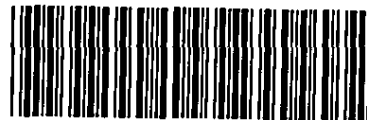


**TMC TATTENHAM NO. 2 PLC**

**Report and Financial Statements**

**For the 9 month period ended 30 September 2006**

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## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the 9 month period ended 30 September 2006. The period has been shortened so the year end date corresponds to that of the new parent company. The previous period was for the 15 months ended 31 December 2005.

### **BUSINESS REVIEW AND PRINCIPAL ACTIVITIES**

The company was established for the sole purpose of issuing floating rate notes secured by pools of residential mortgages.

On 7 April 2006 the Company was acquired by Mortgage Trust Services PLC from The Mortgage Corporation. A consideration of £1,392,000 was paid.

The principal activity during the period was the ownership of pools of residential mortgages. During the period the majority of loans were sold to another group company. The Company retained the remaining loans and will continue to actively collect on these loans.

As shown in the Company's profit and loss account on page 6, the Company's net interest income decreased by 75% over the prior period. This was due to loans being sold to a fellow group company during the period and to a shorter accounting period. The profit after tax has fallen from a retained profit of £728,000 to a retained profit of £276,000.

The balance sheet on page 7 of the financial statements shows the Company's financial position at the year end. Loans to customers have decreased during the period due to the sale of loans to a fellow group company. As a result of this all the asset backed loan notes have been repaid during the period. Details of amounts owed to other group companies are shown in note 15.

The Group manages its operations on a centralised basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group's mortgage lending operation, which includes the Company, is discussed in the Group's Annual Report which does not form part of this Report.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Company was a securitisation company and has been structured so as to avoid, in as far as is possible all forms of financial risk. An analysis of the Company's exposure to financial risks is set out in note 3. Other risks are disclosed in note 2.

Group risks are discussed in the Group's Annual Report which does not form part of this Report.

### **ENVIRONMENT**

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Group's Annual Report which does not form part of this Report.

### **EMPLOYEES**

The Company has no employees. All operational services are provided by employees of the Group. The Group's employment policies are described in its Annual Report which does not form part of this Report.

**DIRECTORS' REPORT (CONTINUED)****DIRECTORS**

The directors throughout the period and subsequently were

M McDermott  
 Wilmington Trust SP Services (London) Limited  
 N Keen (appointed 7 April 2006)  
 R D Shelton (appointed 7 April 2006)  
 J G Gemmell (appointed 7 April 2006)  
 R G Baker (resigned 7 April 2006)  
 C F Holmes (resigned 7 April 2006)

N Keen is a director of the ultimate parent company. Accordingly his interests in shares of Group companies are disclosed in that company's directors' report.

R D Shelton and J G Gemmell are employees of The Paragon Group of Companies PLC the ultimate parent company, and had beneficial interests in the ordinary share capital of that company under share option schemes as follows

| Director    | Options at 30 September 2005 | Options granted in the year | Options exercised in the year | Options at 30 September 2006 |
|-------------|------------------------------|-----------------------------|-------------------------------|------------------------------|
| R D Shelton | 265,642                      | -                           | -                             | 265,642                      |
| J G Gemmell | 263,733                      | 1,779                       | 69,053                        | 196,459                      |

At 30 September 2006 J G Gemmell beneficially held 23,250 (2005 8,967) ordinary shares and R D Shelton held 57,777 (2005 55,651) ordinary shares in that company.

Interest of the directors in shares of the holding company under the Paragon Performance Share Plan

| Director    | Share plan at 30 September 2005 | Share plan awarded in the year | Share plan exercised in the year | Share plan at 30 September 2006 |
|-------------|---------------------------------|--------------------------------|----------------------------------|---------------------------------|
| R D Shelton | 43,467                          | 9,585                          | 10,526                           | 42,526                          |
| J G Gemmell | 45,168                          | 9,585                          | 17,763                           | 36,990                          |

Interest of the directors in shares of the holding company under the Paragon Deferred Bonus Scheme

| Director    | As at 30 September 2005 | Granted during the year | Exercised during the year | As at 30 September 2006 |
|-------------|-------------------------|-------------------------|---------------------------|-------------------------|
| R D Shelton | 7,404                   | 1,647                   | -                         | 9,051                   |
| J G Gemmell | 7,844                   | 1,647                   | -                         | 9,491                   |

Under the Deferred Bonus Scheme the shares awarded will be transferred to J G Gemmell and R D Shelton as soon as is reasonably practical after 1 October 2006.

Interest of the directors in shares of the holding company under the Paragon Matching Share Plan

| Director    | As at 30 September 2005 | Granted during the year | Exercised during the year | As at 30 September 2006 |
|-------------|-------------------------|-------------------------|---------------------------|-------------------------|
| R D Shelton | -                       | 9,880                   | -                         | 9,880                   |
| J G Gemmell | -                       | 9,880                   | -                         | 9,880                   |

Awards are exercisable for six months from the date on which the Remuneration Committee determines the extent to which the performance conditions have been satisfied. EPS performance is measured over the three year period commencing 1 October 2005 and TSR over the three year period commencing 1 January 2006.

**DIRECTORS' REPORT (CONTINUED)**

No other director had any interest in the shares of the Company or of other Group companies either during or after the end of the period. None of the directors had any interest either during or at the end of the period in any material contract or arrangement with the Company. None of the directors had a service contract with the Company.

**CREDITOR PAYMENT POLICY**

The Company agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. The trade creditor days figure has not been stated as the measure is not appropriate to the business.

**AUDITORS**

The directors have taken all necessary steps to make themselves and the Company's auditors aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the period, and, as far as each of the directors is aware, there is no relevant audit information of which the auditors are unaware.

A resolution for the re-appointment of Deloitte & Touche LLP as the auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



J G Gemmell  
Secretary,  
30 April 2007

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
*in relation to Financial Statements*

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The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TMC TATTENHAM NO 2 PLC**

We have audited the financial statements of TMC Tattenham No 2 PLC for the 9 month period ended 30 September 2006 which comprise the profit and loss, the statement of movement in shareholders' funds, the balance sheet and the related notes 1 to 17. 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 auditors' 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
Birmingham, United Kingdom  
30 April 2007

**PROFIT AND LOSS ACCOUNT****For the 9 month period ended 30 September 2006**

|   | Note | 9 months to<br>30 September<br>2006<br>£'000 | 15 months to<br>31 December<br>2005<br>£'000 |
|---|------|--|--|
| Interest receivable   |      |  |  |
| Mortgages   |      | 1,277  | 4,752  |
| Other   |      | 66   | 395  |
|   |      | <u>1,343</u>                                 | <u>5,147</u>                                 |
| Interest payable and similar charges                                  | 4    | (950)  | (3,568)                                      |
| Net interest income   |      | <u>393</u>                                   | <u>1,579</u>                                 |
| Other operating income  |      | 21   | -  |
| Total operating income  |      | <u>414</u>                                   | <u>1,579</u>                                 |
| Operating expenses  |      | (24)   | (93)   |
| Provisions for losses   | 6    | 3  | (446)  |
| Operating profit, being profit on ordinary activities before taxation | 7    | <u>393</u>                                   | <u>1,040</u>                                 |
| Tax on profit on ordinary activities                                  | 8    | (117)  | (312)  |
| Profit on ordinary activities after taxation                          | 14   | <u><u>276</u></u>                            | <u><u>728</u></u>                            |

All activities derive from continuing operations

There are no recognised gains or losses other than the profit for the current and preceding period

**STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS****For the 9 month period ended 30 September 2006**

|  | Note | 9 months to<br>30 September<br>2006<br>£'000 | 15 months to<br>31 December<br>2005<br>Restated<br>(note 1)<br>£'000 |
|--|------|--|--|
| Profit on ordinary activities after taxation |      | 276  | 728  |
| Dividend                                     | 9    | (728)  | (975)  |
| Net movement in shareholders' funds          | 14   | <u>(452)</u>                                 | <u>(247)</u>   |
| Opening shareholders' funds                  |      | <u>740</u>                                   | <u>987</u>   |
| Closing shareholders' funds                  |      | <u><u>288</u></u>                            | <u><u>740</u></u>  |

**BALANCE SHEET****30 September 2006**

|  | Note | As at 30<br>September<br>2006<br>£'000 | As at 31<br>December<br>2005<br>Restated<br>(note 1)<br>£'000 |
|--|------|--|---|
| <b>ASSETS EMPLOYED</b>                       |      |  |   |
| <b>FIXED ASSETS</b>                          |      |  |   |
| Loans to customers                           | 10   | -                                      | 42,766  |
| <b>CURRENT ASSETS</b>                        |      |  |   |
| Debtors falling due within one year          | 12   | 756                                    | 1   |
| Cash at bank                                 |      | 10                                     | 3,378   |
|  |      | <u>766</u>                             | <u>3,379</u>  |
|  |      | <u>766</u>                             | <u>46,145</u>   |
| <b>FINANCED BY</b>                           |      |  |   |
| <b>SHAREHOLDERS' FUNDS</b>                   |      |  |   |
| Called up share capital                      | 13   | 12                                     | 12  |
| Profit and loss account                      | 14   | 276                                    | 728   |
|  |      | <u>288</u>                             | <u>740</u>  |
| <b>CREDITORS</b>                             |      |  |   |
| Amounts falling due within one year          | 15   | 478                                    | 1,152   |
| Amounts falling due after more than one year | 15   | -                                      | 44,253  |
|  |      | <u>478</u>                             | <u>45,405</u>   |
|  |      | <u>766</u>                             | <u>46,145</u>   |

These financial statements were approved by the Board of Directors on **30** April 2007

Signed on behalf of the Board of Directors



R D Shelton  
Director



## **NOTES TO THE ACCOUNTS**

**For the 9 month period ended 30 September 2006**

### **1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable UK accounting standards. The particular accounting policies adopted are described below. They have been applied consistently throughout the current and preceding periods with the exception of FRS 21, 25 and 26 (see below).

#### **Change in accounting policy**

The financial statements have been prepared in accordance with accounting policies generally accepted in the United Kingdom (UK GAAP). Financial Reporting Standards 25 and 26 'Financial Instruments: Disclosure and Presentation' and 'Financial Instruments: Recognition and Measurement' respectively, have been applied for the first time in the year, which has had no impact upon the balance sheet or the profit and loss account.

The adoption of Financial Reporting Standard 21 means that dividends are now accounted for in the period in which they are paid rather than proposed. As a result of this change, the comparative results for the 15 month period to 31 December 2005 have been restated as follows. Opening reserves have been increased by £975,000, retained profit for the financial period has been reduced by £247,000 and creditors falling due within one year have been reduced by £728,000.

#### **Accounting Convention**

The financial statements are prepared under the historical cost convention, except as required in the valuation of certain financial instruments which are carried at fair value.

#### **Loans to Customers**

*In the results for the 9 month period ended 30 September 2006*

Loans to customers are considered to be 'loans and receivables' as defined by Financial Reporting Standard 26 – 'Financial Instruments: Measurement' (FRS 26). They are therefore accounted for on the amortised cost basis.

Such loans are valued at inception at the initial advance amount, which is the fair value at that time, inclusive of procurement fees paid to brokers or other business providers and less initial fees paid by the customer. Thereafter they are valued at this amount less the cumulative amortisation calculated using the Effective Interest Rate ('EIR') method. The loan balances are then reduced where necessary by a provision for balances which are considered to be impaired.

The EIR method spreads the expected net income arising from a loan over its expected life. The EIR is that rate of interest which, at inception, exactly discounts the expected future cash payments and receipts arising from the loan to the initial carrying amount.

## NOTES TO THE ACCOUNTS

**For the 9 month period ended 30 September 2006**

### 1. ACCOUNTING POLICIES (CONTINUED)

#### **Impairment of Loans and Receivables**

*In the results for the 9 month period ended 30 September 2006*

Loans and receivables are reviewed for indications of possible impairment throughout the period and at each balance sheet date, in accordance with FRS 26. Where loans exhibit objective evidence of impairment, the carrying value of the loans is reduced to the net present value of their expected future cash flows, including the value of the potential realisation of any security, discounted at the original EIR. Loans are assessed collectively, compared by risk characteristics and account is taken of any impairment arising due to events which are believed to have taken place but have not been specifically identified at the balance sheet date.

*In the results for the 15 month period ended 31 December 2005*

The amount provided is an estimate of the amount needed to reduce the carrying value of the asset to its expected recoverable amount and is based on the application of formulae which take into account the nature of each portfolio, borrower payment profile and expected losses.

#### **Transactions with other Group companies**

The Company has taken advantage of the exemption granted by Financial Reporting Standard 8 - 'Related Party Disclosures' and does not therefore provide details of transactions with other Group companies as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available.

#### **Current tax**

Current tax, including UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

#### **Deferred taxation**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### **Borrowings**

*In the results for the 9 month period ended 30 September 2006*

Borrowings are carried in the balance sheet on the amortised cost basis. The initial value recognised includes the principal amount received less any discount on issue or costs of issuance.

Interest and all other costs of the funding are expensed to the profit and loss account as interest payable over the term of the borrowing on an Effective Interest Rate basis.

*In the results for the 15 month period ended 31 December 2005*

Borrowings are stated at their outstanding value less unamortised issue costs and discounts on issue.

## **NOTES TO THE ACCOUNTS**

**For the 9 month period ended 30 September 2006**

### **1. ACCOUNTING POLICIES (CONTINUED)**

#### **Fee and commission income**

Other income includes administration fees charged to borrowers, which are credited when the related service is performed

#### **Cashflow Statement**

The Company has taken advantage of the exemption granted by Financial Reporting Standard 1 - 'Cashflow Statements' and does not therefore provide a cashflow statement as it is a wholly owned subsidiary of The Paragon Group of Companies PLC, the accounts of which are publicly available

### **2. CRITICAL ACCOUNTING ESTIMATES**

Certain balances reported in the financial statements are based wholly or in part on estimates or assumptions made by the directors. There is, therefore, a potential risk that they may be subject to change in future periods. The most significant of these are:

#### **Impairment losses on loans to customers**

Impairment losses on loans are calculated based on statistical models. The key assumptions revolve around estimates of future cash flows from customer's accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect the current conditions.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results or assumptions which differ from the actual outcomes.

#### **Effective interest rates**

In order to determine the effective interest rate applicable to loans an estimate must be made of the expected life of each loan and hence the cash flows relating thereto. These estimates are based on historical data and reviewed regularly. The accuracy of the effective interest rate applied would therefore be compromised by any differences between actual borrower behaviour and that predicted.

#### **Fair values**

Where financial assets and liabilities are carried at fair value, in the majority of cases this can be derived by reference to quoted market prices. Where such a quoted price is not available the valuation is based on cash flow models based, where possible on independently sourced parameters. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of the models or the assumptions used.

**NOTES TO THE ACCOUNTS**

**For the 9 month period ended 30 September 2006**

**3. FINANCIAL RISK MANAGEMENT**

**Market Risk Management**

Market risk is managed by the Asset and Liability Committee ("ALCO") of Mortgage Trust Limited (MTL) and The Paragon Group of Companies plc ("Paragon"), the ultimate parent company of MTL, with whom the company has a servicing agreement. The ALCO is composed of senior management and meets regularly to review performance, positions and market conditions and to make strategic decisions regarding interest rate risk, liquidity and capital management. The policy is implemented by the treasury department of MTL and Paragon.

Interest rate risk is the Company's most significant market risk and arises from mismatches between the repricing profiles of assets and liabilities. Interest rate risk is quantified, and limits set, based on the effect that a given movement in interest rates may have on the profitability of the company. Overall planning in relation to interest rate risk is performed using a risk management system, which allows gap analysis reports to be produced on a regular basis together with sensitivity of the net exposure to a shift in interest rates. The Company does not use derivatives for creating risk that does not arise in the underlying business and the Company does not trade in derivatives and consequently all derivatives are classified as hedging contracts and accounted for using hedge accounting.

The company has no derivative contracts in either the current or prior periods.

**Credit Risk Management**

Credit risk is monitored by the credit department of MTL, and arises from the Company's lending activities. MTL is committed to maintaining a consistent credit culture based on sound lending principles because this is the best safeguard against any decline in the property market in particular or the economy as a whole.

The approval process for secured loans takes into account the ratio of the loan amount to the value of the mortgaged property. MTL operates comprehensive monitoring systems which assist management in identifying any deterioration in loan quality. The quality of the loan book is reviewed on a regular basis.

**Liquidity Management**

It is the Company's policy to ensure that adequate resources are available at all times to provide for the day to day activities of the Company.

Management consider the year end position satisfactorily reflects the policies and objectives set out above.

## NOTES TO THE ACCOUNTS

For the 9 month period ended 30 September 2006

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## Interest rate risk profile

The table below gives an indication of the interest rate risk profile of the Company. Items are included in various time bands based on the earlier of the repricing or maturity date taking account of any amortisation of principal

| As at 30 September 2006       | Not more<br>than three<br>months<br>£'000 | Non<br>Interest<br>Bearing<br>£'000 | Total<br>£'000 |
|-------------------------------|---|-------------------------------------|----------------|
| <b>Assets</b>                 |   |                                     |                |
| Other assets                  | <u>10</u>                                 | <u>756</u>                          | <u>766</u>     |
|                               | <u>10</u>                                 | <u>756</u>                          | <u>766</u>     |
| <b>Liabilities</b>            |   |                                     |                |
| Other liabilities             | -   | (478)                               | (478)          |
| Shareholders' funds           | <u>-</u>                                  | <u>(288)</u>                        | <u>(288)</u>   |
|                               | <u>-</u>                                  | <u>(766)</u>                        | <u>(766)</u>   |
| Interest rate sensitivity gap | <u>10</u>                                 | <u>(10)</u>                         | <u>-</u>       |

| As at 31 December 2005        | Not more<br>than three<br>months<br>£'000 | Non<br>Interest<br>Bearing<br>£'000 | Total<br>£'000  |
|-------------------------------|---|-------------------------------------|-----------------|
| <b>Assets</b>                 |   |                                     |                 |
| Mortgage advances             | 42,766                                    | -                                   | 42,766          |
| Other assets                  | <u>3,378</u>                              | <u>1</u>                            | <u>3,379</u>    |
|                               | <u>46,144</u>                             | <u>1</u>                            | <u>46,145</u>   |
| <b>Liabilities</b>            |   |                                     |                 |
| Floating Rate Notes           | (43,565)                                  | -                                   | (43,565)        |
| Other liabilities             | (688)                                     | (1,880)                             | (2,568)         |
| Shareholders' funds           | <u>-</u>                                  | <u>(12)</u>                         | <u>(12)</u>     |
|                               | <u>(44,253)</u>                           | <u>(1,892)</u>                      | <u>(46,145)</u> |
| Interest rate sensitivity gap | <u>1,891</u>                              | <u>(1,891)</u>                      | <u>-</u>        |

## Currency risk

The Company has no material exposure to foreign currency risk.

**NOTES TO THE ACCOUNTS****For the 9 month period ended 30 September 2006****4. INTEREST PAYABLE AND SIMILAR CHARGES**

|                            | <b>9 months to<br/>30 September<br/>2006<br/>£'000</b> | <b>15 months to<br/>31 December<br/>2005<br/>£'000</b> |
|----------------------------|--|--|
| Asset backed loan notes    | 895  | 3,293  |
| Subordinated loan interest | 52   | 245  |
| Other funding costs        | 3  | 30   |
|                            | <u>950</u>   | <u>3,568</u>   |

As permitted by FRS 26 the interest figures shown above for the periods ended 30 September 2006 and 31 December 2005 are prepared under different bases (see note 1) They are therefore not directly comparable

**5. DIRECTORS AND EMPLOYEES**

Directors' remuneration from the Company during the period is stated in note 7

Two directors exercised share options in the ultimate parent company during the year (2005 three directors)

The only employees during the period or the preceding period were the directors as disclosed on page 2

**6. PROVISIONS FOR LOSSES**

|                                | <b>9 months to<br/>30 September<br/>2006<br/>£'000</b> | <b>15 months to<br/>31 December<br/>2005<br/>£'000</b> |
|--------------------------------|--|--|
| Impairment of financial assets |  |  |
| First mortgage loans           | (3)  | 446  |

## NOTES TO THE ACCOUNTS

For the 9 month period ended 30 September 2006

## 7. OPERATING PROFIT, BEING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

|   | 9 months to<br>30 September<br>2006<br>£'000 | 15 months to<br>31 December<br>2005<br>£'000 |
|---|--|--|
| Operating profit is after charging                                |  |  |
| Servicing fees  | 17   | 62   |
| Corporate service fee – Wilmington Trust SP Services (London) Ltd | 7  | 15   |
| Auditors' remuneration - audit services                           | 3  | 6  |
|   | <u>          </u>                            | <u>          </u>                            |

Non audit fees provided to the group are disclosed in the accounts of the parent company and the exemption not to disclose non-audit services in these accounts has been taken

## 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

## a) Tax charge for the period

|   | 9 months to<br>30 September<br>2006<br>£'000 | 15 months to<br>31 December<br>2005<br>£'000 |
|---|--|--|
| UK corporation tax at 30% (2005 30%) based on the profit for the period |  |  |
| Corporation tax   | 117  | 312  |
|   | <u>          </u>                            | <u>          </u>                            |

## b) Factors affecting the current tax charge

|                   | £'000      | £'000      |
|-------------------|------------|------------|
| Profit before tax | 393        | 1,040      |
| Tax at 30%        | <u>117</u> | <u>312</u> |

## 9. DIVIDEND

No interim dividend was paid during the period (2005:£nil) A final dividend of £14 60 per share was paid during the period relating to the previous 15 month period ended 31 December 2005 (2005 £19 50 per share)

## NOTES TO THE ACCOUNTS

For the 9 month period ended 30 September 2006

## 10. LOANS TO CUSTOMERS

These comprise mortgage loans secured on residential properties in the United Kingdom and are categorised as loans and receivables as defined by FRS 26 (note 11)

|                                 | 30 September<br>2006<br>£'000 | 31 December<br>2005<br>£'000 |
|---------------------------------|-------------------------------|------------------------------|
| Balance at 1 October 2005       | 42,766                        | 57,801                       |
| Additions                       | -                             | 6                            |
| Securitisations and other sales | (39,220)                      | -                            |
| Other debits                    | 1,180                         | 4,746                        |
| Repayments and redemptions      | (4,726)                       | (19,787)                     |
| Balance at 30 September 2006    | -                             | 42,766                       |

Other debits include primarily interest receivable on loans outstanding and discount effect of EIR. As permitted by FRS 26 the interest figures shown above for the periods ended 30 September 2006 and 31 December 2005 are prepared under different bases (see note 1). They are therefore not directly comparable.

## 11. LOANS AND RECEIVABLES

Loans and receivables at 30 September 2006 and 31 December 2005, which are all denominated and payable in sterling, were first mortgages which are secured on residential property within the United Kingdom.

Mortgage loans have a contractual term of up to thirty years, the borrower is entitled to settle the loan at any point and in most cases such settlement does take place. All borrowers are required to make monthly payments, except where an initial deferred period is included in the contractual terms.

The interest rate repricing profile of the above loans is shown in note 3. All the mortgage loans are pledged as collateral for liability at 30 September 2006 and 31 December 2005.



**NOTES TO THE ACCOUNTS****For the 9 month period ended 30 September 2006****12. DEBTORS**

|                                     | <b>30 September<br/>2006<br/>£'000</b> | <b>31 December<br/>2005<br/>£'000</b> |
|-------------------------------------|--|---------------------------------------|
| Amounts falling due within one year |  |                                       |
| Other debtors                       | 756                                    | -                                     |
| Prepayments and accrued income      | -                                      | 1                                     |
|                                     | <u>756</u>                             | <u>1</u>                              |

The fair value of the above items are not considered to be materially different to their carrying values

**13. CALLED UP SHARE CAPITAL**

|  | <b>30 September<br/>2006<br/>£</b> | <b>31 December<br/>2005<br/>£</b> |
|--|------------------------------------|-----------------------------------|
| Authorised   |                                    |                                   |
| 100,000 ordinary shares of £1 each                         | 100,000                            | 100,000                           |
| Allotted:  |                                    |                                   |
| 50,000 ordinary shares of £1 each (25p called up and paid) | 12,500                             | 12,500                            |

**14. PROFIT AND LOSS ACCOUNT**

|                                 | <b>Profit and<br/>loss account<br/>£'000</b> |
|---------------------------------|--|
| Balance at 1 January 2006       | -  |
| Profit for the financial period | 276  |
| Balance at 30 September 2006    | <u>276</u>                                   |

## NOTES TO THE ACCOUNTS

For the 9 month period ended 30 September 2006

## 15. CREDITORS

|  | 30 September<br>2006 | 31 December<br>2005<br>Restated<br>(note 1) |
|--|----------------------|---|
|  | £'000                | £'000                                       |
| Amounts falling due within one year            |                      |   |
| Amounts due to group companies                 | 45                   | 534   |
| Corporation tax                                | 429                  | 582   |
| Other creditors                                | 4                    | 13  |
| Accruals and deferred income                   | -                    | 23  |
|  | <u>478</u>           | <u>1,152</u>                                |
|  |                      |   |
|  | 30 September<br>2006 | 31 December<br>2005                         |
|  | £'000                | £'000                                       |
| Amounts falling due after more than one year . |                      |   |
| Asset backed loan notes                        | -                    | 43,565                                      |
| Intercompany subordinated loan                 | -                    | 688   |
|  | <u>-</u>             | <u>44,253</u>                               |

A maturity analysis and further details of the asset backed loan notes are given in note 16.

## 16. BORROWINGS

The Mortgage Backed Floating Rate Notes were secured over a portfolio comprising variable rate mortgage loans secured by first charges over residential properties in the United Kingdom. The Notes were subject to mandatory redemption in part on each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage. During the period the Company repaid the principal amount outstanding on the Class A, B & M Notes.

Interest was payable at a fixed margin above the London Interbank Offered Rate ('LIBOR') on notes denominated in sterling,

All payments in respect of the notes were required to be made in the currency in which they are denominated.

Notes in issue at 30 September 2006 and 31 December 2005 were

| Notes | Maturity Date | Call date | Principal Outstanding      |                           | Note Margin |         |
|-------|---------------|-----------|----------------------------|---------------------------|-------------|---------|
|       |               |           | 30 September<br>2006<br>£m | 31 December<br>2005<br>£m | Current     | Step up |
| 'A2'  | November 2028 | June 2005 | -                          | 40.6                      | 0.26%       | 0.52%   |
| 'M'   | November 2028 | June 2005 | -                          | 3.0                       | 0.70%       | 1.40%   |

**NOTES TO THE ACCOUNTS**

**For the 9 month period ended 30 September 2006**

**16. BORROWINGS (CONTINUED)**

The Company had entered into a subordinated loan agreement with The Mortgage Corporation, the funds of which were used to pay the costs associated with its purchase of a pool of mortgages and issuance of floating rate notes

The terms of the loan allowed it to be repaid in whole or in part provided that the Company had sufficient assets to meet all obligations on the floating rate notes and other liabilities. After the repayment of the floating rate notes and associated liabilities during the period, the company had sufficient assets remaining to repay the subordinated loan in full and the liability and all future obligations were satisfied prior to the end of the accounting period

**17. ULTIMATE PARENT COMPANY**

The immediate parent undertaking is Mortgage Trust Services PLC. The Company's ultimate parent company and ultimate controlling party is The Paragon Group of Companies PLC, a company registered in England and Wales. Copies of the financial statements for both companies are available from these companies' registered office at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE