Granite Master Issuer plc

Annual report and accounts

for the year ended 31 December 2006

Registered Number 5250668

Granite Master Issuer plc

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for the year ended 31 December 2006

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Granite Master Issuer plc

Directors' report for the year ended 31 December 2006

The Directors present their report and the audited financial statements for the year ended 31 December 2006

Principal activities
The principal activity of Granite Master Issuer plc ("the Company") is investment of the proceeds of the issue of asset backed loan notes These have been invested in loans to a fellow group undertaking No future changes in activity are envisaged

The Company was registered as Granite Master Issuer plc in England and Wales on 5 October 2004 as a public limited company, with an authorised share capital of £50,000 comprising 50,000 ordinary shares of £1 each All of the authorised share capital of £50,000 was issued, but only £12,500 was paid up

Review of business
The Company commenced trading on 26th January 2005 when it issued £4,531 million of notes, and made an intercompany loan to Granite Finance Funding 2 Limited for the same amount, in order to enable Granite Finance Funding 2 Limited to purchase an interest in the assets of a trust administered by Granite Finance Trustees Limited ("the Trust") The assets of the Trust comprise mortgage loans secured on residential property in England and Wales

During the year, the Company made further issues of notes and passed the proceeds as intercompany loans to Granite Finance Funding 2 Limited as follows

25 January 2006	£6,000 0 million
24 May 2006	£3,019 7 million
19 September 2006	£5,498 5 million
29 November 2006	£3,245 3 million

Future developments
The Company will continue to issue notes and invest the proceeds as intercompany loans to Granite Finance Funding 2 Limited The Directors anticipate that the company will be profitable over its lifetime

Key Performance Indicators (KPIs)

Given the straight forward 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 Company

However, the performance of the company is monitored by comparing the actual repayments on the issued loan notes to those forecast in the Company's Offering Circular To date, all loan note repayments have been made in accordance with the forecast

Principal Risks and Uncertainties

In order to manage and control its risks, the Company has implemented a comprehensive set of policies and procedures The manner in which the principal risks faced by the Company are mitigated is described below

Foreign exchange risk
"Foreign exchange risk" arises when exchange rate fluctuations change the sterling equivalent value of assets, liabilities, income and expense denominated in foreign currencies When loans notes issued are denominated in foreign currencies, the Company enters into cross currency swap agreements that exchange the funds raised for equivalent amounts of sterling The Company receives foreign currency interest from the swap agreements equivalent to that due on the loan notes, in exchange for the payment of sterling interest based upon three month UK LIBOR As the loan note principal is repaid, equivalent reductions are made to the outstanding swap notional amounts so that effective hedges are maintained The effect of the above policy is to eliminate the risk associated with exchange rate fluctuations

Interest rate risk
"Interest rate risk" arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the slope and shape of yield curves and changes in correlation of interest rates between different financial instruments (often referred to as basis risk) The interest receivable on the loan to the fellow group undertaking re-prices on the same quarterly basis as the interest payable in respect of the loan notes (as adjusted by cross currency swaps), so that interest rate risk is eliminated

Credit risk
"Credit risk" is the exposure to loss if another party fails to meet its financial obligations to the Company, including failing to perform them in a timely manner The Company's primary exposure is the loan to a fellow group undertaking, which used the proceeds to purchase an interest in a portfolio of residential mortgages from Northern Rock plc The credit risk associated with the mortgage portfolio is continually monitored by the group and external rating agencies Master netting agreements are in place with all derivative counterparties, whose creditworthiness is continually monitored and assessed

Liquidity risk
"Liquidity risk" arises from a mismatch in the cash flows generated from current and expected assets, liabilities and derivatives The Company's policy is to ensure that interest and principal repayments due from the loan to a fellow group undertaking are timed to coincide with amounts due on the loan notes and associated cross currency swaps

Results and Dividends
The results for the period are set out on page 7 The loss for the year of £10,257,000 (2005 £5,664,000) has been transferred to reserves The Directors do not recommend the payment of a dividend (2005 Nil)

Directors and their interests
The Directors who served during the year were

Keith McCallum Currie
L D C Securitisation Director No 1 Limited
L D C Securitisation Director No 2 Limited

None of the Directors had a beneficial interest in the shares of the Company, or of the ultimate holding company, Law Debenture Intermediary Corporation plc

Keith McCallum Currie is a director of Northern Rock plc

Employees
The Company does not have any employees

Policy and practice on payment of creditors
The Company's policy with regard to the payment of suppliers is to negotiate and agree terms and conditions with all its suppliers, which include the giving of an undertaking to pay suppliers within an agreed payment period

The average creditor payment period at 31 December 2006 was 29 days (2005 32 Days)

Statement of directors' responsibilities
The directors are required by UK company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that year

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 December 2006 The directors also confirm that applicable International Financial Reporting Standards have been followed and that the statements have been prepared on the going concern basis

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

Post balance sheet events
On 24 January 2007, the Company issued a further £6,111 6 million of notes, and made an intercompany loan to Granite Finance Funding 2 Limited for the same amount, in order to enable Granite Finance Funding 2 Limited to purchase an interest in the assets of the trust administered by Granite Finance Trustees Limited ("the Trust")

On 18 May 2007, the Company issued a further £4,927 2 million of notes, and made an intercompany loan to Granite Finance Funding 2 Limited for the same amount, in order to enable Granite Finance Funding 2 Limited to purchase an interest in the assets of the trust administered by Granite Finance Trustees Limited

Independent auditors
PricewaterhouseCoopers LLP were appointed auditors of the company and they have indicated their willingness to continue in office A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting

Auditor and disclosure of information to auditors
So far as each director is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware

Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Granite Master Issuer plc

By order of the board

WJ R

For and on behalf of Law Debenture Corporate Services Limited, Secretary

11 June 2007

Registered Office
Fifth Floor
100 Wood Street
London
EC2V 7EX

Independent auditors' report to the members of Granite Master Issuer plc

We have audited the financial statements of Granite Master Issuer plc for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Statement of Recognised Income and Expense, the Cash Flow Statement, 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 Annual Report and 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 whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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

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

Granite Master Issuer plc

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 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,
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

15 June 2007

Granite Master Issuer plc

Income statement for the year ended 31 December 2006

	Note	Year ended 31 December 2006	Period from 5 October 2004 to 31 December 2005
		£'000	£'000
Continuing operations			
Interest receivable and similar income	1	995,739	377,680
Interest payable and similar charges	2	(995,242)	(377,482)
Net Interest Income		497	198
Other unrealised fair value gains and losses	3	(14,793)	(8,141)
Administrative expenses	4	(357)	(148)
Loss before taxation		(14,653)	(8,091)
Income tax credit	5	4,396	2,427
Loss for the period	14	(10,257)	(5,664)

The accounting policies and notes on pages 5 to 26 form part of these financial statements

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

There were no recognised income and expense in the year/period ended 31 December 2006 or 2005 other than that shown above

Granite Master Issuer plc

Balance sheet as at 31 December 2006

	Note	2006 £'000	Period 2005 £'000
Assets			
Loan due from group company	6	**26,576,300**	11,837,725
Derivative financial instruments	7	**57**	403,536
Trade and other receivables	8	**77,967**	33,005
Deferred Tax asset	9	**6,881**	2,443
Cash and cash equivalents	10	**398,761**	199,378
Total assets		**27,059,966**	12,476,087
Liabilities			
Financial liabilities (debt securities in issue)	11	**25,767,591**	12,183,358
Derivative financial instruments	7	**719,084**	28,671
Trade and other payables	12	**589,120**	269,656
Current tax liability	5	**42**	16
Total Liabilities		**27,075,837**	12,481,701
Net Liabilities		**(15,871)**	(5,614)
Equity shareholders' funds			
Called up equity share capital	13	**50**	50
Retained deficit	14	**(15,921)**	(5,664)
Total Equity shareholders' funds	15	**(15,871)**	(5,614)
Total equity and liabilities		**27,059,966**	12,476,087

The financial statements on pages 5 to 26 were approved by the Board of Directors on 11 June 2007 and were signed on behalf of the Board of Directors by

L D C Securitisation Director No 1 Limited
Director

Granite Master Issuer plc

Cashflow statement for the year ended 31 December 2006

	2006 £'000	2005 £'000
Net cash outflow from operating activities		
Loss before taxation	**(14,653)**	(8,091)
	(14,653)	(8,091)
Changes in operating assets		
Issue of loan to Group	**(14,738,575)**	(11,837,725)
Changes in derivative financial instruments	**403,479**	(374,865)
Changes in other assets	**(44,962)**	(32,967)
	(14,380,058)	(12,245,557)
Changes in operating liabilities		
Issue of debt securities	**13,584,233**	12,183,358
Changes in derivative financial instruments	**690,413**	
Income taxes paid	**(16)**	-
Changes in other liabilities	**319,464**	269,656
	14,594,094	12,453,014
Cash flows from financing activities		
Issue of share capital	**-**	12
Net increase in cash and cash equivalents	**199,383**	199,378
Opening cash and cash equivalents	**199,378**	-
Closing cash and cash equivalents	**398,761**	199,378

Operating activities are the principal revenue producing activities of the Company and other activities which are not investing or financing activities

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Company

Granite Master Issuer plc

Statement of accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied, unless otherwise stated

Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations that, as endorsed by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities held at fair value A summary of the more important company accounting policies is set out below

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

The Directors believe that it is appropriate to prepare the accounts on a going concern basis although the balance sheet shows net liabilities The net liability position is primarily attributable to changes in the fair value of derivatives It is anticipated that over the lifetime of the Company, such derivatives will have a neutral impact and hence the net liability position will reverse

Interest income and expense
Interest income and expenses are recognised in the income statement for all instruments measured at amortised cost using the effective interest method

The effective interest method calculates the amortised cost of a financial asset or a financial liability, and allocates the interest income or interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments though 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 cashflows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses The calculation includes all amounts received or paid by the Company that are an integral part of the overall return, direct incremental transaction costs related to the acquisition or issue of a financial instrument and all other premiums and discounts

Revenue shall only be recognised when the directors of Granite Master Issue plc believe that it is probable that the economic benefits of the transaction will flow to the Company

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cashflows for the purpose of measuring the impairment loss

Income and Expenditure
Where they are not included in the effective interest calculation, income and expenditure are generally recognised on an accruals basis when the service has been provided

Financial instruments
The Company's loan to a fellow Group undertaking is classified as loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the counterparty and where the Company has no intention of trading the loan

The Company measures all of its financial liabilities at amortised costs

Both loans and receivables and financial liabilities are initially recognised at fair value including direct and incremental transaction costs Subsequent recognition is at amortised cost using the effective interest method All monthly trades are accounted for on a trade date basis

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Derivative financial instruments and hedge accounting
The Company undertakes transactions in derivative financial instruments, which include cross currency swaps The Company does not trade in derivative financial instruments

The Company's derivative activities are entered into for the purpose of matching or eliminating risk, from potential movements in interest and foreign exchange rates, inherent in the Company's liabilities All derivative transactions are for economic hedging purposes and so it is therefore decided at the outset which position the derivative will be hedging Derivatives are reviewed monthly for their effectiveness as economic hedges and corrective action taken, if appropriate Derivatives are measured initially at fair value and subsequently remeasured to fair value Fair values are obtained from valuation techniques including discounted cashflow models Derivatives are not designated as part of accounting hedge relationships, therefore changes in fair value are recorded in the income statement

Impairment losses
The Company assesses its financial assets for objective evidence of impairment at each balance sheet date An impairment loss is recognised if, and only if, there is a loss event (or events) that have occurred after initial recognition and before the balance sheet date and that has a reliably measurable impact on the estimated future cashflows of the financial assets

Debt and equity securities in issue
Issued securities are classified as liabilities where the contractual arrangements result in the Company having an obligation to deliver either cash or another financial asset to the security holder, or to exchange financial instruments under conditions that are potentially unfavourable to the Company Financial Liabilities are carried at amortised cost using the effective interest rate method (see 'interest income and expense') Issued securities are classified as equity where they meet the definition of equity and confer a residual interest in the Company's assets on the holder of the securities

Equity instruments are initially recognised at net proceeds, after deducting transaction costs and any related income tax Appropriations to holders of equity securities are deducted from equity, net of any related income tax, as they become irrevocably due to the holders of the securities

Foreign currency translation
Granite Master Issuer plc's functional and presentational currency is GBP Granite Master Issuer plc's primary economic environment is the UK and therefore under the guidance of IAS 21 it follows that GBP is the appropriate functional currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Monetary items denominated in foreign currencies are translated at the rate prevailing at the balance sheet date Foreign exchange gains and losses resulting from the restatement and settlement of such transactions are recognised in the income statement

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

Taxation
Income tax payable on taxable profits ("current tax"), based on the applicable tax law is recognised as an expense in the period in which the profits arise

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is determined using tax rates (and laws) that have been enacted or substantively 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 where it is probable that future taxable profit will be available against which temporary differences can be utilised

Segmental reporting
The directors of Granite Master Issuer plc consider that the Company has one geographical and business segment and therefore is not required to produce additional segmental disclosure

Amendments to published standards and interpretations effective 1 January 2006
The application of the amendments and interpretations listed below did not result in substantial changes to the Company's accounting policies
IAS 19 amendment – Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 amendment – Net Investment in Foreign Operations
IAS 39 amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 amendment – The Fair Value Option
IAS 39 and IFRIC 4 amendment – Financial Guarantee Contracts
IFRIC 4, Determining whether an Arrangement contains a Lease
IFRIC 6, Liabilities Arising from Participating in a Specific Market –Waste Electrical and Electronic Equipment

Early adoption of standards
The Company has not early adopted any standards or interpretation during 2006

Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are relevant and mandatory for the Company's accounting periods beginning on or after 1 January 2007 but which the Company has not adopted early, as follows

i) IFRS 7, Financial Instruments Disclosures

IFRS 7 amends disclosures relating to financial instruments and requires the disclosure of qualitative and quantitative information in relation to exposure to risks arising from financial instruments, including specific disclosures about credit risk, market risk and liquidity risk It replaces the disclosure requirements in IAS 32, Financial Instruments Disclosures and Presentation

ii) IFRIC 9, Reassessment of Embedded Derivatives (effective for accounting periods commencing on or after 1 June 2006)

The Company believes that the application of these interpretations will have no material impact on the financial statements in the period of initial application

Critical accounting estimates

Fair value calculations
Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty Fair value is based upon cashflow models which use wherever possible independently sourced market parameters such as interest rate yield curves and currency rates Other factors are also considered, such as counterparty credit quality and liquidity

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Notes to the financial statements for the year ended 31 December 2006

1 Interest receivable and similar income

	Year ended 31 December 2006	Period from 5 October 2004 to 31 December 2005
	£'000	£'000
On loan to fellow group undertaking	**995,739**	377,680
	955,739	377,680

2 Interest payable and similar charges

	Year ended 31 December 2006	Period from 5 October 2004 to 31 December 2005
	£'000	£'000
On debt securities in issue (see note 11)	**970,484**	366,355
On start up loan	**16,954**	7,547
Amortisation of issue costs	**7,804**	3,580
	995,242	377,482

3 Unrealised fair value gains and losses

	Year ended 31 December 2006	Period from 5 October 2004 to 31 December 2005
	£'000	£'000
Fair value movements of future cashflows excluding interest flows on non-hedging derivatives	(1,102,274)	407,402
Translation gains and losses on underlying instruments	1,087,481	(415,543)
	(14,793)	(8,141)

The Company enters into certain derivative financial instruments which although highly effective as economic hedges are not included in hedge accounting relationships These derivatives hedge foreign currency securitised funding recorded at amortised cost

The fair value movements of future cashflows excluding interest flows on such derivatives are separately identified within "Unrealised fair value gains and losses", together with the translation gains and losses on underlying instruments arising from the revaluation from foreign currency into sterling The deemed interest flows on such derivatives are included within interest payable and similar expense

4 Administrative expenses

	Year ended 31 December 2006	Period from 5 October 2004 to 31 December 2005
	£'000	£'000
Administration charges – Northern Rock plc	120	104
Audit fees	29	28
Other administrative expenses	208	16
	357	148

The Company has no employees (2005 Nil) No emoluments were paid to the Directors by the Company during the period (2005 Nil) A management fee for administration services is charged by Northern Rock plc (see Note 17) A management fee of £10,000 per annum is also charged by Law Debenture for a range of services including provision of L D C Securitisation Director No 1 and L D C Securitisation Director No 2

Granite Master Issuer plc

5 Taxation

The income tax credit for the period comprises:

The taxation credit relates to the loss for the period as follows

	Year ended 31 December 2006 £'000	Period from 5 October 2004 to 31 December 2005 £'000
Loss for the year / period ended 31 December	**(14,653)**	(8,091)
Tax on this calculated at the standard rate of corporation tax in the UK of 30% (2005 30%)	**4,396**	2,427
Adjustments	**-**	-
Income Tax credit for the year / period	**4,396**	2,427

Analysis of tax credit in the year:

	Year ended 31 December 2006 £'000	Period from 5 October 2004 to 31 December 2005 £'000
Current tax:		
UK corporation tax on payable in the year / period	**(42)**	(16)
Deferred tax (see note 9)	**4,438**	2,443
	4,396	2,427

No current income tax or deferred income tax has been charged to equity (2005 Nil)

6 Loans and advances to group undertaking

	2006 £'000	2005 £'000
Repayable		
In more than five years	26,576,300	11,837,725
	26,576,300	11,837,725

The loans and advances are all denominated in Sterling and are at variable rates of interest, based on three month quoted LIBOR

7 Derivative financial instruments

The Company's policies as regards derivatives are set out within the accounting policies note on page 8 The Company does not trade in derivative financial instruments

All derivative financial instruments are held for economic hedging purposes, although no derivatives are designated as hedging instruments under the terms of IAS 39

	Fair values at 31 December 2006		
	Contract/ notional amount	Assets	Liabilities
	£'000	£'000	£'000
Derivatives in economic hedging relationships but not in accounting hedge relationships:			
Currency derivatives			
Cross currency swaps	20,436,420	57	(719,084)
Total recognised derivative assets/(liabilities)	**20,436,420**	**57**	**(719,084)**
	Fair values at 31 December 2005		
Derivatives in economic hedging relationships but not in accounting hedge relationships:			
Currency derivatives			
Cross currency swaps	9,064,932	403,536	(28,671)
Total recognised derivative assets/(liabilities)	**9,064,932**	**403,536**	**(28,671)**

8 Trade and other receivables

	2006	2005
	£'000	£'000
Accrued interest receivable on loan to group undertaking	77,257	32,258
Other amounts owed by group companies	672	359
Other debtors	-	350
Called up share capital not paid	38	38

	2006 £'000	2005 £'000
	77,967	33,005

9 Deferred income tax asset

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% Deferred tax assets are recognised where it is probable that future taxable profit will be available against which temporary differences can be utilised

The movement on the deferred tax account is as shown below

	2006 £'000	2005 £'000
At 1 January	2,443	-
Income statement credit for fair value movements and translation gains/losses on derivatives and financial instruments	4,438	2,443
At 31 December	**6,881**	2,443

Deferred income tax assets are all attributable to fair value movements on derivatives and financial instruments

The deferred tax asset has been recognised because the directors anticipate that the company will be profitable in the foreseeable future

10 Cash and cash equivalents

	2006 £'000	2005 £'000
Cash at bank and in hand	398,761	199,378

The Company holds deposits at banks which pay variable rate interest based on one month quoted LIBOR Of these deposits, £398,757,000 is held with Northern Rock plc, a fellow group undertaking

Granite Master Issuer plc

11 Financial liabilities – (Debt securities in issue)

	2006 £'000	2005 £'000
Series 2005-1		
Class A1 Floating Rate $ Notes December 2019	-	199,533
Class A2 Floating Rate € Notes December 2019	-	294,348
Class A3 Floating Rate $ Notes December 2024	**561,540**	640,168
Class A4 Floating Rate $ Notes December 2054	**561,540**	640,168
Class A5 Floating Rate € Notes December 2054	**1,010,441**	1,030,220
Class A6 Floating Rate £ Notes December 2054	**750,000**	750,000
Class B1 Floating Rate $ Notes December 2054	-	35,209
Class B2 Floating Rate € Notes December 2054	**53,890**	54,945
Class B3 Floating Rate £ Notes December 2054	**55,000**	55,000
Class M1 Floating Rate $ Notes December 2054	-	37,828
Class M2 Floating Rate € Notes December 2054	**53,217**	54,258
Class M3 Floating Rate £ Notes December 2054	**55,000**	55,000
Class C2 Floating Rate € Notes December 2054	**93,634**	95,467
Class C3 Floating Rate £ Notes December 2054	**60,000**	60,000
Series 2005-2		
Class A1 Floating Rate $ Notes June 2030	**52,312**	382,989
Class A2 Floating Rate £ Notes June 2030	**21,020**	134,993
Class A3 Floating Rate € Notes June 2030	**46,728**	305,959
Class A4 Floating Rate $ Notes December 2054	**408,392**	465,576
Class A5 Floating Rate € Notes December 2054	**538,902**	549,451
Class A6 Floating Rate $ Notes December 2054	**638,113**	727,463
Class A7 Floating Rate € Notes December 2054	**530,200**	530,200
Class A8 Floating Rate £ Notes December 2054	**250,000**	250,000
Class B1 Floating Rate $ Notes December 2054	**45,944**	52,377
Class B2 Floating Rate € Notes December 2054	**41,765**	42,582
Class B3 Floating Rate £ Notes December 2054	**35,100**	35,100
Class M1 Floating Rate $ Notes December 2054	**48,497**	55,287
Class M2 Floating Rate € Notes December 2054	**47,157**	48,077
Class M3 Floating Rate £ Notes December 2054	**28,100**	28,100

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	2006 £'000	2005 £'000
Class C1 Floating Rate $ Notes December 2054	**45,944**	52,377
Class C2 Floating Rate € Notes December 2054	**88,717**	90,453
Series 2005-3		
Class A Floating Rate $ Notes August 2054	**510,491**	581,971
Series 2005-4		
Class A1 Floating Rate $ Notes June 2030	**151,367**	771,868
Class A2 Floating Rate € Notes June 2030	**84,260**	384,272
Class A3 Floating Rate £ Notes December 2054	**508,755**	579,992
Class A5 Floating Rate $ Notes December 2054	**914,315**	932,212
Class A6 Floating Rate $ Notes December 2054	**815,400**	815,400
Class B1 Floating Rate € Notes December 2054	**37,011**	42,193
Class B2 Floating Rate £ Notes December 2054	**19,654**	22,406
Class B3 Floating Rate £ Notes December 2054	**19,000**	19,000
Class B4 Floating Rate $ Notes December 2054	**38,329**	39,080
Class M1 Floating Rate $ Notes December 2054	**33,029**	37,653
Class M2 Floating Rate £ Notes December 2054	**18,531**	21,126
Class M3 Floating Rate € Notes December 2054	**30,000**	30,000
Class M4 Floating Rate $ Notes December 2054	**34,355**	35,027
Class C1 Floating Rate $ Notes December 2054	**41,043**	46,790
Class C2 Floating Rate £ Notes December 2054	**22,768**	25,956
Class C3 Floating Rate € Notes December 2054	**10,000**	10,000
Class C4 Floating Rate $ Notes December 2054	**51,263**	52,266
Series 2006-1		
Class A1 Floating Rate $ Notes December 2054	**396,192**	-
Class A2 Floating Rate € Notes December 2030	**281,381**	-
Class A3 Floating Rate £ Notes December 2030	**95,860**	-
Class A4 Floating Rate $ Notes December 2030	**275,263**	-
Class A5 Floating Rate $ Notes December 2054	**792,383**	-
Class A6 Floating Rate € Notes December 2054	**1,279,892**	-
Class A7 Floating Rate £ Notes December 2054	**400,000**	-
Class A8 Floating Rate £ Notes December 2054	**950,000**	-
Class B1 Floating Rate $ Notes December 2054	**46,557**	-

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	2006	2005
	£'000	£'000
Class B2 Floating Rate $ Notes December 2054	42,932	-
Class B3 Floating Rate £ Notes December 2054	25,000	-
Class B4 Floating Rate € Notes December 2054	63,658	-
Class M1 Floating Rate $ Notes December 2054	41,554	-
Class M2 Floating Rate $ Notes December 2054	40,431	-
Class M3 Floating Rate £ Notes December 2054	33,500	-
Class M4 Floating Rate € Notes December 2054	65,813	-
Class C2 Floating Rate $ Notes December 2054	67,589	-
Class C3 Floating Rate £ Notes December 2054	44,200	-
Class C4 Floating Rate € Notes December 2054	86,898	-
Series 2006-2		
Class A1 Floating Rate $ Notes April 2031	298,309	-
Class A2 Floating Rate € Notes April 2031	145,792	-
Class A3 Floating Rate £ Notes April 2031	50,500	-
Class A4 Floating Rate $ Notes December 2054	650,875	-
Class A5 Floating Rate € Notes December 2054	916,133	-
Class A6 Floating Rate £ Notes December 2054	500,000	-
Class B1 Floating Rate $ Notes December 2054	14,804	-
Class B2 Floating Rate $ Notes December 2054	18,378	-
Class B3 Floating Rate € Notes December 2054	25,261	-
Class M1 Floating Rate $ Notes December 2054	12,762	-
Class M2 Floating Rate $ Notes December 2054	12,762	-
Class M3 Floating Rate € Notes December 2054	23,577	-
Class M4 Floating Rate £ Notes December 2054	10,000	-
Class C1 Floating Rate $ Notes December 2054	38,287	-
Class C2 Floating Rate € Notes December 2054	37,050	-
Class C3 Floating Rate £ Notes December 2054	12,000	-
Series 2006-3		
Class A1 Floating Rate $ Notes December 2030	510,490	-
Class A2 Floating Rate € Notes December 2030	559,111	-
Class A3 Floating Rate $ Notes December 2054	918,883	-
Class A4 Floating Rate $ Notes December 2054	510,491	-

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	2006 £'000	2005 £'000
Class A5 Floating Rate € Notes December 2054	**842,034**	-
Class A6 Floating Rate £ Notes December 2054	**700,000**	-
Class A7 Floating Rate $ Notes December 2054	**893,359**	-
Class B1 Floating Rate $ Notes December 2054	**35,734**	-
Class B2 Floating Rate $ Notes December 2054	**92,909**	-
Class B3 Floating Rate € Notes December 2054	**20,209**	-
Class M1 Floating Rate $ Notes December 2054	**45,944**	-
Class M2 Floating Rate $ Notes December 2054	**51,049**	-
Class M3 Floating Rate € Notes December 2054	**31,660**	-
Class M4 Floating Rate £ Notes December 2054	**10,000**	-
Class C2 Floating Rate $ Notes December 2054	**30,629**	-
Class C3 Floating Rate € Notes December 2054	**92,287**	-
Series 2006-4		
Class A1 Floating Rate $ Notes December 2030	**331,819**	-
Class A2 Floating Rate € Notes December 2030	**134,725**	-
Class A3 Floating Rate $ Notes December 2054	**350,000**	-
Class A4 Floating Rate CAN$ Notes December 2054	**359,539**	-
Class A5 Floating Rate $ Notes December 2054	**153,307**	-
Class A6 Floating Rate € Notes December 2054	**576,854**	-
Class A7 Floating Rate £ Notes December 2054	**764,567**	-
Class A8 Floating Rate $ Notes December 2054	**300,000**	-
Class B1 Floating Rate € Notes December 2054	**30,936**	-
Class B3 Floating Rate $ Notes December 2054	**42,102**	-
Class M1 Floating Rate $ Notes December 2054	**24,401**	-
Class M2 Floating Rate $ Notes December 2054	**5,105**	-
Class M3 Floating Rate € Notes December 2054	**56,854**	-
Class C1 Floating Rate $ Notes December 2054	**16,642**	-
Class C2 Floating Rate $ Notes December 2054	**7,657**	-
Class C3 Floating Rate € Notes December 2054	**42,304**	-
	25,797,918	12,200,340
Less issue costs unamortised	**(30,327)**	(16,982)
Debt securities in issue	**25,767,591**	12,183,358

Debt securities in issue as at 31 December 2006 and 31 December 2005 are shown in original currency translated at year end rates of exchange

12 Trade and other payables

	2006 £'000	2005 £'000
Accrued interest payable	159,548	52,651
Amounts owed to group undertakings	429,129	216,832
Other creditors	443	173
	589,120	269,656

13 Called up share capital

	2006 £'000	2005 £'000
Authorised		
50,000 ordinary shares of £1 each	50	50
Called up and allotted share capital		
50,000 ordinary shares of £1 each	50	50
Paid up share capital		
12,500 ordinary shares of £1 each	12	12
Called up share capital not paid		
37,500 ordinary shares of £1 each	38	38

14 Retained earnings

	2006 £'000
Balance at 1 January	(5,664)
Loss for the year	(10,257)
Balance at 31 December	(15,921)

15 Shareholders' funds and statement of changes in shareholders' equity

	Share Capital 2006 £'000	Retained Earnings 2006 £'000	Total Equity 2006 £'000
At 1 January 2006	50	(5,664)	(5,614)
Loss for the period	-	(10,257)	(10,257)
At 31 December 2006	**50**	**(15,921)**	**(15,871)**

	Share Capital 2005 £'000	Retained Earnings 2005 £'000	Total Equity 2005 £'000
Share capital issued in period	50		50
Loss for the period	-	(5,664)	(5,664)
At 31 December 2005	**50**	**(5,664)**	**(5,614)**

16 Financial risk management

Strategy in using financial instruments
The Directors have authorised the use of derivative instruments for the purpose of supporting the strategic and operational business activities of the Company and reducing the risk of loss arising from changes in interest rates and exchange rates All use of derivative instruments within the Company is to hedge risk exposure and the Company takes no trading positions in derivatives The objective, when using any derivative instrument, is to ensure that the risk to reward profile of any transaction is optimised The intention is to only use derivatives to create economically effective hedges

Risk management
In order to manage and control its risks, the Company has implemented a comprehensive set of polices and procedures The manner in which the principal risks faced by the Company are mitigated is described below

Foreign exchange risk
"Foreign exchange risk" arises when exchange rate fluctuations change the sterling equivalent value of assets, liabilities, income and expense denominated in foreign currencies When loans notes issued are denominated in foreign currencies, the Company enters into cross currency swap agreements that exchange the funds raised for equivalent amounts of sterling The Company receives foreign currency interest from the swap agreements equivalent to that due on the loan notes, in exchange for the payment of sterling interest based upon three month UK LIBOR As the loan note principal is repaid, equivalent reductions are made to the outstanding

swap notional amounts so that effective hedges are maintained The effect of the above policy is to eliminate the risk associated with exchange rate fluctuations

Interest rate risk

"Interest rate risk" arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the slope and shape of yield curves and changes in correlation of interest rates between different financial instruments (often referred to as basis risk) The interest receivable on the loan to the group undertaking re-prices on the same quarterly basis as the interest payable in respect of the loan notes (as adjusted by cross currency swaps), so that interest rate risk is eliminated

Credit risk

"Credit risk" is the exposure to loss if another party fails to meet its financial obligations to the Company, including failing to perform them in a timely manner The Company's primary exposure is the loan to a fellow group undertaking, which used the proceeds to purchase an interest in a portfolio of residential mortgages from a further group undertaking The credit risk associated with the mortgage portfolio is continually monitored by the group and external rating agencies Master netting agreements are in place with all derivative counterparties, whose creditworthiness is continually monitored and assessed

Liquidity risk

"Liquidity risk" arises from a mismatch in the cashflows generated from assets, liabilities and derivatives The Company's policy is to ensure that interest and principal repayments due from the loan to a fellow group undertaking are timed to coincide with amounts due on the loan notes and associated cross currency swaps

Fair values of non derivative financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value Fair values are not provided for the loan to a group undertaking as there is no liquid and active market for such instruments

	Fair value 2006 £'000	Fair value 2005 £'000	**Book value 2006 £'000**	Book value 2005 £'000
Financial assets				
Cash at bank and in hand	**398,761**	199,378	**398,761**	199,378
Trade and other receivables	**77,967**	33,005	**77,967**	33,005
Deferred Tax asset	**6,881**	2,443	**6,881**	2,443
Financial liabilities				
Debt securities in issue	**25,801,064**	12,200,950	**25,767,591**	12,183,358
Trade and other payables	**589,120**	269,656	**589,120**	269,656
Current Tax liability	**42**	16	**42**	16

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Maturity profile of financial liabilities
The maturity profile of the carrying amount of the company's non current liabilities at 31 December 2006 was as follows

	Debt securities in issue £'000	Total 2006 £'000	Debt securities in issue £'000	Total 2005 £'000
In more than five years	**25,767,591**	**25,767,591**	12,183,358	12,183,358

Interest rate profile of financial assets and liabilities

	Floating rate £'000	Non interest bearing £'000	2006 Total £'000
Assets			
Sterling	**26,975,118**	**84,848**	**27,059,966**
Liabilities			
Sterling	7,210,247	207,553	7,417,800
USD	10,896,451		10,896,451
Euros	8,608,279		8,608,279
CAD $	153,307		153,307
	26,868,284	**207,553**	**27,075,837**

	Floating rate £'000	Non interest bearing £'000	2005 Total £'000
Assets			
Sterling	**12,440,639**	**35,448**	**12,476,687**
Liabilities			
Sterling	2,801,464	252,690	3,054,154
USD	5,418,930		5,418,930
Euros	4,008,617		4,008,617
	12,229,011	**252,690**	**12,481,701**

Floating rate assets of £8,111 million reprice on 22 January 2007 Floating rate assets of £11,236 million reprice on 20 February 2007 All other floating rate assets and liabilities reprice on 20 March 2007

17 Related party transactions

A number of transactions are entered into with related parties as part of the Company's normal day to day business These include a loan to a fellow group undertaking, a bank deposit with a fellow group undertaking and a cash management fee payable to the Administrator (Northern Rock plc) The outstanding balances at the year end and related income and expense for the year are set out below

	2006 £'000	2005 £'000
Loan to fellow group undertaking		
Loan outstanding at 1 January / 5 October 2004	**11,837,725**	-
Net amounts advanced	**14,738,575**	11,837,725
Loan outstanding at 31 December	**26,576,300**	11,837,725
Interest income earned	**981,262**	371,868
Bank deposit with fellow group undertaking		
Deposit outstanding at 1 January / 5 October 2004	**199,358**	-
Net amounts advanced	**199,403**	199,358
Bank deposit outstanding at 31 December	**398,761**	199,358
Interest income earned	**14,488**	5,811
Cash management fee payable to the Administrator		
Fee accrual at 1 January / 5 October 2004	**31**	-
Amounts charged net of amounts paid	**71**	31
Fee accrual at 31 December	**102**	31
Expense	**120**	104

18 Post balance sheet events

On 24 January 2007, the Company made a further issue of £6,111 6 million notes The issue proceeds were passed to Granite Finance Funding 2 Limited in the form of an intercompany loan Granite Finance Funding 2 Limited used the loan proceeds to purchase a further beneficial interest in the assets of the Trust administered by Granite Finance Trustees Limited The assets of the Trust comprise mortgage loans secured on residential property in England and Wales

On 18 May 2007, the Company issued a further £4,927 2 million of notes, and made an intercompany loan to Granite Finance Funding 2 Limited for the same amount, in order to enable Granite Finance Funding 2 Limited to purchase an interest in the assets of the trust administered by Granite Finance Trustees Limited

19 Subsidiary and parent undertakings

The Company has no subsidiary undertakings

The Company's ultimate parent is The Law Debenture Intermediary Corporation plc, a company registered in England and Wales, the shares being held under a trust arrangement Copies of the financial statements of The Law Debenture Intermediary Corporation plc may be obtained from Law Debenture Corporate Services Limited, Fifth Floor, 100 Wood Street, London, EC2V 7EX

The Company's ultimate controlling party is Northern Rock plc The Company's results are included within the consolidated financial statements of Northern Rock plc Copies of the financial statements of Northern Rock plc may be obtained from Northern Rock House, Gosforth, Newcastle upon Tyne, NE3 4PL