal on finance issued by the Company is solely dependent on the performance on its pool of subprime mortgages. There has been a significant deterioration in the UK mortgage and housing market in 2008 and the first part of 2009. Further 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 on 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.

These conditions, along with other matters set out in note 1, represent a material uncertainty 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 were unable to continue as a going concern.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB

United Kingdom

31 July 2009

Profit and loss account
For the year ended 31 December 2008

	Note	**31 December 2008 £000s**	31 December 2007 £000s
Interest receivable and similar income	2	**27,049**	45,187
Fair value movements of derivatives	3	**(2,030)**	393
Interest payable and similar charges	4	**(18,614)**	(39,630)
Net interest income		**6,405**	5,950
Administration expenses	5	**(1,475)**	(1,598)
Impairment charge	6	**(7,302)**	(3,953)
(Loss) / profit on ordinary activities before taxation		**(2,372)**	399
Taxation	7	**569**	(112)
(Loss) / profit for the financial year		**(1,803)**	287

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 2008

	Note	2008 £000s	2007 £000s
Fixed assets			
Mortgage loans	8	**216,996**	447,366
Derivative asset	9	**976**	2,982
Total fixed assets		**217,972**	450,348
Current assets			
Debtors due within one year	10	**209**	989
Cash at bank and in hand	11	**24,668**	24,920
		242,849	476,257
Creditors: amounts falling due within one year	12	**(1,498)**	(7,669)
Derivative liability	13	**(36)**	(12)
Total assets less current liabilities		**241,315**	468,576
Creditors: amounts falling due after more than one year	15	**(240,698)**	(465,586)
Provision for liabilities	14	**(263)**	(833)
Net assets		**354**	2,157
Capital and reserves			
Called up share capital	16	**12**	12
Profit and loss account		**342**	2,145
Shareholders' funds	17	**354**	2,157

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

These financial statements were approved by the Board of Directors on 31 July 2009 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 to 31 December 2008

	Note		31 December 2008 £000s		31 December 2007 £000s
Net cash inflow / (outflow) from operating activities	19		**1,719**		(2,729)
Taxation			**(2)**		-
Capital expenditure and financial investment					
Repayment of mortgages	8		**222,917**		90,080
Net cash inflow before management of liquid resources and financing			**224,634**		87,351
Financing					
Loan notes repaid		**(224,048)**		(83,248)	
Residual note creditor		**(838)**		4,381	
			(224,886)		(78,867)
(Decrease) / increase in cash in the year			**(252)**		8,484

Reconciliation of net cash flow to movement in net debt

	Note		31 December 2008 £000s		31 December 2007 £000s
Net debt 1 January			**(440,654)**		(528,005)
Less loan notes redeemed		**224,048**		83,248	
Residual note creditor		**838**		(4,381)	
			224,886		78,867
Cash received from other loans			**(215,768)**		(449,138)
(Decrease) / increase in cash in the year			**(252)**		8,484
Net debt carried forward	23		**(216,020)**		(440,654)

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

Notes to the accounts
For the year to 31 December 2008

1. Accounting policies

Basis of preparation
The financial statements are prepared under the historical cost convention (except for the valuation of certain financial instruments, where required or permitted by FRS 26) and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

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.

A summary of the main accounting policies are described below.

Going concern
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 ALBA 2006-1 PLC. 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 and the Company has seen accounts in arrears (> 3 months) rise to 15.1% by 31 December 2008 and to 23% by 31 May 2009. Additionally, expected losses on repossession are increasing as house prices fall and potential purchasers experience difficulty in obtaining finance.

During 2009, the Company utilised some of its reserve fund available to cushion any adverse performance in the mortgages. It had a very small balance left on this fund at 31 May 2009. Additionally, the transaction documents permit deferral of interest payments on certain junior notes. Taking these factors into account, the directors consider that the Company 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, albeit with very limited cash headroom.

Should the headroom be insufficient, the Company may default on any loan note payments due. In such circumstances, the Security Trustee may continue the Company's operations or 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. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Notes to the accounts (continued)
For the year to 31 December 2008

1. Accounting policies (continued)

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
ALBA 2006-1 PLC 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.

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.

Notes to the accounts (continued)
For the year to 31 December 2008

1. Accounting policies (continued)

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 to 31 December 2008

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

	2008	2007
	£000s	£000s
Bank interest	**4,628**	5,944
EIR income adjustment	**(95)**	6,001
Interest receivable on mortgage loans	**22,516**	33,242
	27,049	45,187

3. Fair value movements of derivatives

	£000s	£000s
Fair value loss / (gain) on derivatives	**1,979**	(386)
Fair value loss / (gain) on interest rate cap	**51**	(7)
	2,030	(393)

Notes to the accounts (continued)
For the year to 31 December 2008

4. Interest payable and similar charges

	2008 £000s	2007 £000s
Loan interest payable to MERC and residual holders	**1,030**	8,501
Loan interest payable to note holders	**17,584**	31,129
	18,614	39,630

5. Administration expenses

	£000s	£000s
Auditors remuneration for the audit of these financial statements	**31**	22
Other administrative fees	**1,444**	1,576
	1,475	1,598

6. Impairment charge

	£000s	£000s
Bad debt recovered previously written off	**(56)**	-
Written off in year	**5,047**	564
Provision for bad debt	**2,311**	3,389
	7,302	3,953

7. Taxation
(a) Analysis of taxation charge

UK corporation tax:	£000s	£000s
Current tax	**1**	2
Deferred tax at 28%	**263**	118
Effect of decreased tax rate	**59**	(8)
Prior year adjustment	**(892)**	-
Total tax (credit) / charge	**(569)**	112

The company recognises a deferred tax liability, but pays current tax on a cash basis. Deferred tax is calculated at rate of 28%. There is deferred tax liability of £263,163 relates to the net derivative asset, which will unwind in the future.

Notes to the accounts (continued)
For the year to 31 December 2008

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% (2007: 30%). The difference is explained below:

	2008 £000s	2007 £000s
Profit / (loss) on ordinary activities before tax for the year	(2,372)	399
UK corporation tax @ 28% (2007: 30%)	(664)	120
Profits / (loss) not subject to tax	633	(118)
Total current tax expense	1	2

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.

8. Mortgage loans

	£000s	£000s
Mortgage assets movement - gross		
Mortgage assets brought forward	443,953	534,597
Redemptions	(222,917)	(90,080)
Bad debt written off in year	(5,047)	(564)
Mortgage assets carried forward	215,989	443,953
Analysis of net mortgage balance		
Gross mortgage assets	215,989	443,953
Effective interest rate adjustment	7,476	7,571
Provision for bad debt	(6,469)	(4,158)
At 31 December	216,996	447,366

Notes to the accounts (continued)
For the year to 31 December 2008

9. Derivative asset

	2008 £000s	2007 £000s
Interest rate derivatives	**898**	2,853
Interest rate cap	**78**	129
	976	2,982

10. Debtors: Amounts falling due within one year

	£000s	£000s
Prepayments and accrued income	**143**	869
Accrued GIC interest	**66**	120
	209	989

11. Cash at bank and in hand

	£000s	£000s
Cash deposits with instant access	**24,668**	24,920

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**	2
Audit fees	**30**	22
Interest due to subordinate loan note holders	**190**	60
Sundry creditors	**1,277**	7,585
	1,498	7,669

13. Creditors: amounts falling due after more than one year

	£000s	£000s
Derivative liability	**36**	**12**

Notes to the accounts (continued)
For the year to 31 December 2008

14. Provision for liabilities

	2008	2007
	£000s	£000s
At 1 January	**833**	723
Movement in year	**(570)**	110
At 31 December deferred tax liability	**263**	833

As at 31 December 2008, a deferred tax liability has been recognised on the basis that it is likely the Company will have sufficient taxable losses against which deferred tax liability can be reversed in the foreseeable future, as a result of the election to be taxed under the permanent regime set out in Note 7.

15. Creditors – amounts falling due after one year

	£000s	£000s
Class A1 Floating Loan Notes 2037	-	67,700
Class A2 Floating Loan Notes 2037	-	93,500
Class A3a Floating Loan Notes 2037	**81,505**	119,100
Class A3b Floating Loan Notes 2037	**54,747**	80,000
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**	5,186
Capitalisation of issue cost	**10**	12
	240,698	465,586

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 Financial Services 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 to 31 December 2008

16. Called up share capital

	2008 £000s	2007 £000s
Authorised		
Equity: 50,000 ordinary shares of £1 each	**50**	50
Allotted and part paid		
49,998 £1 shares 25% paid and 2 ordinary shares of £1 each fully paid up	**12**	12

The authorised share capital of the Company upon incorporation on 17 March 2006 was 50,000 ordinary shares of £1.00 each.

17. Reconciliation of movements in shareholders' funds

	£000s	£000s
Brought forward as previously stated	**2,157**	(1,664)
Prior period adjustment	**-**	3,534
Shareholders funds at 1 January	**2,157**	1,870
(Loss) / profit for the year	**(1,803)**	287
At 31 December	**354**	2,157

Notes to the accounts (continued)
For the year to 31 December 2008

18. Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Company's financial assets and liabilities as at 31 December 2008.

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	-	209,565	209,565	106,524
Derivative asset	976	-	976	976
Total financial assets	**976**	**234,233**	**235,209**	**132,168**

Financial liabilities	Liabilities at fair value through the profit and loss	Loans and receivables	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)**

The fair values of the long term borrowings are calculated using the current market price for the loan notes on 31 December 2008. 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 31 December 2007.

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	-	24,920	24,920	24,920
Mortgage loans	-	447,366	447,366	428,738
Derivative asset	2,982	-	2,982	2,982
Total financial assets	2,982	472,286	475,268	456,640

Financial liabilities	Liabilities at fair value through the profit and loss	Loans and receivables	Total Carrying Value	Fair value
	£000s	£000s	£000s	£000s
Long term borrowings	-	(465,586)	(465,586)	(446,958)
Derivative liability	(12)	-	(12)	(12)
Total financial liabilities	(12)	(465,586)	(465,598)	(446,970)

Notes to the accounts (continued)
For the year to 31 December 2008

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

	Note	2008	2007
		£000s	£000s
Operating profit		**(2,372)**	399
Increase / (decrease) in debtors	10	**780**	(649)
Decrease / (increase) in effective interest rate adjustment	8	**95**	(6,001)
Decrease in creditors	12	**(6,170)**	(30)
Increase in provision for bad debt	8	**2,311**	3,389
Bad debt written off	8	**5,047**	564
Capitalisation issue cost	15	**(2)**	(8)
Decrease in derivative asset	9	**2,006**	373
Increase / (decrease) in derivative liability	13	**24**	(766)
Net cash inflow / (outflow) from operating activities		**1,719**	(2,729)

20. 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.

Notes to the accounts (continued)
For the year to 31 December 2008

20. Derivatives and other financial instruments (continued)

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.

		2008		2007
	£000s	**%**	£000s	%
Not impaired				
Neither past due nor impaired	**164,354**	**76.1**	413,909	93.2
Impaired				
Past due 3 to 6 months	**24,613**	**11.4**	13,642	3.0
Past due 7 to 12 months	**6,111**	**2.8**	6,104	1.4
Past due over 12 months	**1,922**	**0.9**	722	0.2
	32,646	**15.1**	20,468	4.6
Possessions	**18,989**	**8.8**	9,576	2.2
	215,989	**100.0**	443,953	100.0

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

	2008	2007
	£000s	£000s
Mortgage loans	**215,989**	443,953
Derivative asset	**976**	2,982
Cash at bank and in hand	**24,668**	24,920
Total on-Balance Sheet and maximum exposure to credit risk	**241,633**	471,855

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	215,989	306,424

Notes to the accounts (continued)
For the year to 31 December 2008

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

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.

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 22).

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

	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**
As at 31 December 2008						
Derivative liability	-	-	36	-	-	36
Long term borrowings	-	2,651	5,815	31,013	419,079	458,558
	-	2,651	5,851	31,013	419,079	458,594

	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
As at 31 December 2007						
Derivative liability	-	-	12	-	-	12
Long term borrowings	-	7,784	19,139	102,072	1,095,000	1,223,995
	-	7,784	19,151	102,072	1,095,000	1,224,007

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

Notes to the accounts (continued)
For the year to 31 December 2008

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

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

21. Maturity of financial assets and liabilities

The contractual maturity of the Company's liabilities at 31 December 2008 was as follows:

	£000s
In more than five years	233,002

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

22. Borrowing facilities

The Company has un-drawn committed borrowing facilities. The facilities available at 31 December 2008 in respect of which all conditions precedent had been met were as follows:

	£000s
Liquidity facility (refer to note 24)	23,300

23. Analysis of net debt

	2008	2007
	£000s	£000s
Cash in hand and in bank 31 December	**24,668**	24,920
Loan notes	**(240,688)**	(465,574)
Net debt carried forward	**(216,020)**	(440,654)

Notes to the accounts (continued)
For the year to 31 December 200

24. Post balance sheet event

In February 2009, as a result of the overall performance deterioration seen within the mortgage pools of the Company, Fitch ratings downgraded the Company's Class D and Class E Notes. Subsequently, in March 2009, Standard & Poor's downgraded the Class C, Class D and Class E Notes.

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 a total of £23,300,162.57 in to a Standby Drawing Account. There is no material impact on the Note holders 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. This resulted in the potential over payment of amounts to certain senior loan noteholders. Payments to affected noteholders will be adjusted as necessary in future periods to remedy this non-adjusting post-balance sheet event and as required, revised investor reports will be published. The Security Trustee is aware of this matter and based on current knowledge the directors believe that the Note holders were paid appropriate amounts up to the year end.

The above events have not affected the balance sheet for the year under review.

25. Related party transactions

There are no related party transactions requiring disclosure under FRS 8.

26. 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.