Meerbrook Finance Number Two Limited

Directors' report and financial statements

for the year ended 31 December 2009

Registered Number 4683419

Meerbrook Finance Number Two Limited

Contents

Meerbrook Finance Number Two Limited

Directors and advisors

Directors
Capita Trust Corporate Limited
Capita Trust Corporate Services Limited
S Lawrence
PCSL Services No 1 Limited

Secretary
TMF Corporate Administration Services Limited

Independent auditors
KPMG Audit Plc
St James Square
Manchester
M2 6DS

Solicitors
Allen & Overy LLP
One Bishops Square
London
E14 5JJ

Registered office
Pellipar House, 1st Floor
9 Cloak Lane
London
EC4R 2RU

Registered number
4683419

Meerbrook Finance Number Two Limited

Directors' report for the year ended 31 December 2009

The directors present their report and the audited financial statements of the company (Registered Company No 4683419) for the year ended 31 December 2009

Principal activities

The principal activity of the Company is to receive deferred consideration for both currently and previously owned mortgage portfolios

Review of business and future developments

Meerbrook Finance Number Two Limited is now a subsidiary of The Co-operative Bank plc following the merger between The Co-operative Bank plc and Britannia Building Society The merger became effective on 1 August 2009

Key performance indicators (KPI's)

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Principal risks and uncertainties

Economic factors in the United Kingdom could affect the ability of the originator's customers to repay their loans

Credit risk on the Company's deemed loan assets is, however, considered to be minimal because management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by The Co-operative Bank plc

The liquidity risk on deemed loans due to group undertakings is not considered to be material as in practice the contractual repayments coincide with the repayments of the deemed loans due from group undertakings, as they become due, see also note 9 to the accounts

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

Results and dividends

The loss for the year, after tax, amounted to £1,285k (2008 £2,552k) The net liabilities of the Company at 31 December 2009 were £3,547k (2008 £2,261k) The directors do not propose a dividend for the year (2008 nil)

Directors and their interests
The directors who held office during the year are given below

Capita Trust Company Limited (resigned 21 July 2009)
Capita Trust Corporate Services Limited
Capita Trust Corporate Limited (appointed 21 July 2009)
S Lawrence (appointed 21 July 2009)
PCSL Services No 1 Limited

No director had any beneficial interest in the share capital of the Company or any other company in the Group at any time during the period under review

Going concern
Due to the way in which the Company is structured, the Company is only required to repay its capital in line with the principle repayment of the underlying mortgage loans Consequently, the directors are satisfied that the Company will have sufficient liquid resources available to meet its obligations as they fall due

After preparing and reviewing forecasts and projections, stressed to take account of reasonable possible changes in assumptions, the directors are satisfied that the Company will have adequate resources to continue in business for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the financial statements

Statement of directors' responsibilities
The directors are responsible for preparing the directors' report and 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 are elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law

Under Company law, the directors must not approve the financial statements unless they are satisfied that they 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 In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statement on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 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

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

Meerbrook Finance Number Two Limited

Directors' report for the year ended 31 December 2009 (continued)

Independent auditors
During the year PricewaterhouseCoopers LLP resigned as auditors to the Company, and the directors appointed KPMG Audit Plc to fill the vacancy arising KPMG Audit Plc have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting

On behalf of the Board

Signed ______________________
J Rowan for PCSL Services No 1 Limited
Director

Date 6 May 2010

Signed ______________________
D Tweedy for PCSL Services No.1 Limited
Director

Date 6 May 2010

Meerbrook Finance Number Two Limited

Independent auditors' report to the members of Meerbrook Finance Number Two Limited

We have audited the financial statements of Meerbrook Finance Number Two Limited for the year ended 31 December 2009 set out on pages 6 to 23 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU

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 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

As explained more fully in the Statement of directors responsibilities set out on page 3, 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 IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

Signed ______________________ Date 6 May 2010

Andrew Walker (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
KPMG Audit Plc
St James Square
Manchester
M2 6DS

Meerbrook Finance Number Two Limited

Statement of comprehensive income for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Interest and similar income	2	**32,026**	57,437
Interest expense and similar charges	3	**(33,633)**	(58,994)
Net interest expense		**(1,607)**	(1 557)
Fee and commission expense	4	**-**	(1,536)
Total net expense		**(1,607)**	(3 093)
Other operating expenses	6	**(20)**	(119)
Loss before tax		**(1,627)**	(3,212)
Taxation	7	**342**	660
Loss attributable to equity holders	13	**(1,285)**	(2,552)

Loss is derived from continuing operations and all activities are in the UK

The accounting policies and notes on pages 10 to 23 form part of these financial statements

Meerbrook Finance Number Two Limited

Balance sheet as at 31 December 2009

	Notes	2009 £000	2008 £000
Assets			
Deemed loans due from group undertakings	9	**744,368**	801 508
Other receivables	10	**376**	310
Deferred tax asset	7	**688**	347
Total assets		745,432	802,165
Liabilities			
Deemed loans due to group undertakings	11	**747,671**	803 086
Other payables	12	**1,308**	1 342
Total liabilities		**748,979**	804,428
Equity			
Retained earnings	13	**(3,547)**	(2,262)
Total equity and liabilities		745,432	802,166

The accounting policies and notes on pages 10 to 23 form part of these financial statements

Approved by the Board of directors on 6 May 2010 and signed on its behalf by

Signed ______________________
J Rowan for PCSL Services No 1 Limited
Director

Signed ______________________
D Tweedy for PCSL Services No 1 Limited
Director

Meerbrook Finance Number Two Limited

Statement of changes in equity for the year ended 31 December 2009

Year ended 31 December 2009	**Share Capital £000**	**Retained Earnings £000**	**Total £000**
At 1 January	-	(2,262)	(2,262)
Loss for the year	-	(1,285)	(1,285)
At 31 December	-	(3,547)	(3,547)

Year ended 31 December 2008	Share Capital £000	Retained Earnings £000	Total £000
At 1 January	-	290	290
Loss for the year	-	(2,552)	(2.552)
At 31 December	-	(2,262)	(2 262)

Meerbrook Finance Number Two Limited

Statement of cash flows for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Cash flows from operating activities	15	**51**	654,497
Cash flows from financing activities			
Net decrease in subordinated debt		**-**	(64,158)
Net decrease in deposits from banks		**-**	(590,457)
Interest paid on subordinated debt		**(51)**	-
Net movement in cash and cash equivalents		**-**	(118)
Cash and cash equivalents at 1 January		**-**	118
Cash and cash equivalents at 31 December		**-**	-

Meerbrook Finance Number Two Limited

Statement of accounting policies
for the year ended 31 December 2009

Basis of preparation
Meerbrook Finance Number Two Limited is a company incorporated and domiciled in England and Wales

The Company is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and implemented in the UK, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to organisations reporting under IFRS

Disclosed below are new standards and interpretations which became effective, have been adopted, and are relevant to the Company

IAS 1 – Presentation of Financial Statements
This standard sets out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content This standard has impacted the presentation of the financial performance of the Company, in line with other financial institutions However, it has not changed the recognition, measurement or disclosure of specific transactions and other events required by other IFRS

IAS 23 – Borrowing Costs
This standard relates to interest costs on assets that take a substantial time to get ready for intended use or sale The option to recognise all borrowing costs immediately as an expense are eliminated and such costs must be capitalised All other borrowing costs should be expensed as incurred

IFRS 7 – Financial Instruments Disclosures
The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate

- the significance of financial instruments for the entity's financial position and performance,
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks The qualitative disclosures describing management's objectives, policies and processes for managing those risks The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel

Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create

Disclosed below are the new IFRS, interpretations and amendments which as at 31 December 2009 had been issued, but were not yet effective The Company has chosen not to early adopt the standards, as they were not considered to be relevant to the Company's operations

IAS 27 – Consolidated and Separate Financial Statements

IFRS 3 – Business Combinations

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

Functional and presentation currencies
The financial statements are presented in sterling, which is the Company's functional currency (i e the primary currency in which it transacts business) and presentation currency

Meerbrook Finance Number Two Limited

Statement of accounting policies for the year ended 31 December 2009 (continued)

Interest income and expense

This comprises

- interest income and expense for financial assets and liabilities at amortised cost through the statement of comprehensive income, calculated using the effective interest rate method This includes accrued interest income on financial assets written down as a result of impairment, and
- deferred purchase consideration

Effective interest rate

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

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

Deferred purchase consideration payable

Deferred purchase consideration is deducted from interest income, since the Company does not recognise income to which it is not beneficially entitled Contingent deferred consideration arising in future periods is recorded in the statement of comprehensive income in the year in which it arises

Deferred purchase consideration receivable

Deferred purchase consideration is deducted from interest expense since the Company does not recognise expenditure which it has not incurred Contingent deferred consideration arising in future years is recorded in the statement of comprehensive income in the year in which it arises

Tax

Tax on the results for the year comprises current tax and deferred tax

Current Tax

The expected tax payable on the results for the year is called current tax It is calculated using the tax rates in force at the end of the reporting period The current tax charge includes adjustments to tax payable in prior years

Deferred tax

Deferred tax is provided in full using the liability method where there are temporary differences between the carrying value of assets and liabilities for accounting and for tax purposes

Deferred tax is calculated using the tax rates that are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled

Deferred tax assets are only recognised as an asset where it is probable that there will be future taxable profits against which to offset them

Movements in deferred tax are recognised in the statement of comprehensive income

Meerbrook Finance Number Two Limited

Statement of accounting policies
for the year ended 31 December 2009 (continued)

Deemed loans due from and to group undertakings

The Company purchased the beneficial title of mortgage portfolios and subsequently sold these to special purpose entities (SPEs) The beneficial ownership of the loans and advances to customers sold to and sold by the Company fail the derecognition criteria of IAS 39 and, therefore, these loans remain on the balance sheet of the originator IAS 39 therefore requires the Company to recognise a "deemed loan" financial asset with the resulting "deemed loan" liability being recognised on the originator's balance sheet IAS 39 also requires the Company to recognise a "deemed loan" financial liability for sale of beneficial title of mortgage portfolios, the resulting ' deemed loan" asset is recognised on the SPE's balance sheet

This deemed loan initially represents the consideration paid by the Company in respect of the acquisition of the beneficial ownership of the loans and advances to customers, this is subsequently adjusted for repayments and redemptions of mortgages from the originator's customers

The deemed loan is carried at amortised cost using the effective interest rate method with all movements being recognised in the statement of comprehensive income

Deferred purchase consideration payable

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

Deferred purchase consideration receivable

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

Financial liabilities

Financial liabilities are contractual obligations to deliver cash or some other asset to a third party They include

- deposits,
- deposits from banks, and
- other borrowed funds and liabilities

Financial liabilities are recognised initially at fair value Fair value includes the issue proceeds (the fair value of consideration received) net of issue costs incurred

Financial liabilities are subsequently stated at amortised cost Any difference between issue proceeds net of issue costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition

Segmental reporting

The Company operates in one business segment and all business is conducted in the UK, therefore, no segmental information is presented

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2009

1 Loss before tax

Loss on ordinary activities before taxation is charged after stating

	2009 £000	2008 £000
Audit fee for the audit of the Company's financial statements	2	6

2 Interest and similar income

	2009 £000	2008 £000
On financial assets not at fair value through income and expense		
Deemed loan interest receivable	32,022	54,185
Interest receivable from The Co-operative Bank plc	4	3 252
	32,026	57,437

3 Interest expense and similar charges

	2009 £000	2008 £000
On financial liabilities not at fair value through income and expense		
Interest expense on deposits from banks	-	9,286
Deemed loan interest payable	33,582	45,044
Interest payable to The Co-operative Bank plc	51	4 664
	33,633	58,994

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

4 Fee and commission expense

	2009 £000	2008 £000
On financial liabilities not at fair value through income and expense		
Arrangement fees	-	750
Facility fees	-	786
	-	1,536

5 Directors' emoluments and employees

The directors received no emoluments from Britannia Building Society or The Co-operative Bank plc for services rendered during the year

There are no directors to whom benefits are accruing under the Britannia Building Society or The Co-operative Bank plc pension schemes (2008 none)

The Company had no employees during the current or prior period

6 Other operating expenses

	2009 £000	2008 £000
Professional and accountancy fees	10	10
Management/trustee fees	10	109
	20	119

7 Taxation

	2009 £000	2008 £000
UK tax at 21% (2008 20 75%)		
Deferred tax		
Current year	(342)	(675)
Adjustments in respect of prior years		15
	(342)	(660)

Notes to the financial statements for the year ended 31 December 2009 (continued)

7 Taxation (continued)

Factors affecting tax charge for the year

The average effective rate of corporation tax assessed for the period is higher than the standard rate of corporation tax in the UK of 21%, (2008 20 75%) The differences are explained below

	2009 £000	2008 £000
Loss on ordinary activities before tax	(1,627)	(3,211)
Loss before tax multiplied by standard rate of tax	(342)	(666)
Effects of		
Adjustments in respect of prior years	-	15
Change of rate	-	(9)
	(342)	(660)

The recognised deferred tax asset includes the following amounts

	2009 £000	2008 £000
Other short-term timing differences	688	347
	688	347

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

	2009 £000	2008 £000
At 1 January	347	(313)
Restatement of opening balance	-	(15)
Deferred tax credited during the year	341	675
At 31 December	688	347

Factors affecting the tax charge for the year

The average effective rate of corporation tax assessed for the year is equal to the standard rate of corporation tax for small companies in the UK of 21% (2008 20 75%)

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004, for accounting periods ending before 1 January 2008

Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006 This legislation ensures that companies who met the definition of a 'securitisation company' before 1 January 2007 may elect that, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the retained profit of the securitisation company required to be retained under the agreement that governs the Company This Company has made such an election

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

7 Taxation (continued)

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes related to the same fiscal authority

8 Cash and cash equivalents

	2009 £000	2008 £000
Bank deposits	-	-

9 Deemed loans due from group undertakings

	2009 £000	2008 £000
Deemed loans recoverable	753,513	810,791
Deferred purchase consideration payable	(9,145)	(9,283)
	744,368	801 508

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

Deferred purchase consideration payable

Deferred purchase consideration is payable to Mortgage Agency Service Number Five Limited, Mortgage Agency Services Number Six Limited and Platform Funding Limited dependent on the extent to which the surplus income generated by the mortgage books, purchased by Meerbrook Finance Number Four Limited from that company, exceeds the administration costs of the mortgage book

Notes to the financial statements for the year ended 31December 2009 (continued)

9 Deemed loans due from group undertakings (continued)

Deferred purchase consideration payable

	2009 £000	2008 £000
Amounts owed to Mortgage Agency Services Number Six Limited	6,690	6,828
Amounts owed to Platform Funding Limited	2,455	2,455
	9,145	9,283

The movements in deferred purchase consideration are as follows

	2009 £000	2008 £000
At 1 January	9,283	9,283
Repayments during the year	(138)	-
At 31 December	9,145	9,283

10 Other receivables

	2009 £000	2008 £000
Amounts owed by group undertakings	376	310
	376	310

The above amounts owed by group undertakings are expected to be settled more than 12 months after the end of the reporting period These represent amounts due from The Co-operative Bank plc There is no formal repayment schedule for these monies, which are repayable on demand

The effective interest rate on the above amounts owed by group undertakings is 3 month LIBOR less 25 basis points

11 Deemed loans due to group undertakings

	2009 £000	2008 £000
Deemed loan repayable	753,513	809,231
Deferred purchase consideration receivable	(5,842)	(6 145)
	747,671	803,086

Notes to the financial statements for the year ended 31December 2009 (continued)

11 Deemed loans due to group undertakings (continued)

During the year the Company sold the beneficial title of two mortgage portfolios to Meerbrook Finance Number Four Limited The deemed loan repayable is repaid as and when the cash is received by the originator from its mortgagors towards principal repayments of the loans and advances Consequently, a proportion of the deemed loan repayable will be repaid within 12 months, although the amount cannot be quantified

	2009 £000	2008 £000
Amounts owed by Leek Finance Number Sixteen plc	3,469	3,772
Amounts owed by Leek Finance Number Nineteen plc	2,373	2,373
	5,842	6 145

The movements in deferred consideration are as follows

	2009 £000	2008 £000
At 1 January	6,145	10,178
Amounts received during the year	(303)	(4 033)
At 31 December	5,842	6,145

Deferred purchase consideration receivable

It is anticipated that the majority of the above deferred consideration will be receivable within one year However, an amount of the above balance will only become receivable after that time Repayments of deferred consideration are dependent on market conditions, amongst other factors, and therefore, the directors are unable to reliably estimate the amount that will fall to be receivable after one year

12 Other payables

	2009 £000	2008 £000
Subordinated debt owed to The Co-operative Bank plc	1,301	1,330
Accruals and deferred income	7	11
	1,308	1,341

The subordinated loan is secured by a second charge on the mortgage assets to which the Company's deemed loans relate The subordinated loan is not repayable until all obligations to the noteholders have been met Interest is calculated on the loan at the prevailing three month LIBOR plus 21 basis points

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

13 Retained earnings

	2009 £000	2008 £000
At 1 January	(2,262)	290
Loss for the year	(1,285)	(2,552)
At 31 December	(3,547)	(2,262)

14 Called up share capital

	2009 £	2008 £
Authorised		
100 ordinary shares of £1 each	100	100
Issued and fully paid		
1 ordinary share of £1	1	1

The Company's funding consists of share capital, debt securities issued to The Co-operative Bank plc and intercompany funding provided by The Co-operative Bank plc Capital is managed on the whole by The Co-operative Bank plc, who are subject to the capital requirements imposed by its regulator the Financial Services Authority ("FSA") During the period, The Co-operative Bank plc complied with the capital requirements set by the FSA

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

	2009 £000	2008 £000
Loss before tax	(1,627)	(3,212)
Decrease in accruals	(2)	(3,200)
Interest payable on subordinated loan	1	4,664
Cash flows from operating profits before changes in operating assets and liabilities	(1,628)	(1,748)
Net decrease in deemed loans due from group undertakings	57,140	88 450
Net (decrease)/increase in deemed loans due to group undertakings	(55,415)	496 568
(Increase)/decrease in other receivables	(68)	77 569
(Decrease) in other payables	22	(6,342)
Net cash flows from operating activities	51	654,497

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

16 Ultimate parent undertaking and controlling entity

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

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

The immediate parent undertaking of Meerbrook Finance Holdings Number Two Limited is The Co-operative Bank plc by virtue of amendments introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004 The Co-operative Bank plc is wholly owned by The Co-operative Group Limited

The largest group in which the results of the Company are consolidated is that headed by The Co-operative Group Limited The Co-operative Group Limited is a mutual organisation owned by its members and consequently has no controlling body, which is incorporated in Great Britain and registered in England and Wales under the Industrial and Provident Society Acts 1965 to 2002 The Co-operative Group Limited is the ultimate parent company and ultimate controlling party The financial statements of the ultimate parent company are available from New Century House, Manchester, M60 4ES The smalle /st group in which they are consolidated is that headed by The Co-operative Bank plc, which is incorporated in Great Britain The financial statements of this group are available from 1 Balloon Street, Manchester, M60 4EP

17 Related party disclosures

As stated in the note above, the Company is a subsidiary of The Co-operative Group Limited Consequently the directors of the Company consider The Co-operative Group Limited and its subsidiaries to be related parties of the Company

17 Related party disclosures (continued)

Transactions with other companies within the Group are detailed as follows

Year ended 31 December 2009	Interest and similar income £000	Interest expense and similar charges £000	Balance due to/(from) Meerbrook Finance Number Two Ltd £000
The Co-operative Bank plc	4	51	(1,020)
Leek Finance Number Ten plc	746	-	12,585
Leek Finance Number Sixteen plc	-	860	(21,935)
Leek Finance Number Nineteen plc	-	5,785	(204,474)
Meebrook Finance Number Four Limited	-	26,938	(521,257)
Mortgage Agency Services Number Five Limited	25,440	-	521,257
Mortgage Agency Services Number Six Limited	895	-	18,714
Platform Funding Limited	4,941	-	191,806

Year ended 31 December 2008			
The Co-operative Bank plc (formerly 'Britannia Building Society')	3,252	4,664	(1,020)
Leek Finance Number Ten plc	1,606	-	14,661
Leek Finance Number Sixteen plc	-	2,183	(25 613)
Leek Finance Number Nineteen plc	-	15,579	(221,381)
Mortgage Agency Services Number Five Limited	36,358	100	557,589
Mortgage Agency Services Number Six Limited	2,347	-	22 522
Platform Funding Limited	13,875	-	206,736
Mortgage Agency Services Number Four Limited	-	27 282	(566 092)

During the year £7k (2008 £5k) was paid to corporate directors in respect of the provision of management services

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions

18 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity The Company's financial instruments consist principally of amounts due to and from deemed loans, subordinated debt, other receivables, cash and cash equivalents and deposits from banks

Notes to the financial statements for the year ended 31 December 2009 (continued)

18 Financial instruments (continued)

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

	Carrying value 2009 £000	Fair value 2009 £000
Deemed loans due from group undertakings	744,368	726,270
Other receivables	376	376
Deemed loans due to group undertakings	(747,671)	(734,889)
Other payables	(1,308)	(1,308)

	Carrying value 2008 £000	Fair value 2008 £000
Deemed loans due from group undertakings	801,508	803,318
Other receviables	310	310
Deemed loans due to group undertakings	(803,086)	(804,896)
Other payables	(1,342)	(1 342)

Deemed Loans
The estimated fair value of deemed loans represent the estimated future cash flows expected to be received/paid Expected cash flows are discounted at current market rates to determine fair value

Risk management and control
The financial risks faced by the Company are as follows

- Interest rate risk,
- credit risk, and
- liquidity risk

At the inception of the Company the material risks are considered in relation to the overall low risk appetite of the Company Where necessary the directors have put in place various measures to ensure any significant risks are mitigated and these are disclosed in the notes to the financial statements

Interest rate risk

The Company has no derivative financial instruments as at 31 December 2009 and has no significant interest rate re-pricing exposure

The amount of deferred consideration payable to Mortgage Agency Services Number Six and Platform Funding are non-interest bearing financial liabilities As described in note 9, the dates of repayment are dependent on the extent to which surplus income is generated by the securitised mortgage book Therefore, the weighted average period until maturity is unknown After taking into consideration the Company's administered interest rate nature of the Company's deemed loans, together with the nature of the Company's other assets and liabilities, the directors do not believe that the Company has any significant interest rate re-pricing exposure

Meerbrook Finance Number Two Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

18 Financial instruments (continued)

Credit risk

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to the Company as they become due Credit risk arises on cash and cash equivalents, deemed loans, derivative financial instruments and other receivables

The table below represents a worst-case scenario of credit risk exposure to the Company at 31 December 2009 and 2008, without taking into account any collateral held or other credit enhancements attached The exposures set out below are based on gross carrying amounts as reported in the balance sheet

The maximum exposure to credit risk before collateral held or other credit enhancements is as follows

Category (as defined by IAS 39)	Class	2009 £000	2008 £000
Loans and receivables	Deemed loans	**744,368**	801,508
Loans and receivables	Other receivables	**376**	310
		744,744	801 818

Deemed loans

The above table shows the maximum exposure to credit risk on deemed loans However, the actual credit risk is considered to be minimal because management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by The Co-operative Bank plc

Other receivables.

Other receivables loans represent amounts due from The Co-operative Bank plc There is no formal repayment schedule for these monies, which are repayable on demand Due to the way the ultimate parent manages the intercompany balances the actual credit risk on these loans is considered to be minimal

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due, or can only do so at excessive cost

The liquidity risk on deemed loans due to group undertakings is not considered to be material as in practice the contractual repayments coincide with the repayments of the deemed loans due from group undertakings, as they become due, as described further in note 9

Liquidity risk also arises on other payables, primarily made up of amounts due to group undertakings There is no formal repayment schedule for these monies, which are repayable on demand It is not expected that the ultimate parent will withdraw the funding in the foreseeable future and the actual liquidity risk on these loans is considered to be minimal

19 New pronouncements issued in 2009

Further to the basis of preparation within the accounting policies there has been one other pronouncement issued in 2009

- IFRS 9 - Financial Instruments

This pronouncement is not mandatory for the year ended 31 December 2009 it will become effective for annual periods beginning on or after 1 January 2013 but may be applied earlier