Eurosail 2006-3 NC plc

Report and Financial Statements

30 November 2010

Registered No 05924768

Directors
M H Filer
Wilmington Trust SP Services (London) Limited
J Traynor

Secretary
Wilmington Trust SP Services (London) Limited
Fifth Floor
6 Broad Street Place
London EC2M 7JH

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Note Trustee
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One Canada Square
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Fifth Floor
6 Broad Street Place
London EC2M 7JH

Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2010

Principal activities

The principal activity of the Company is the investment in mortgage loans secured by first and second charges over residential properties within the United Kingdom

Business review

On 9 November 2006 the Company purchased £505,250,384 of mortgages from Southern Pacific Mortgage Limited Further consideration may be payable to Southern Pacific Mortgage Limited dependent on future performance of the mortgages The acquisition of these mortgage assets has been accounted for as a loan to originator as detailed in note 1 of the financial statements To facilitate the purchase, the Company issued a series of mortgage-backed loans on 9 November 2006 These loan notes are listed on the Irish Stock Exchange

The mortgage servicing, cash bond administration and accounting services are provided by Acenden Limited (formerly Capstone Mortgage Services Limited), an external party

The results for the year ended 30 November 2010 are set out on page 10 The Company's business activities, together with the factors likely to affect its future development, financial performance and financial position are set out below

The current economic environment is difficult but the Company has reported an operating profit for the year after Financial Reporting Standard No 26 adjustments, which are required in order to recognise the interest income on mortgage loan assets underlying the loan to originator on an Effective Interest Rate (EIR) basis, and a remeasurement adjustment of amortised cost of mortgage backed loan notes The directors' consider that the outlook presents significant challenges in meeting the capital repayments and interest due to the holders of the loan notes as and when they fall due

The directors have concluded that the Company will continue as a going concern and set out the basis for this conclusion in the Going concern section of this report

On 22 September 2009 the Company filed unliquidated claims against the interest rate swap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement The directors do not currently think that it is possible to quantify amounts that may eventually be recovered under these claims and therefore nothing has been recognised in the financial statements

As required by Financial Reporting Standard No 26, the result for the year includes a fair value loss on derivative financial instruments of £18,408,849 (2009 – £8,603,165 gain) and an unrealised exchange gain on restatement of loan liabilities of £19,759,661 (2009 – £6,539,153 loss)

Directors' report

Business review (continued)

At the year end the loan to orıgınator balance after the Effective Interest Rate Adjustment, was £204,081,724 (2009 – £222,733,392) At the December 2010 Interest Payment Date the orıgınator held the following mortgage loans underlying the loan to orıgınator, excluding the Effective Interest Rate Adjustment

	Principal balance £000	*Number of loans*
First Mortgages	177,863	1,885
Second Mortgages	28,497	1,031
Total	206,360	2,916

These mortgages provide security against loan notes in issue totalling £214,800,754 as at the December 2010 Interest Payment date

The mortgage loans generated a weighted average margin over funding costs of 3 79% during the year, before considering the adjustments for Financial Reporting Standard No 26 The weighted average cost of funds for the year was 0 67%

The mortgage loans exhibited the following quarterly arrears profile

	Q1 %	*Q2* %	*Q3* %	*Q4* %
Delinquencies days – (excluding repossessions)				
Current	52 04	54 01	54 35	53 92
>30<=60	7 14	6 36	6 78	6 67
>60<=90	5 73	6 79	6 66	6 56
>90<=120	4 48	5 27	5 69	6 75
>120	30 61	27 57	26 52	26 10
Total	100 00	100 00	100 00	100 00

At the March 2011 Interest Payment Date following the year end, the mortgage assets underlying the loan to originator balance, was £201,316,497, 31 27% of the balance was greater than 3 months in arrears

The directors consider the level of arrears to be within expectations and have not made any adjustment to the expected cash flows of the loan to originator

The performance of the mortgage loans during the year to 30 November 2010 enabled deferred consideration of £Nil (2009 – £Nil) to be paid to the current holder of the rights to the residual cash flows of the securitisation

Future development

The directors of the company do not envisage any change to the principal activities of the company in the future

Directors' report

Going concern

As described in the Business review, the Company has reported an operating profit for the year

However the Company is in a net liability position as at 30 November 2010 due to the amortisation of the premium paid to the mortgage loan originator and an adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgage loans Should this adjustment not reverse in forthcoming periods the Company may be unable to meet capital repayments and interest due to the holders of the loan notes as and when they fall due

It is the intention of the directors of the Company to continue operations until such a time as the amount due from mortgage loans underlying the loan to originator have been fully realised Ultimately, due to the non-recourse nature of the mortgage backed loan notes, any shortfall in the proceeds from the mortgage assets will be a risk to the holders of those notes and accordingly the financial statements have been prepared on a going concern basis

Fair value

Note 17 discloses the fair values of the mortgage assets underlying the loan to originator and loan notes The directors noted that as at 30 November 2010 the respective fair values of the mortgage assets underlying the loan to originator, and loan notes are less than the carrying values recorded in the balance sheet

The directors believe that this is reasonable, based on the global contraction of credit markets, the challenges faced by the sub prime mortgage sector and the decline in market demand for mortgage backed securities

As no liquid market exists for either the mortgage loans underlying the loan to originator or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables This model takes into account expected prepayment rates, arrears levels, house price movements, level of repossessions, losses and discount rates based on the most recent available information

Dividend

The directors do not recommend the payment of a dividend for the year (2009 – £Nil)

Policy and practice on payment of creditors

The Company does not follow any stated code on payment practice It is the Company s policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with the suppliers at the outset It is the policy of the Company to abide by the agreed terms of payment There are no creditor days of suppliers invoices outstanding at the year end (2009 - nil days)

Directors

The directors who held office during the year were as follows

M H Filer
Wilmington Trust SP Services (London) Limited
J Traynor

Directors' report

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Company comprise mortgage assets underlying the loan to originator, borrowings, cash and various other items (such as other debtors, other creditors etc) that arise directly from its operations

The Company also entered into derivative transactions where necessary (principally interest rate and currency swaps) to manage its interest rate risk and currency risk

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, foreign exchange risk and liquidity risk The directors review and agree policies for managing each of these risks and they are summarised below

Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due All mortgages underlying the loan to originator were required to adhere to specific lending criteria The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors The mortgage portfolio is recognised as a collateralised non-recourse loan to the originator as explained in note 1 In addition there is credit risk associated with the ability of the swap counterparty to meet its obligations under the swap agreement This is recognised by showing the derivative financial instruments in the balance sheet net of a credit valuation adjustment

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar Where this is not possible the Company has used derivative financial instruments to mitigate any residual interest rate risk

Foreign exchange risk

Foreign exchange risk exists where the loan notes are denominated in a currency which is different to the underlying sterling mortgage loans The Company minimises its exposure to foreign currency risk by ensuring that the currency characteristics of its assets and liabilities are similar Where this is not possible the Company has used derivative financial instruments to mitigate any foreign exchange risk

Liquidity risk

The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets underlying the loan to originator with those of the cash payments due on the loan notes In addition the Company holds a minimum cash balance to manage short term liquidity requirements

Corporate governance

The Directors are responsible for internal control in Eurosail 2006-3 NC plc and for reviewing the effectiveness Procedures have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud The procedures enable Eurosail 2006-3 NC plc to comply with the relevant regulatory obligations

Directors' report

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

Responsibility statements under the Disclosure and Transparency Rules

The directors confirm that, to the best of each person's knowledge

- the financial statements in this report, which have been prepared in accordance with UK GAAP and the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company, and

- the directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face

Approved by the board of directors and signed on behalf of the board

Mark Filer

Director

Date 27 MAY 2011

Statement of directors' responsibilities

The dırectors are responsıble for preparıng the Annual Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare the financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law) Under company law the dırectors must not approve the financıal statements unless they are satısfied that they gıve a true and faır vıew of the state of affaırs of the Company and of the profit or loss of the Company for that perıod In preparıng these financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make judgments and estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subject to any materıal departures dısclosed and explaıned ın the financıal statements, and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınappropriate to presume that the Company wıll contınue ın busıness

The dırectors are responsıble for keepıng adequate accountıng records that are sufficıent to show and explaın the Company s transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and to enable them to ensure that the financıal statements comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the Company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

Independent auditors' report

to the members of Eurosail 2006-3 NC plc

We have audited the financial statements of Eurosail 2006-3 NC plc for the year ended 30 November 2010 which comprise Profit and Loss Account, the Balance Sheet and the related notes 1 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of Eurosail 2006-3 NC plc

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Amarjit Singh (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date 27 MAY 2011

Profit and loss account

for the year ended 30 November 2010

	Notes	2010 £000	2009 £000
Interest receivable and similar income	2	13,765	21,606
Interest payable and similar charges	3	(3,458)	(12,814)
Net interest receivable		10,307	8,792
Net fair value (loss)/gain on derivatives		(18,409)	8,603
Other operating income	4	86	169
Remeasurement adjustment of amortised cost of mortgage backed loan notes	13	(9,459)	3,260
Unrealised exchange gain/(loss) on loan liabilities		19,760	(6,539)
Operating expenses		(142)	(12,239)
Profit on ordinary activities before taxation	5	2,143	2,046
Tax on profit on ordinary activities	6	1,236	(1,887)
Profit on ordinary activities after taxation	15	3,379	159

The profit for the year was derived from continuing operations

There were no recognised gains or losses other than the profit for the year, accordingly no statement of recognised gains and losses is given

The notes on pages 12 to 25 form part of these financial statements

Balance sheet

at 30 November 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Loan to originator	8	204,082	222,733
Current assets			
Debtors			
Amounts falling due after one year	10	29,029	47,438
Amounts falling due within one year	11	36	946
Cash at bank and in hand		36,056	40,394
		65,121	88,778
Creditors. amounts falling due within one year	12	(31,934)	(35,192)
Net current assets		33,187	53,586
Creditors: amounts falling due after one year	13	(243,555)	(285,984)
Net liabilities		(6,286)	(9,665)
Capital and reserves			
Issued share capital	14	13	13
Profit and loss account	15	(6,299)	(9,678)
Shareholders' deficit	16	(6,286)	(9,665)

The notes on pages 12 to 25 form part of these financial statements

These financial statements were approved by the board of directors and were signed on its behalf by

Mark Filer

Director

Date 27 MAY 2011

Notes to the financial statements

at 30 November 2010

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company s financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention except for derivative financial instruments which are carried at fair value through the profit and loss account The financial statements have been prepared on a going concern basis as referred to in the Going concern section of the Directors report

Income recognition

Interest income on mortgage loan assets underlying the loan to originator is recognised in the profit and loss account on an Effective Interest Rate (EIR) basis The EIR recognises revenue equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan

Loan to originator

Where a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset for financial reporting purposes, as its asset The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor In relation to the mortgage portfolio transferred to the Company, derecognition is considered to be inappropriate for the portfolio seller's or originator's (Southern Pacific Mortgage Limited) own financial statements as the originator has retained significant risks, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset The Company's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised non-recourse loan to the originator

The loan to originator is classified within "loans and receivables", the initial measurement is at fair value with subsequent measurement being at amortised cost using the effective interest rate method The effective interest on the loan to the originator is calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio less the residual interest due to the current holder of the rights to the residual cash flows of the securitisation

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated

An adjustment to the expected cash flows of the loan to originator balance would be recognised where there is a risk that the income on the loan to portfolio seller will be significantly reduced This could occur if the credit quality of the mortgage assets that are pledged as collateral for the loan deteriorated significantly and is calculated using the methodology below

Specific provisions for losses on loans and advances to customers which underlie the loan to originator are made throughout the year and at the year-end on a case by case basis (calculated with reference to the probability of the loan defaulting and the value of the security held against the loan) The specific provision for properties in possession is based on the balance outstanding less a discounted valuation of the security held (with adjustments for expenses of sale)

Notes to the financial statements

at 30 November 2010

1. Accounting policies (continued)

Premium paid on mortgage assets underlying the loan to originator

Gross cash receipts received by the Company on the issue of revenue backed notes (Class DTc, ETc and FTc Notes mentioned in note 13) are paid to Southern Pacific Mortgage Limited as a premium on acquisition of the mortgage assets underlying the loan to originator. This premium is capitalised by the Company and amortised over the expected repayment period of the revenue backed notes The amortised balance is added to the loan to originator with the costs amortised in the year included in interest payable

Discount on purchase of mortgage assets underlying the loan to originator

Cash received from the originator on acquisition of the mortgage assets underlying the loan to originator to cover start up costs are amortised over the expected life of the mortgage assets The amortised balance is deducted from the loan to originator with the income for the year included in interest receivable

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Southern Pacific Mortgage Limited The payment of these amounts is conditional on the performance of the mortgages underlying the loan to originator

Under the terms of the securitisation the Company earns an annual profit in an amount equal to 0 01 per cent of the aggregate balances of the loans in the mortgage pool This is reflected in the profit and loss before any movements on fair value gains and losses on derivatives and Effective Interest Rate adjustments

Profits in excess of 0 01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation, as deferred consideration Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the balance sheet

Derivatives

The Company uses derivative financial instruments to hedge its exposure to interest rate and currency risk arising from operational, financing and investment activities The Company does not hold or issue derivative financial instruments for trading purposes However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments

Notes to the financial statements

at 30 November 2010

1. Accounting policies (continued)

Derivatives (continued)

Financial Reporting Standard No 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet Subsequent to initial recognition, derivatives are remeasured to fair value Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account The fair value of the interest rate swaps caps and currency swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date

Interest rate caps

A series of amortising interest rate caps were entered into in order to manage the Company's interest rate risk in relation to fixed rate mortgage loans underlying the loan to originator The derivative contracts were designed to match the expected profile of the run-off of the fixed rate loans

Currency swaps

A series of currency swaps were entered into in order to manage the Company's currency rate exposure in relation to non-sterling denominated Loan Notes The derivative contracts were designed to match the expected profile of the run-off of the non-sterling denominated Loan Notes

Foreign currencies

Mortgage-backed floating rate notes included in financial liabilities, denominated in foreign currencies at the balance sheet date, are reported at the rates of exchange prevailing at the reporting date Any exchange differences arising in the year on the settlement or retranslation of foreign currency liabilities are included in the profit and loss account

Issue costs

Initial issue costs incurred in arranging funding facilities are amortised over the life of the facility Unamortised initial issue costs are deducted from the associated liability in accordance with Financial Reporting Standard No 26 and costs amortised in the year are included in interest payable

Mortgage-backed loan notes

Mortgage-backed loan notes are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, the mortgage-backed loan notes are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans The directors periodically review the estimated future cash flows on the mortgage loans to determine whether the amortised cost carrying value of the loan notes requires adjustment If a shortfall in the cash flows is identified, an adjustment is credited to the profit and loss account to reduce the carrying value of the loan notes

Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(c) of Financial Reporting Standard No 8, not to disclose transactions with related parties since the Company is 100% owned by Eurosail 2006-3 NC Parent Limited and is included in its consolidated financial statements which are publicly available

Notes to the financial statements

at 30 November 2010

1. Accounting policies (continued)

Financial instruments disclosure

The Company has taken advantage of the exemption conferred by paragraph 2(d) of Financial Reporting Standard No 29, not to disclose financial instruments disclosures since the Company is 100% owned by Eurosail 2006-3 NC Parent Limited and is included in its consolidated financial statements which complies with these disclosure requirements and are publicly available

Statement of cash flows

Under Financial Reporting Standard No 1 (Revised), the Company is exempt from the requirement to prepare a statement of cash flows on the grounds that a parent undertaking includes the Company in its publicly available consolidated financial statements

Turnover

The Company's income and trade are wholly within the UK and within a single market sector and therefore no segmental analysis has been presented

2. Interest receivable and similar income

	2010	*2009*
	£000	*£000*
On loan to originator	11,945	19,551
Other interest	87	322
Amortisation of discount on purchase of mortgage assets underlying the loan originator	1,733	1,733
	13,765	21,606

3. Interest payable and similar charges

	2010	*2009*
	£000	*£000*
Mortgage backed loan notes	2,744	12,092
Other interest	267	275
Amortisation of capitalised issue costs	223	223
Amortisation of premium paid to mortgage loan originator	224	224
	3,458	12,814

4. Other operating income

	2010	*2009*
	£000	*£000*
Redemption fees	78	169
Sundry fee income	8	–
	86	169

Notes to the financial statements

at 30 November 2010

5. Profit on ordinary activities before taxation

This is stated after charging/(crediting)

	2010 £000	2009 £000
Auditors' remuneration – for audit services	14	13
Other fees to auditors – taxation services	9	8
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	(6,347)	2,870
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgages	5,755	8,770

Auditors remuneration of £5,100 (2009 – £4,759) and taxation services of £900 (2009 – £1,763) for the parent company, Eurosail 2006-3 NC Parent Limited was borne by the Company

6. Tax

(a) Tax on profit on ordinary activities

The tax (credit)/charge is made up as follows

	2010 £000	2009 £000
Current tax		
UK corporation tax on profit in the year	–	–
Total current tax (note 6(b))	–	–
Deferred tax		
Origination and reversal of timing differences	(1,236)	1,887
Effect of tax rate change on opening balance	–	–
Total deferred tax (credit)/charge (note 18)	(1,236)	1,887
Tax on profit on ordinary activities	(1,236)	1,887

(b) Factors affecting the tax (credit)/charge in the year

The tax rate assessed for the year is higher than the small companies rate of corporation tax in the UK of 21% (2009 – 21%) The factors affecting the tax (credit)/charge are explained below

	2010 £000	2009 £000
Profit on ordinary activities before tax	2,143	2,046
Profit on ordinary activities multiplied by the standard rate of corporation tax for small companies of 21% (2009 – 21%)	450	430
Effects of		
Other short-term timing differences	1,236	(1,887)
Utilisation of tax losses and other deductions	(1,686)	1,457
Current tax charge for the year (note 6(a))	–	–

Notes to the financial statements

at 30 November 2010

7. Information regarding directors and employees

The Company has no employees (2009 – none) The directors received no remuneration from the Company during the year (2009 – £Nil)

8. Loan to originator – net balances

	2010	*2009*
	£000	*£000*
At 1 December	222,733	276,317
Movement in unamortised premium on acquisition of mortgage loans underlying the loan to originator (Note 9)	(224)	(224)
Movement in unamortised discount on acquisition of mortgage loans underlying the loan to originator	1,733	1,733
Principal repayments and mortgage redemptions	(20,752)	(43,453)
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	6,347	(2,870)
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgage loans	(5,755)	(8,770)
At 30 November	204,082	222,733

The Company purchased a portfolio of mortgage loans from Southern Pacific Mortgage Limited However, as the principal economic risk and rewards associated with these mortgage loans remain with Southern Pacific Mortgage Limited, these loans are not deemed for accounting purposes to have been transferred to the Company Accordingly, the Company accounts for the transaction as a loan to Southern Pacific Mortgage Limited, as the originator of the loans The repayment of the loan to originator is linked to the repayment of the loan notes referred to in note 13

The loan to Southern Pacific Mortgage Limited is denominated in Sterling and bears interest at a variable rate It is secured on the beneficial interest in a portfolio of residential mortgage loans

The current mortgage loans in the pool have loan periods of between 1 to 369 months remaining with current interest rates ranging from 0 89% to 14 73% per annum

The mortgage loans are held as security against the loan notes referred to in note 13

9. Premium on mortgages underlying the loan to originator

	2010	*2009*
	£000	*£000*
At the start of the year	3,253	3,477
Amortisation in the year	(224)	(224)
At the end of the year	3,029	3,253

Notes to the financial statements

at 30 November 2010

10. Debtors amounts falling due after one year

	2010	*2009*
	£000	*£000*
Derivative financial instruments	29,029	47,438

This sum is net of a credit valuation adjustment of £3,340,524 in respect of counterparty default risk (2009 – £3,801,988)

11. Debtors: amounts falling due within one year

	2010	*2009*
	£000	*£000*
Prepayments and accrued income	23	933
Other debtors	13	13
	36	946

12. Creditors: amounts falling due within one year

	2010	*2009*
	£000	*£000*
Amounts owed to group undertakings	236	231
Other creditors	28,116	28,052
Deferred taxation (note 18)	2,290	3,526
Accruals and deferred income	1,292	3,383
	31,934	35,192

Other creditors include £28,050,000 (2009 – £28,050,000) owing to the liquidity facility provider This arises from the drawdown of the facility due to the increased counterparty default risk of the provider The cash drawing of £28,050,000 (2009 – £28,050,000) is included in Cash at bank and in hand

Notes to the financial statements

at 30 November 2010

13. Creditors: amounts falling due after one year

	2010	*2009*
	£000	*£000*
EUR Denominated Mortgage backed loan notes due 2024 - Class A1a	–	–
USD Denominated Mortgage backed loan notes due 2024 - Class A1b	–	–
GBP Denominated Mortgage backed loan notes due 2024 - Class A1c	–	–
USD Denominated Mortgage backed loan notes due 2044 - Class A2b	–	5,661
GBP Denominated Mortgage backed loan notes due 2044 - Class A2c	–	2,260
EUR Denominated Mortgage backed loan notes due 2044 - Class A3a	90,596	116,851
GBP Denominated Mortgage backed loan notes due 2044 - Class A3c (with Detachable A3c Coupons)	67,938	80,200
EUR Denominated Mortgage backed loan notes due 2044 - Class B1a	40,774	44,550
EUR Denominated Mortgage backed loan notes due 2044 - Class C1a	16,710	18,258
GBP Denominated Mortgage backed loan notes due 2044 - Class C1c	9,850	9,850
EUR Denominated Mortgage backed loan notes due 2044 - Class D1a	5,055	5,523
GBP Denominated Mortgage backed loan notes due 2044 - Class D1c	11,000	11,000
GBP Denominated Mortgage backed loan notes due 2044 - Class DTc	–	–
GBP Denominated Mortgage backed loan notes due 2044 - Class E1c	4,080	4,080
GBP Denominated Mortgage backed loan notes due 2044 - Class ETc	5,270	5,270
GBP Denominated Mortgage backed loan notes due 2044 - Class FTc	1,733	1,614
	253,006	305,117
Less Issue costs	(893)	(1,116)
Less Remeasurement adjustment to amortised cost	(8,558)	(18,017)
	243,555	285,984

The mortgage backed loan notes with nil value have been fully repaid

All amounts falling due after one year fall due after five years

The mortgage backed floating rate notes due 2044 are secured over a portfolio of mortgage loans secured by first charge over residential properties in the United Kingdom

The mortgages underlying the loan to originator are administered by Acenden Limited on behalf of Eurosail 2006-3 NC plc

The loan notes are repaid as the underlying portfolio redeems The terms and conditions of the loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgages underlying the loan to originator The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments Note holders have no recourse to Eurosail 2006-3 NC plc in any form

The mortgage backed floating rate notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgages underlying the loan to originator If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in September 2044

Notes to the financial statements

at 30 November 2010

13. Creditors: amounts falling due after one year (continued)

The loan notes issued by the Company are full recourse obligations of the Company and are issued subject to an option of Eurosail Options Limited, a related party, to acquire the notes for nominal consideration, the post enforcement call option, should any of the notes remain outstanding following enforcement of their rights and realisation of the assets of the Company The Post-Enforcement Call Option may be exercised by Eurosail Options Limited on the date following the enforcement by the Note Trustee of the Issuer Security on which the Note Trustee determines that there are no further assets available to pay amounts due and owing to the Noteholders Noteholders will be bound by the terms of the Post-Enforcement Call Option granted to Eurosail Options Limited and the Noteholders will not be paid more than a nominal amount for that transfer

The loan notes are repayable out of capital receipts from the mortgages underlying the loan to originator, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to the Class E Notes, which rank in priority to the Class F Notes

Interest on the notes is payable quarterly in arrears at the following annual rates for three month deposits

Class A1a	EURIBOR + 0 07%
Class A1b	USD LIBOR + 0 06%
Class A1c	Sterling LIBOR + 0 07%
Class A2b	USD LIBOR + 0 12%
Class A2c	Sterling LIBOR + 0 13%
Class A3a	EURIBOR + 0 17%
Class A3c	Sterling LIBOR + 0 17%
Class A3c (with detachable coupons)	See Below
Class B1a	EURIBOR + 0 25%
Class C1a	EURIBOR + 0 45%
Class C1c	Sterling LIBOR + 0 45%
Class D1a	EURIBOR + 0 90%
Class D1c	Sterling LIBOR + 0 90%
Class DTc	Sterling LIBOR + 0 85%
Class E1c	Sterling LIBOR + 3 25%
Class ETc	Sterling LIBOR + 3 175%
Class FTc	Sterling LIBOR + 6 50%

The detachable A3c Coupon rate has been calculated in accordance with the terms of the offering circular

Notes to the financial statements

at 30 November 2010

13. Creditors: amounts falling due after one year (continued)

Detachable A3c Coupon Rate means on any Interest Determination Date the rate (expressed per cent, per annum) which is the product of the following

D% x A/A3c

Where

D% means, the rate of 1 00 per cent per annum on each of the first to the fourth Interest Determination Dates (inclusive), the rate of 1 70 per cent per annum on each of the fifth and the sixth Interest Determination Dates, the rate of 2 25 per cent per annum on the seventh Interest Determination Date, the rate of 2 50 per cent per annum on the eighth Interest Determination Date, and the rate of 2 75 per cent per annum on each of the ninth and tenth Interest Determination Dates and the rate of 3 00 per cent per annum on the eleventh and twelfth Interest Determination Dates and zero per cent at all other times

A means the aggregate Sterling Equivalent Principal Amount Outstanding (as defined in Condition 6) in respect of the A Notes

A3c means the aggregate Principal Amount Outstanding in respect of the A3c Notes

In each case as at immediately after the application of any Actual Redemption Funds on the preceding Interest Payment Date (or, in respect of the first Interest Payment Date, as at such date)

14 Issued share capital

	2010 £000	2009 £000
Allotted and called up		
2 shares 100% called and fully paid	–	–
49,998 shares 25% called and fully paid	13	13
	13	13

Share capital of £1 was issued on incorporation on 5 September 2006 49,999 shares were issued on 21 September 2006

15. Profit and loss account

	2010 £000	2009 £000
Retained loss brought forward	(9,678)	(9,837)
Profit for the year	3,379	159
Retained loss carried forward	(6,299)	(9,678)

Notes to the financial statements

at 30 November 2010

16. Reconciliation of movement in shareholders' funds

	2010 £000	2009 £000
Opening shareholders' deficit	(9,665)	(9,824)
Profit for the year	3,379	159
Closing shareholders' deficit	(6,286)	(9,665)

17. Derivatives and other financial instruments

As explained on page 5 the Company uses financial instruments in its normal course of business The following analysis gives an indication of the significance of these instruments to the Company

(a) Interest rate risk profile of financial liabilities as at 30 November

	Total £000	Total Variable rate £000	Total fixed rate £000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
2010					
Interest rate profile	272,498	272,498	–	–	–
2009					
Interest rate profile	315,150	315,150	–	–	–

(b) Interest rate risk profile of financial assets as at 30 November

	Total £000	Total Variable rate £000	Total fixed rate £000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
2010					
Interest rate profile	269,167	269,167	–	–	–
2009					
Interest rate profile	310,565	310,565	–	–	–

The company also has certain financial instruments included within debtors (note 11) and creditors (note 12) which are not subject to interest rate risk as they bear no interest

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the mortgage backed loan notes, are set with reference to the London Interbank Offered Rate The rates of interest payable on the mortgage backed loan notes are set as detailed in note 13

Notes to the financial statements

at 30 November 2010

17. Derivatives and other financial instruments (continued)

(c) Foreign currency risk

With the exception of the Mortgage Backed Loan Notes, all financial instruments are denominated in sterling The Mortgage Backed Loan Notes were issued in the following tranches

EUR Denominated Mortgage backed loan notes due 2024 - Class A1a	(Notional EUR 25,000,000)
USD Denominated Mortgage backed loan notes due 2024 - Class A1b	(Notional USD 60,000,000)
GBP Denominated Mortgage backed loan notes due 2024 - Class A1c	(Notional GBP 110,000,000)
USD Denominated Mortgage backed loan notes due 2044 - Class A2b	(Notional USD 145,000,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class A2c	(Notional GBP 35,250,000)
EUR Denominated Mortgage backed loan notes due 2044 - Class A3a	(Notional EUR 128,000,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class A3c (with detachable A3c Coupons)	(Notional GBP 80,200,000)
EUR Denominated Mortgage backed loan notes due 2044 - Class B1a	(Notional EUR 48,800,000)
EUR Denominated Mortgage backed loan notes due 2044 - Class C1a	(Notional EUR 20,000,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class C1c	(Notional GBP 9,850,000)
EUR Denominated Mortgage backed loan notes due 2044 - Class D1a	(Notional EUR 6,050,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class D1c	(Notional GBP 11,000,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class DTc	(Notional GBP 10,455,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class E1c	(Notional GBP 4,080,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class Etc	(Notional GBP 7,905,000)
GBP Denominated Mortgage backed loan notes due 2044 - Class FTc	(Notional GBP 1,173,000)

A series of currency swaps have been entered into, in order to manage the Company's currency rate exposure in relation to non-sterling denominated Loan Notes

(d) Fair value of financial instruments

	Book value 2010 £000	*Fair value 2010 £000*	*Book value 2009 £000*	*Fair value 2009 £000*
On balance sheet				
Loan to originator	204,082	146,906	222,733	179,092
Cash and deposits	36,056	36,056	40,394	40,394
Mortgage backed loan notes due 2044	(244,448)	(152,178)	(287,100)	(189,140)
Liquidity facility provider creditor	(28,050)	(28,050)	(28,050)	(28,050)
Derivative financial instruments	29,029	29,029	47,438	47,438

The directors have considered the fair values of the Company's main financial instruments, which are mortgage loan receivables underlying the loan to originator and loan notes

As no liquid market exists for either the mortgage loans underlying the loan to originator or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables This model takes into account expected payment rates, arrears, house price movements, level of repossessions, losses and discount rates based on the most recent available information

The Company used interest rate caps in certain circumstances to hedge against movements in interest rates The interest rate caps have expired during the year, and as at 30 November 2010, the notional value of these caps was £Nil (2009 – £178,500,000) and the recognised positive fair value was £Nil (2009 – £Nil)

Notes to the financial statements

at 30 November 2010

17. Derivatives and other financial instruments (continued)

(d) Fair value of financial instruments (continued)

The Company uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks At 30 November 2010, the notional value of the swaps held was £122,510,372 (2009 – £140,458,632) and the recognised positive fair value of the Euro swap and the US Dollar swap was £32,369,418 and £Nil respectively (2009 – £46,707,203 and £730,541)

The Company used interest rate swaps in certain circumstances to hedge against interest rate fluctuations when mortgage loans have fixed interest rates while the mortgage backed loan notes have variable rates Following the default of the swap counterparty, as at 30 November 2010, the notional value of the swaps held was £Nil (2009 – £Nil) and the recognised positive fair value was £Nil (2009 – £Nil) These swaps would otherwise have expired at the end of the mortgage loans fixed rate period which occurred prior to the year end

On 22 September 2009 the Company filed unliquidated claims against the interest rate swap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement The directors do not currently think that it is possible to quantify amounts that may eventually be recovered under these claims and therefore nothing has been recognised in the financial statements

18 Deferred taxation

	2010 *£000*	*2009* *£000*
Liability at the start of the year	(3,526)	(1,639)
Deferred tax credit/(charge) during the year (note 6)	1,236	(1,887)
Liability at the end of the year	(2,290)	(3,526)

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No 26 adjustments Losses of £14,915,083 (2009 – £22,943,523) resulting in a deferred tax asset of £3,132,167 (2009 – £4,818,140) have not been recognised The deferred tax asset has not been recognised due to uncertainty surrounding the Company's future profitability

Deferred taxation has been recognised at 21% (2009 – 21%) being the UK small companies corporation tax rate at the balance sheet date

	2010 *£000*	*2009* *£000*
Effect of Financial Reporting Standard No 26 adjustment for EIR	(828)	(361)
Effect of Financial Reporting Standard No 26 adjustment for Derivatives	(6,096)	(9,962)
Effect of Financial Reporting Standard No 26 adjustment for foreign exchange hedge	6,431	10,581
Effect of remeasurement adjustment of amortised cost of Mortgage Backed Loan Notes	(1,797)	(3,784)
Total deferred tax liability recognised at 21%	(2,290)	(3,526)

Notes to the financial statements

at 30 November 2010

18 Deferred taxation (continued)

In the Budget 2011 on 25 March 2011 the small companies' corporation tax rate was reduced to 20% as from 1 April 2011 This was enacted on 29 March 2011 following the House of Commons approval of the Budget resolution

The directors estimate that the effect of these changes will be to decrease the Company's deferred tax liability by £109,067 as a result of the reversal of timing differences in the following years

19. Parent undertaking and control

The Company is controlled by its parent undertaking, Eurosail 2006-3 NC Parent Limited, which is registered and operates in the United Kingdom

The entire issued share capital of Eurosail 2006-3 NC Parent Limited is held by a Trustee under a declaration of trust for charitable purposes

The smallest group in which the results of the Company are consolidated is that headed by Eurosail 2006-3 NC Parent Limited, registered in England and Wales At the largest group level, the Company s results are consolidated on a Linked Presentation basis in Southern Pacific Mortgage Limited The financial statements of these groups are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ