Meerbrook Finance Number Two Limited

Directors' report and financial statements

for the year ended 31 December 2006

Registered Number 4683419

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for the year ended 31 December 2006

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Meerbrook Finance Number Two Limited

Directors and advisors

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

Secretary
Clifford Chance Secretaries (CCA) Limited

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

Solicitors
Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Registered Office
10 Upper Bank Street
London
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Registered Number
4683419

Meerbrook Finance Number Two Limited

Directors' report for the year ended 31 December 2006

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

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

Review of business and future developments
During the year the company purchased the beneficial ownership of mortgages from Mortgage Agency Services Number Six Limited, which were subsequently sold on to Leek Finance Number Sixteen PLC. Since then the deemed loan asset and respective deemed loan liabilities have decreased in line with the residential mortgage portfolios they reflect, the decrease being due to the mortgage repayments received during the year. The total deemed loan interest is higher than the prior year due to the additional portfolio purchased, however the interest on the original books has decreased. The deemed loan interest decreases in proportion to the mortgage portfolio and is in line with management's expectations.

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

Principal risks and uncertainties
Economic factors in the United Kingdom could affect the ability of the originator's customers to repay their loans.

The beneficial ownership of the loans and advances to customers sold to and sold by the company fail the derecognition criteria of IAS 39 and, therefore, these loans remain on the Balance sheet of the originator. IAS 39, therefore, requires the company to recognise a "deemed loan" financial asset with the resulting "deemed loan" liability being recognised on the originator's Balance sheet. IAS 39 also requires the company to recognise a "deemed loan" financial liability for sale of beneficial title of mortgage portfolios; the resulting "deemed loan" asset is recognised on the SPE's Balance sheet.

Credit risk on the company's deemed loan assets is, however, considered to be minimal because management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Britannia Building Society.

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

Results and dividends
The profit for the year, after tax, amounted to £539k (2005: loss £1,584k). The net liabilities of the company at 31 December 2006 were £1,052k (2005: £1,591k). The directors do not propose a dividend for the year (2005: £nil).

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

A W Gower (resigned 31 October 2006)
PCSL Services No. 1 Limited
Capita Trust Company Limited
Capita Trust Corporate Services Limited (appointed 31 October 2006)

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

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

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2006 and that applicable International Financial Reporting Standards have been followed.

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

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

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

Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

P A Lee for PCSL Services No.1 Limited
Director
23 March 2007

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 2006 which comprise the Income statement, the Balance sheet, the Cash flow statement, the Statement of recognised income and expenditure and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
23 March 2007

Meerbrook Finance Number Two Limited

Income statement for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Interest income	2	**9,277**	4,037
Interest expense	3	**(8,026)**	(5,143)
Net interest income		**1,251**	(1,106)
Fee and commission expense	4	**(440)**	(615)
Net fee and commission expense		**(440)**	(615)
Other operating expenses		(143)	(235)
Profit / (loss) before tax		**668**	(1,956)
Taxation	6	**(129)**	372
Net profit / (loss)	13	**539**	(1,584)

The accounting policies and notes on pages 8 to 19 form part of these financial statements.

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

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

Meerbrook Finance Number Two Limited

Balance sheet as at 31 December 2006

	Notes	2006 £000	2005 £000
Assets			
Bank deposits	7	-	10
Deemed loans due from group undertakings	8	**94,039**	121,596
Deferred tax asset	6	**244**	373
Other assets	9	**8,201**	6,568
Total assets		**102,484**	128,547
Liabilities			
Deemed loans due to group undertakings	10	**94,177**	123,122
Other liabilities	11	**9,359**	7,016
Total liabilities		**103,536**	130,138
Equity			
Called up share capital	12	-	-
Retained earnings	13	**(1,052)**	(1,591)
Total equity and liabilities		**102,484**	128,547

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

The accounting policies and notes on pages 8 to 19 form part of these financial statements.

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

P A Lee for PCSL Services No.1 Limited
Director

Meerbrook Finance Number Two Limited

Cash flow statement for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Cash flows from operating activities	14	**(2,602)**	(473)
Cash flows from financing activities			
Net increase in subordinated debt		**2,592**	-
Interest paid on subordinated debt		**-**	483
Net (decrease) / increase in cash and cash equivalents		**(10)**	10
Cash and cash equivalents at start of period		**10**	-
Cash and cash equivalents at end of period	7	**-**	10

The disclosure of the Cash flow statement comparatives above has been amended to ensure presentation is consistent with other group companies. Interest paid on subordinated debt is now disclosed separately on the face of the Cash flow statement.

Statement of accounting policies for the year ended 31 December 2006

Basis of preparation

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

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

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

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

Interest income and expense

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

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

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

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

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

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the Balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Tax payable on profits is recognised as an expense in the period in which profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Meerbrook Finance Number Two Limited

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

Cash and cash equivalents

For the purposes of the Cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition.

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

This deemed loan initially represents the consideration paid by the company in respect of the acquisition of the beneficial ownership of the loans and advances to customers and is subsequently adjusted due to repayments made on to the company.

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

Management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Britannia Building Society. Therefore, in accordance with IAS 39, there is no requirement to recognise any impairment loss against this deemed loan.

Deferred consideration receivable and payable

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

Financial liabilities

Financial liabilities are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost, any difference between proceeds net of transaction costs and the redemption value is recognised in the Income statement over the period of the borrowings using the effective interest rate method.

Segmental reporting

Meerbrook Finance Number Two Limited 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 2006

1 Profit/(loss) before tax

Profit before tax is stated after charging:

	2006 £000	2005 £000
Auditors' remuneration	**5**	5

2 Interest income

	2006 £000	2005 £000
Deemed loan interest receivable	**9,891**	4,250
Deferred purchase consideration payable	**(852)**	(627)
Interest receivable from Britannia Building Society	**248**	355
Other	**(10)**	59
	9,277	4,037

3 Interest expense

	2006 £000	2005 £000
Deemed loan interest payable	**9,223**	1,364
Deferred purchase consideration receivable	**(1,613)**	(795)
Interest payable to Britannia Building Society	**416**	4,574
	8,026	5,143

4 Fee and commission expense

	2006 £000	2005 £000
Arrangement fees	**100**	150
Facility fees	**340**	465
	440	615

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

5 Directors' emoluments and employees

The directors received no emoluments from Britannia Building Society group companies for services rendered during the period.

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

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

6 Taxation

	2006 £000	2005 £000
UK tax at 19% (2005: 19%)		
Deferred tax		
Current	**127**	(372)
Adjustments in respect of prior periods	**2**	-
	129	(372)

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 (19%). The differences are explained below:

	2006 £000	2005 £000
Profit/(loss) on ordinary activities before tax	**668**	(1,956)
Profit / (loss) before tax multiplied by standard rate of tax	**127**	(372)
Effects of:		
Adjustments in respect of prior periods	**2**	-
	129	(372)

Meerbrook Finance Number Two Limited

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

6 Taxation (continued)

The recognised deferred tax asset includes the following amounts:

	2006 £000	2005 £000
Hedge effectiveness	**5**	5
Other short term timing differences	**94**	221
Unused tax losses	**145**	147
	244	373

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

Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006 which ensures that, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained under the agreement that governs the company. As a consequence, the taxation treatment of securitisation companies will remain largely unchanged as a result of the introduction of IFRS.

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

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

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

	2006 £000	2005 £000
Deferred tax asset at start of period	**373**	1
Deferred tax (provided) / released during the period	**(129)**	372
Deferred tax asset at end of period	**244**	373

7 Cash and cash equivalents

	2006 £000	2005 £000
Bank deposits	**-**	10
	-	10

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

8 Deemed loans due from group undertakings

	2006	2005
	£000	£000
Deemed loans recoverable	**100,693**	127,596
Deferred purchase consideration payable	**(6,654)**	(6,000)
	94,039	121,596

The effective interest rate on the deemed loan during the year was 6.20% (2005: 5.3%).

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

Deferred purchase consideration payable
Deferred consideration is payable to Mortgage Agency Services Number Six Limited dependent on the extent to which the surplus income generated by the mortgage books, purchased by Meerbrook Finance Number Two Limited from that company, exceeds the administration costs of the mortgage book. The surplus income generated during the year ended 31 December 2006 amounted to £852k (2005: £627k).

The deferred consideration is payable as follows:

	2006	2005
	£000	£000
Amounts owed to Mortgage Agency Services Number Six Limited	**6,654**	6,000
	6,654	6,000

The movements in deferred consideration are as follows:

	2006	2005
	£000	£000
At start of period	**6,000**	-
Arising on acquisition	**-**	5,373
Additional consideration payable	**852**	627
Repayments during the year	**(198)**	-
At end of period	**6,654**	6,000

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

9 Other assets

	2006 £000	2005 £000
Amounts owed by group undertakings	**8,150**	6,505
Other	**51**	63
	8,201	6,568

The above amounts owed by group undertakings are expected to be settled more than 12 months after the Balance sheet date. These represent amounts due from Britannia Building Society. There is no formal repayment schedule for these monies, which are repayable on demand.

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

10 Deemed loans due to group undertakings

	2006 £000	2005 £000
Deemed loan repayable	**101,218**	128,749
Deferred purchase consideration receivable	**(7,041)**	(5,627)
	94,177	123,122

The effective interest rate on the deemed loan during the year was 5.79% (2005: 3.75%).

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

Deferred purchase consideration receivable

	2006 £000	2005 £000
Amounts owed by Leek Finance Number Sixteen PLC	**7,041**	5,627
	7,041	5,627

Meerbrook Finance Number Two Limited

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

10 Deemed loans due to group undertakings (continued)

The movements in deferred consideration are as follows:

	2006 £000	2005 £000
At start of period	**5,627**	-
Arising on acquisition	**-**	4,831
Additional consideration receivable	**1,613**	796
Amounts received during the year	**(199)**	-
At end of period	**7,041**	5,627

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.

11 Other liabilities

	2006 £000	2005 £000
Subordinated debt owed to Britannia Building Society	**9,272**	6,935
Amounts owed to Mortgage Agency Services Number Six Limited	**64**	64
Accruals and deferred income	**23**	7
Other	**-**	10
	9,359	7,016

The subordinated loan is secured by a second charge on the mortgage assets to which the company's deemed loans relate. The loan is not repayable until all obligations to the Noteholders have been met. Interest is calculated on the loan at the prevailing 3 month LIBOR plus 250 basis points.

12 Called up share capital

	2006 £	2005 £
Authorised		
100 ordinary shares of £1 each	**100**	100
Issued and fully paid		
1 ordinary share of £1	**1**	1

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

13 Retained earnings

Movements in Retained earnings were as follows:

	2006 £000	2005 £000
Balance at start of period	**(1,591)**	(7)
Profit/(loss) for the period	**539**	(1,584)
At 31 December	**(1,052)**	(1,591)

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

	2006 £000	2005 £000
Profit/(loss) before tax	**668**	(1,956)
Decrease / (increase) in accrued income	**13**	(63)
Increase in accruals	**17**	7
Interest payable on subordinated loan	**416**	483
Cash flows from operating profits before changes in operating assets and liabilities	**1,114**	(1,529)
Net decrease / (increase) in deemed loans due from group undertakings	**27,556**	(121,595)
Net (decrease) / increase deemed loans due to group undertakings	**(28,945)**	123,122
Net increase in other assets	**(2,061)**	(6,984)
Net (decrease) / increase in other liabilities	**(266)**	6,513
Net cash flows from operating activities	**(2,602)**	(473)

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

15 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 ultimate parent undertaking of Meerbrook Finance Number Two Limited is Britannia Building Society by virtue of amendments introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.

Copies of the financial statements of Britannia Building Society may be obtained from:

Britannia House, Leek, Staffordshire, ST13 5RG.

The Society, the ultimate controlling entity of this company, is a mutual organisation owned by its members and, consequently, has no controlling body.

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

16 Related party disclosures

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

Year ended 31 December 2006	**Interest and other income £000**	**Interest and other expense £000**	**Balance due to/(by) Meerbrook Finance Number Two £000**
Britannia Building Society	248	416	(1,121)
Leek Finance Number Sixteen PLC	1,613	9,223	(94,172)
Mortgage Agency Services Number Six Limited	9,891	852	93,976

Year ended 31 December 2005	Interest and other income £000	Interest and other expense £000	Balance due to/(by) Meerbrook Finance Number Two £000
Britannia Building Society	355	-	(430)
Leek Finance Number Sixteen PLC	1,364	795	(123,108)
Mortgage Agency Services Number Six Limited	4,250	627	121,518

During the year £5k (2005: £5k) was paid to corporate directors in respect of the provison of management services. The amount outstanding at 31 December 2006 was £3k (2005: £3k).

17 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The company's financial instruments comprise principally of amounts due from deemed loans, owed through deemed loans, subordinated debt, cash and cash equivalents.

Fair values of financial instruments

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

	Book Value 2006 £000	**Fair Value 2006 £000**
Deemed loans due from group undertakings	**94,039**	**94,039**
Other assets	**8,201**	**8,201**
Deemed loans due to group undertakings	**(94,177)**	**(94,177)**
Other liabilities	**(9,359)**	**(9,359)**

	Book Value 2005 £000	Fair Value 2005 £000
Bank deposits	10	10
Deemed loans due from group undertakings	121,596	121,596
Other assets	6,568	6,568
Deemed loans due to group undertakings	(123,122)	(123,122)
Other liabilities	(7,016)	(7,016)

Interest rate risk

Deferred consideration payable to Mortgage Agency Number Six Limited is a non-interest bearing financial liability. As described in note 8, 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.

The subordinated loan owed to Britannia Building Society is classified as a floating rate liability. The benchmark rate used for determining interest rate payments is disclosed in note 11.

Credit risk

Deemed loans:

Credit risk on deemed loans is considered to be minimal because management do not expect the amount of incurred credit losses on the originator's securitised loans and advances to customers to exceed the amount of credit enhancement supplied by Britannia Building Society.