

ANNEX B

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. INDIVIDUAL FORECASTS

Sector interest rate forecast – 22.11. 2006

| | Q/E4 2006 | Q/E1 2007 | Q/E2 2007 | Q/E3 2007 | Q/E4 2007 | Q/E1 2008 | Q/E2 2008 | Q/E3 2008 | Q/E4 2008 | Q/E1 2009 | Q/E2 2009 | Q/E3 2009 | Q/E4 2009 | Q/E1 2010 |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Bank rate | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 4.75% | 4.75% | 4.75% | 4.50% | 4.50% | 4.50% | 4.75% | 4.75% | 4.75% |
| 5yr PWLB rate | 5.00% | 5.00% | 5.00% | 4.75% | 4.75% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| 10yr PWLB rate | 4.75% | 4.75% | 4.75% | 4.75% | 4.75% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| 25yr PWLB rate | 4.25% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| 50yr PWLB rate | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% |

Capital Economics interest rate forecast – 2.11.06

| | Q/E4 2006 | Q/E1 2007 | Q/E2 2007 | Q/E3 2007 | Q/E4 2007 | Q/E1 2008 | Q/E2 2008 | Q/E3 2008 | Q/E4 2008 |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Bank rate | 5.00% | 5.25% | 5.25% | 5.25% | 5.00% | 4.75% | 4.50% | 4.50% | 4.50% |
| 5yr PWLB rate | 4.90% | 5.00% | 4.60% | 4.40% | 4.40% | 4.30% | 4.40% | 4.50% | 4.60% |
| 10yr PWLB rate | 4.75% | 4.85% | 4.65% | 4.45% | 4.45% | 4.55% | 4.65% | 4.65% | 4.65% |
| 25yr PWLB rate | 4.45% | 4.35% | 4.25% | 4.25% | 4.25% | 4.25% | 4.35% | 4.35% | 4.35% |
| 30yr PWLB rate | 4.25% | 4.15% | 4.05% | 3.95% | 4.05% | 4.05% | 4.15% | 4.15% | 4.15% |
| 50yr PWLB rate | 4.05% | 4.05% | 3.95% | 3.95% | 4.05% | 4.05% | 4.15% | 4.15% | 4.25% |

UBS interest rate forecast (for quarter ends) – 27.10.06

| | Q/E4 2006 | Q/E1 2007 | Q/E2 2007 | Q/E3 2007 | Q/E4 2007 | Q/E1 2008 | Q/E2 2008 | | |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---|---|
| Bank rate | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | ? | ? | ? |
| 10 yr PWLB rate | 4.85% | 4.85% | 4.80% | 4.80% | 4.80% | 4.80% | ? | ? | ? |
| 25 yr PWLB rate | 4.29% | 4.25% | 4.25% | 4.25% | 4.30% | 4.35% | ? | ? | ? |
| 50 yr PWLB rate | 4.15% | 4.15% | 4.15% | 4.25% | 4.35% | 4.40% | ? | ? | ? |

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – November 2006 summary of forecasts of 26 City and 14 academic analysts for Q4 2006 and 2007. (2008 – 2010 are as at November 2006 but are based on 18 forecasts)

| | bank rate actual | Quarter ended | | annual average bank rate | | |
|-------------------------------------|---------------------|---------------|---------|--------------------------|-----------|-----------|
| | | Q4 2006 | Q4 2007 | ave. 2008 | ave. 2009 | ave. 2010 |
| Indep. forecasters BoE Bank Rate | 5.00% | 4.94% | 4.85% | 4.86% | 4.88% | 4.85% |
| Highest bank rate | 5.00% | 5.00% | 5.50% | 5.90% | 5.60% | 6.10% |
| Lowest bank rate | 5.00% | 4.50% | 4.00% | 3.75% | 4.00% | 4.00% |