

Mortgage Agency Services Number Five Limited
Directors' report and financial statements
for the year ended 31 December 2007

Registered Number 4420522

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Mortgage Agency Services Number Five Limited
Directors' report and financial statements
for the year ended 31 December 2007

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Mortgage Agency Services Number Five Limited

Directors and advisors

Directors

G A Gregory (resigned 31 March 2008)

P A Lee

S Williams

PCSL Services No 1 Limited

M Lewis

D Tweedy

J Katovsky

Secretary

P Medford

Independent auditors

PricewaterhouseCoopers LLP

101 Barbirolli Square

Lower Mosley Street

Manchester

M2 3PW

Registered Office

Newton House

Leek

Staffordshire

ST13 5RG

Registered Number

4420522

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

Principal activities

The company was incorporated in England and Wales with the principal activity of investment in mortgage loans secured by first charges over residential properties within the United Kingdom.

Review of business and future developments

During the year the company acquired four additional mortgage portfolios, which have increased the mortgage assets, and intercompany borrowing on the Balance sheet, the additional interest income received can be seen in the Income statement. The new books have performed in line with management's expectations, however the creation of the loss provision in line with group policy has created an overall loss for the year. Directors expect the company to be profitable in future periods.

In future years it is expected that the residential mortgage assets will decrease in line with the residential mortgage portfolios they reflect due to the mortgage repayments received. The residential mortgage interest, which is based on the outstanding capital, will decrease in proportion to the mortgage portfolio.

The directors anticipate the company will return to profitability in future years and the company has received a letter of support from its immediate parent undertaking, Britannia Treasury Services Limited.

Key performance indicators (KPI's)

The directors monitor the progress of the company by reference to several KPIs which are analysed in the table below.

<u>Measure</u>	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>	<u>Comments</u>
New mortgages	1,734,481	959,134	Originations increased by 81% in 2007
Closing loan balance	3,057,449	988,474	The loan book increased over 2007
Arrears > 3 months as a % of loan book balance	0.15%	0.05%	Increase reflects overall market conditions

Principal risks and uncertainties

The key business risks and uncertainties affecting the company are considered to relate to economic factors in the United Kingdom which could affect the ability of its customers to repay their loans. Further discussion of these risks and uncertainties is provided in the notes to the financial statements.

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 loss for the year after tax amounted to £4,359,974 (2006 £867,888). The net liabilities of the company at 31 December 2007 were £2,506,124 (2006 £146,150). The directors do not propose a dividend for the year (2006 £nil).

Directors and their interests

The directors who held office during the year are given below.

R S Green (resigned 31 July 2007)

G A Gregory

P A Lee

S Williams

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2007 (continued)

Directors and their interests (continued)

PCSL Services No 1 Limited

M Lewis

D Tweedy

J Katovsky

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

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 year ended 31 December 2007 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.

The directors are responsible for ensuring that reasonable care is taken to establish, maintain, document and review such systems and controls as are appropriate to the company in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

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 material financial risks faced by the company include the following:

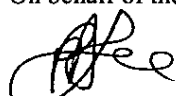
- interest rate risk,
- credit risk, and
- liquidity risk

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.

Independent 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.

On behalf of the Board



P A Lee

Director

31 March 2008

Mortgage Agency Services Number Five Limited

Independent auditors' report to the members of Mortgage Agency Services Number Five Limited

We have audited the financial statements of Mortgage Agency Services Number Five Limited for the year ended 31 December 2007 which comprise the Income statement, the Balance sheet, the Cash flow statement, the Statement of changes in equity, the Statement of accounting policies 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 2007 and of its loss 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
31 March 2008

Mortgage Agency Services Number Five Limited

Income statement for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Interest receivable and similar income	2	128,993	27,535
Interest expense and similar charges	3	(123,992)	(26,404)
Net interest income		5,001	1,131
Fee and commission income	4	1,235	241
Net fee and commission income		1,235	241
Gains less losses from derivative financial instruments	5	(2,603)	420
Other operating expenses		(3,649)	(788)
Impairment losses on loans and advances	10	(6,184)	(2,244)
Loss before tax		(6,200)	(1,240)
Income tax credit	7	1,840	372
Net loss	14	(4,360)	(868)

The accounting policies and notes on pages 9 to 25 form part of these financial statements

Mortgage Agency Services Number Five Limited

Balance sheet as at 31 December 2007

	Notes	2007 £000	2006 £000
Assets			
Bank deposits	8	511	440
Derivative financial instruments	9	1,858	3,431
Loans and advances to customers	10	3,049,566	986,230
Fair value adjustment for hedged risk		19,774	(2,996)
Other receivables	11	2,328	441
Deferred tax assets	7	30	-
Total assets		3,074,067	987,546
Liabilities			
Derivative financial instruments	9	21,942	-
Deemed loans due to group undertakings	12	582,547	-
Other payables	13	2,472,084	987,591
Deferred tax liabilities	7	-	101
Total liabilities		3,076,573	987,692
Equity			
Called up share capital	14	2,500	500
Retained earnings	15	(5,006)	(646)
Total equity		(2,506)	(146)
Total equity and liabilities		3,074,067	987,546

The accounting policies and notes on pages 9 to 25 form part of these financial statements

Approved by the Board of directors on 31 March 2008 and signed on its behalf by



PA Lee
Director

Mortgage Agency Services Number Five Limited

Statement of changes in equity for the year ended 31 December 2007

	Share Capital	Retained Earnings	Total
	£000	£000	£000
Year ended 31 December 2007			
Balance at start of period	500	(646)	(146)
Issue of new shares	2,000	-	2,000
Loss for the period	-	(4,360)	(4,360)
Dividends	-	-	-
At 31 December	2,500	(5,006)	(2,506)

	Share Capital	Retained Earnings	Total
	£000	£000	£000
Year ended 31 December 2006			
Balance at start of period	500	222	722
Loss for the period	-	(868)	(868)
Dividends	-	-	-
At 31 December	500	(646)	(146)

Mortgage Agency Services Number Five Limited

Cash flow statement for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Cash flows from operating activities	16	(1,929)	318
Cash flows from financing activities			
Issue of subscribed capital		2,000	-
Net movement in cash and cash equivalents		71	318
 Cash and cash equivalents at start of period		440	122
Cash and cash equivalents at end of period	8	511	440

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2007

Basis of preparation

Mortgage Agency Services Number Five Limited is a company incorporated and domiciled in England and Wales

The Company's financial statements have been prepared under the historical cost convention as modified by the revaluation of all derivative contracts

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 1985 applicable to organisations reporting under IFRS

The company has not applied 'IFRS8 Operating Segments' in these accounts. These disclosures will have no impact on the overall balance sheet or results of the company and will be mandatory for the accounts for the year ended 31 December 2009

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

Interest income and expense

This comprises

- Interest income and expense for financial assets and liabilities at amortised cost through the Income Statement, calculated using the effective interest rate method. This includes accrued interest income on financial assets written down as a result of impairment
- Interest income and expense on derivatives, which are measured at fair value

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.

Fee and commission income

Fee and commission income, other than that directly related to loans, is recognised over the period for which service has been provided or on completion of an act to which the fee relates.

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.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2007 (continued)

Deferred tax (continued)

Tax losses available to carry forward and other 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 Income Statement

Financial assets

The Company's financial assets are categorised as follows

a. Financial assets at fair value through income or expense

This category covers assets acquired principally for the purpose of selling in the short term or if so designated at initial recognition by management. It includes the Company's derivative financial instruments, which meet IAS 39 requirements

Financial assets at fair value through income and expense are initially recognised at fair value on the date that the Company commits to purchase the derivative. The fair values of quoted investments in active markets are based on current bid prices. Associated transaction costs are taken directly to the Income Statement. Gains and losses arising from changes in fair values are included in the Income Statement in the period in which they arise

b. Loans and receivables

Loans and receivables are assets with fixed or determinable payments that are not quoted in an active market. They include loans and advances to customers and the beneficial ownership of loans and advances to customers

Loans and receivables are recognised when the cash is advanced. They are carried at amortised cost using the effective interest rate method, with all movements being recognised in the Income Statement

Impairment of financial assets

An asset is impaired if the recoverable amount of the asset (i.e. the discounted future cash flows from the asset) is less than the carrying value of the asset on the Balance Sheet

Assets carried at amortised cost

At each balance sheet date the Company assesses whether there is objective evidence that any of its financial assets carried at amortised cost are impaired. The Company assesses assets individually and collectively where a group of assets has similar risk characteristics

Objective evidence that an asset (or group of assets) may be impaired includes observable data that loss events, such as

- late or missed repayments of capital or interest,
- other evidence that borrowers are experiencing financial difficulties, or
- national or local economic conditions that indicate an increased likelihood that borrowers will default, have occurred subsequent to initial recognition and their impact on the estimated future cash flows of the asset (or group of assets) can be reliably estimated

The Company first assesses whether evidence of impairment exists for individual financial assets. Where the Company concludes that there is no evidence of impairment for individually assessed assets it includes those assets in groups of assets with similar credit characteristics and collectively assesses these groups for impairment

Where the Company identifies evidence that an individual asset or group of assets is impaired it reduces its value on the Balance Sheet and charges the provision to the Income Statement. The amount of the provision made is calculated as the difference between the carrying value of the asset and the present value of future cash flows

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2007 (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

(excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate

In estimating these future cash flows, the Company takes into account such factors as the expected net proceeds from the sale of repossessed properties and the time taken to repossess and any further payments expected from the borrower

When a loan is considered uncollectible, it is written off against the allowance account on the balance sheet. Such loans are written off after all the possible collection procedures have been completed and the amount of the loss has been determined. Any recoveries made in future periods are offset against the impairment charge in the Income Statement.

Derivative financial instruments and hedge accounting

Derivatives are financial instruments such as interest rate swaps used by the Company to manage its interest rate risks arising from the normal course of business.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The estimated fair value of derivatives represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Hedge accounting

Hedge accounting is the matching or elimination of risks arising from potential fluctuations in interest rates, exchange rates and market indices, typically through the use of derivative hedging instruments. The Company uses derivatives as fair value hedges.

Fair value hedges

The Company creates fair value hedges by entering into interest rate swaps whose changes in fair value will largely offset changes in the fair value of matched assets or liabilities.

Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the Income Statement. Changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, adjust the carrying value of the hedged item in the Balance Sheet and are recorded in the Income Statement. If the hedge no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item ('loans and advances to customers') is amortised to the Income statement over the period to maturity.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such instrument are recognised in the Income statement.

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2007 (continued)

Deemed loans due to group undertakings and securitisation transactions

The company has entered into various securitisation transactions in which it sells mortgages to special purpose entities (SPEs). Management considers that the company retains substantially all the risks and rewards of ownership of the securitised assets. The company, therefore, continues to recognise these assets as loans and advances to customers and recognises a financial liability for consideration received. This financial liability is termed a deemed loan.

In subsequent periods, income from the securitised mortgages is recognised by the company in the normal manner using the effective interest rate method. Amounts payable to the SPE, together with the expenses of the securitisation, are accrued as an expense on the financial liability.

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

Where, as part of the securitisation, the company enters into a derivative with the SPE, the company's rights and obligations are reflected in the expense accrued on the financial liability and the derivative is not accounted for separately.

Financial liabilities

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

- derivatives, 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, other than derivatives, are subsequently stated at amortised cost. Any difference between issue proceeds net of issue costs and the redemption value is recognised in the Income statement over the period of the borrowings using the effective interest rate method.

Critical accounting estimates and judgements in applying accounting policies

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Impairment losses on loans and advances

In accordance with the accounting policy, the methods and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience, as set out in note 10. To the extent that the net present value of estimated cash flows differs by 10%, the provision would change by an estimated £2,425k (2006: £222k).

b. Effective interest rate

The calculation of an effective interest rate requires the group to make assumptions around the expected lives of mortgages and the likely levels of early repayment fees (ERFs) to be received. The most critical assumption is on the level of future ERFs.

Were the ERF assumptions to change by 10% there would be an adjustment to profit of an estimated £306k (2006: £173k).

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2007 (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

Segmental reporting

Mortgage Agency Services Number Five Limited operates in one business segment and all business is conducted in the UK, therefore, no segmental information is presented

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007

1 Loss before tax

Loss before tax is stated after charging

	2007 £000	2006 £000
Audit fee for the audit of the company's financial statements	7	7

2 Interest receivable and similar income

	2007 £000	2006 £000
<u>On financial assets not at fair value through income and expense</u>		
Loans and advances	128,993	27,535
	128,993	27,535

There is £5,438k interest receivable accrued on impaired financial assets (2006 £27k)

3 Interest expense and similar charges

	2007 £000	2006 £000
<u>On financial liabilities not at fair value through income and expense</u>		
Deemed loan interest payable	12,965	-
Interest and similar charges payable to group undertakings	111,027	26,404
	123,992	26,404

4 Fee and commission income

	2007 £000	2006 £000
<u>On financial assets not at fair value through income and expense</u>		
Administrative fees receivable	1,059	-
Other fees	176	241
	1,235	241

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

5 Gains less losses from derivative financial instruments

	2007 £000	2006 £000
Fair value hedging of mortgage assets	(2,603)	420
	(2,603)	420

6 Directors' emoluments and employees

The directors receive emoluments from Britannia Building Society group companies for services rendered to all companies in the group. However, these are not apportioned to individual companies.

Six directors have benefits accruing under the Britannia Building Society Pension scheme (2006: seven). Particulars of the latest actuarial valuation of the group pension scheme are disclosed in the accounts of Britannia Building Society.

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

7 Taxation

	2007 £000	2006 £000
UK tax at 30% (2006: 30%)		
Corporation tax		
Current	(1,709)	(361)
Total corporation tax	(1,709)	(361)
Deferred tax		
Current	(124)	(11)
Adjustment in respect of prior periods	(7)	-
	(1,840)	(372)

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

7 Taxation (continued)

Factors affecting tax charge for the year

The average effective rate of corporation tax assessed for the period is equal to the standard rate of corporation tax in the UK (30%). The differences are explained below

	2007 £000	2006 £000
Loss on ordinary activities before tax	(6,200)	(1,240)
Loss before tax multiplied by standard rate of tax	(1,860)	(372)
Effects of		
Expenses not deductible for tax purposes	18	-
Change in rate	2	-
	(1,840)	(372)

The recognised deferred tax liability includes the following amounts

	2007 £000	2006 £000
Short term timing differences	30	(101)
	30	(101)

As at 31 December 2007, 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 liability is shown below

	2007 £000	2006 £000
Deferred tax liability at start of period	(101)	(112)
Deferred tax released during the year	131	11
Deferred tax liability at end of period	30	(101)

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

8 Cash and cash equivalents

	2007 £000	2006 £000
Bank deposits	511	440
	511	440

9 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 loans and advances to customers, amounts owed to group undertakings and cash and cash equivalents.

Net fair values of derivative financial instruments

The fair values of derivative financial instruments are set out below

	Notional principal amount 2007 £000	Assets 2007 £000	Liabilities 2007 £000
Interest rate swaps designated as fair value hedges	2,108,061	1,858	21,942

	Notional principal amount 2006 £000	Assets 2006 £000	Liabilities 2006 £000
Interest rate swaps designated as fair value hedges	650,164	3,431	-

Fair values of financial instruments

The carrying values of financial instruments represent a reasonable approximation of the fair values

The estimated fair value of the residential loans and advances is £154k more than the carrying value (2006 £84k more) and represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The estimated fair value of the deemed loan liabilities is £154k more than the carrying value (2006 £84k) and represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

9 Financial instruments (continued)

Risk management and control

The material financial risks faced by the Company include the following

- interest rate risk,
- credit risk, and
- liquidity risk

As a subsidiary of Britannia Building Society, the company applies the Society's formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets and Liabilities Committee (ALCO), which is charged with the responsibility for managing and controlling the Balance sheet exposures of the Society. The minutes of ALCO are presented to the Board of the Society.

Instruments used for risk management purposes include derivative financial instruments (derivatives), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are not used in trading activity or for speculative purposes.

Interest rate risk

At 31 December 2007 the fixed rates vary from 4.77% to 6.23%.

The company is exposed to movements in interest rates and manages this exposure using derivatives. Interest rate risk arises on the mortgages of the company which contain both fixed and variable loans. The funding for these is variable based on LIBOR. This risk is managed on a continuous basis through the use of appropriate financial instruments, including derivatives. The group monitors risk daily using a risk management system and operates within limits set down by ALCO.

After taking into consideration the company's derivative instruments, the directors do not believe that the company has any significant interest rate re-pricing exposure.

Sensitivity analysis

The following table describes the significant activities undertaken by the company where there is sensitivity to interest rate changes. There is also an explanation of how such risks are managed and the extent of the risk to the company.

Activity	Risk	Type of hedge	Extent of risk
Fixed rate mortgage lending	Fixed rate mortgage interest cash flows exposure to increase in interest rates	Pay fixed interest rate swaps	The company has never experienced significant financial losses as a result of movements in interest rates. The effective hedges were implemented at inception to avoid adverse effects of interest rate fluctuations.

Based on the total fixed rate lending in place at 31 December 2007 and the average fixed interest rates applicable to that lending, if interest rates were to increase or decrease by 1% the company would experience a decrease or increase in equity of approximately £4,348k at 31 December 2007.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

9 Financial instruments (continued)

Credit risk

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to us as they become due. Credit risk arises on derivative financial instruments, loans and advances to customers, deemed loans and other assets.

The table below represents a worst case scenario of credit risk exposure to the Company at 31 December 2007 and 2006, without taking into account any collateral held or other credit enhancements attached. The exposures set out below are based on net carrying amounts as reported in the balance sheet.

Maximum exposure to credit risk (by class) before collateral held or other credit enhancements

Category (as defined by IAS 39)	Class	2007 £000	2006 £000
Financial assets at at FV through income and expense	Derivative financial instruments	1,858	3,431
Bank deposits	Cash and cash equivalents	511	440
Loans and receivables	Loans and advances to customers	3,049,566	986,230
Loans and receivables	Deemed loans	2,328	441
Other receivables	Other receivables	519	80
		3,054,782	990,622

The Company holds collateral for loans and advances in the form of mortgages over residential properties.

Loans and advances to customers

Credit risk in respect of the company's residential mortgage assets is managed as follows:

- Original due diligence on any acquisitions is undertaken by both Britannia personnel and external experts.
- Credit management is conducted in accordance with the service contract & service specifications with Western Mortgage Services Limited (WMS).
- Arrears, possessions and redemptions statistics are reported to BTS Mortgage Performance Committee (MPC), and subsequently to BTS Credit Committee which reports to group Credit Committee on asset performance.
- MPC maintains limits and recommends policy. BTS Credit Committee sets policy, subject to Group Credit Committee approval.

There are no specific concentrations of credit risk on the loans and advances to customers.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

9 Financial instruments (continued)

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

Other receivables and derivative financial instruments:

Other receivable loans represent amounts due from group undertakings. There is no formal repayment schedule for these monies, which are repayable on demand. Due to the way the ultimate parent manages the inter company balances the actual credit risk on these loans is considered to be minimal.

All the company's derivative financial instruments are held with group undertakings. Due to the way the ultimate parent manages the inter company balances the actual credit risk on these derivatives 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 loans and advances to customers, as they become due, as described further in note 10.

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 future and the actual liquidity risk on these loans is considered to be minimal.

10 Loans and advances to customers

	2007 £000	2006 £000
Loans to individuals		
Mortgages	3,057,449	988,474
Less: allowance for losses on loans and advances (below)	(7,883)	(2,244)
	3,049,566	986,230
Allowance for losses on loans and advances		
Balance at 1 January	(2,244)	-
Charge for the year	(6,184)	(2,244)
Amounts utilised	545	-
At 31 December	(7,883)	(2,244)

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

10 Loans and advances to customers (continued)

The above allowance for losses on loans and advances relates entirely to loans and advances to customers. During the year the company recovered £nil (2006: nil) against amounts previously written off.

Credit quality of loans and advances

The credit quality of the loans and advances to customers is demonstrated in the table below, which shows the weighted average loan to value (LTV) of customer lending as at 31 December 2007 and 2006.

	2007		2006	
	Weighted average of whole book %	Weighted average of new lending during year %	Weighted average of whole book %	Weighted average of new lending during year %
Residential loans	73.42	77.90	70.13	74.18

The LTV percentages are calculated using Halifax house price index linked valuations.

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the probability of default (PD).

For its management purposes, the company applies an internal ratings based (IRB) approach, to the majority of its assets, as laid out and approved by the Financial Services Authority (FSA). The IRB percentages represent the risk-weightings applied to each asset class. With the exception of commercial where ratings are prescribed to us by the FSA, these percentages are based on the probability of default (PD) and loss given default (LGD) as measured by the outputs of the company's rating system. These therefore give an indication of the credit quality of the company's loan portfolio.

The percentages disclosed in the table below, derived from the Group's rating system, demonstrate the quality of the company's asset portfolio.

	Risk Grade	Risk grade category as a percentage of total balance neither past due nor impaired		PD%	
		2007	2006	2007	2006
Residential loans	1	39%	29%	0.52%	0.38%
	2	31%	69%	1.62%	1.11%
	3	30%	2%	5.87%	7.60%

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

10 Loans and advances to customers (continued)

Loans and advances either past due but not impaired or impaired

	2007 £000	2006 £000
Loans neither past due nor impaired	2,701,593	949,374
Past due but not impaired		
Past due up to 30 days	177,205	23,606
Past due 30 - 60 days	10,863	1,470
Past due 60 - 90 days	5,792	553
Past due over 90 days	4,465	452
	198,325	26,081
Impaired	157,531	13,019
Total loans and advances	3,057,449	988,474
Fair value of collateral		
Past due but not impaired	271,151	44,559
Impaired	182,006	15,188

The collateral held as security comprises mortgages over residential properties

11 Other receivables

	2007 £000	2006 £000
Amounts owed from group undertakings	100	-
Group relief receivable	1,709	361
Other	519	80
	2,328	441

The above amounts owed from group undertakings are expected to be settled more than 12 months after the Balance sheet date. These represent amounts due from Meerbrook Finance Number 2. There is no formal repayment schedule for these monies, which are repayable on demand.

The effective interest rate on the above amounts owed from group undertakings is 1 month LIBOR plus 21 basis points.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

12 Deemed loans due to group undertakings

	2007 £000	2006 £000
Deemed loan repayable	582,547	-
	582,547	-

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.

13 Other payables

	2007 £000	2006 £000
Amounts owed to group undertakings	2,471,958	987,406
Accruals	8	122
Other	118	63
	2,472,084	987,591

The above amounts owed to group undertakings are expected to be settled more than 12 months after the Balance sheet date. These represent amounts due to 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 to group undertakings is 1 month LIBOR plus 21 basis points.

14 Called up share capital

	2007 £000	2006 £000
Authorised		
2,500,000 ordinary shares (2006: 500,000) of £1 each	2,500	500
Issued and fully paid		
2,500,000 ordinary shares (2006: 500,000) of £1 each	2,500	500

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

15 Retained earnings

Movements in the Retained earnings were as follows

	2007 £000	2006 £000
Balance at start of the period	(646)	222
Loss for the year	(4,360)	(868)
At 31 December	(5,006)	(646)

16 Reconciliation of operating loss to net cash flows from operating activities

	2007 £000	2006 £000
Loss before tax	(6,200)	(1,240)
Decrease in accruals	(114)	(41)
Provisions for bad and doubtful debts	5,639	2,244
Cash flows from operating profits before changes in operating assets and liabilities	(675)	963
Net increase in loans and advances to customers	(2,091,746)	(956,203)
Net decrease in other receivables	1,029	(3,489)
Net increase in deemed loan liabilities	582,546	-
Net increase in other payables	1,506,917	959,047
Net cash flows from operating activities	(1,929)	318

17 Ultimate parent undertaking and controlling entity

The company's immediate parent undertaking is Britannia Treasury Services Limited, a company registered in England

Britannia Treasury Services Limited is wholly owned by Britannia Building Society, a body corporate registered in England. 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 ultimate controlling body

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

18 Related party disclosures

Transactions with other companies within the group are detailed as follows

	<u>Fees and other income</u> £000	<u>Fees and other expense</u> £000	<u>Balance due by MAS5</u> £000
Year ended 31 December 2007			
Britannia Building Society	-	111,027	(2,471,621)
Western Mortgage Services Limited	-	2,688	(337)
Meerbrook Finance Number Two Limited	122	12,965	(582,447)
Year ended 31 December 2006			
Britannia Building Society	-	26,404	(987,207)
Western Mortgage Services Limited	-	662	(199)