Leek Finance Number Three PLC

Directors' report and financial statements

for the year ended 31 December 2005

Registered Number 3757221

Leek Finance Number Three PLC

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Leek Finance Number Three PLC

Directors and advisors

Directors
A W Gower
PCSL Services No.1 Limited
Capita Trust Company Limited

Secretary
Clifford Chance Secretaries (CCA) Limited

Auditors
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Solicitors
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Registered Number
3757221

Leek Finance Number Three PLC

Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

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

Review of business and future development
Both the performance of the business and the year end financial position were satisfactory. The directors expect the future performance of the company to be comparable to the current year although the year ahead will be influenced by market conditions.

As set out more fully in the Statement of accounting policies, these financial statements have been prepared under the current International Financial Reporting Standards ("IFRS") framework. Accordingly, the comparative financial information is different from that previously reported, having been restated from United Kingdom Generally Accepted Accounting Principles ("UKGAAP") to IFRS. All financial information given in this Directors' report is taken solely from the statutory results prepared on the above basis.

Results and dividends
The loss for the year, after tax, amounted to £629,422 (2004: £nil). The directors do not propose a dividend for the year (2004: £nil). The loss for the year resulted from the impact of the transition to IFRS on the timing of the recognition of income and expenditure.

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

A W Gower
PCSL Services No 1 Limited
Capita Trust Company Limited

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

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

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2005 and that applicable International Financial Reporting Standards have been followed.

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

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

Leek Finance Number Three PLC

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

By order of the board

P A Lee for PCSL Services No.1 Limited
Director
28 June 2006

Leek Finance Number Three PLC

Independent auditors' report to the members of Leek Finance Number Three PLC

We have audited the financial statements of Leek Finance Number Three PLC for the year ended 31 December 2005 which comprise the income statement, the balance sheet, the statement of recognised income and expenditure, 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 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 if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

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

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

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its loss and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
28 June 2006

Leek Finance Number Three PLC

Income statement for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Interest receivable and similar income	2	**1,611**	6,185
Interest expense and similar charges	3	**(2,201)**	(4,328)
Net interest (expense)/income		**(590)**	1,857
Fee and commission expense	4	**(2)**	-
Net fee and commission expense		**(2)**	-
Amortisation of premium		**-**	(1,288)
Provision for bad and doubtful debts		**-**	41
Other operating expenses		**(200)**	(604)
(Loss)/profit before tax		**(792)**	6
Taxation income / (expense)	6	**163**	(6)
Loss for the year		**(629)**	-

The accounting policies and notes on pages 8 to 25 form part of these financial statements.

Leek Finance Number Three PLC

Balance sheet as at 31 December 2005

	Notes	2005 £000	2004 £000
Assets			
Bank deposits	7	**50**	31
Loans and advances to customers	9	**-**	40,454
Premium on acquisition	10	**-**	443
Other assets	11	**115**	8,132
Current tax recoverable		**-**	417
Deferred tax asset	6	**-**	108
Total assets		**165**	49,585
Liabilities			
Debt securities in issue	12	**-**	42,786
Deferred purchase consideration payable	14	**-**	2,300
Other liabilities	13	**111**	4,449
Total liabilities		**111**	49,535
Equity			
Called up share capital	15	**50**	50
Retained earnings	16	**4**	-
Total equity and liabilities		**165**	49,585

The accounting policies and notes on pages 8 to 25 form part of these financial statements.

Approved by the board of directors on 28 June 2006 and signed on their behalf by:

P A Lee for PCSL Services No.1 Limited
Director

Statement of recognised income and expenditure for the year ended 31 December 2005

	2005 £000	2004 £000
Net (loss) / profit for the period	**(629)**	-
Changes in accounting policies on adoption of IAS 39	**633**	-
Total recognised income and expenditure	**4**	-

Cash flow statement for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Cash flows from operating activities	17	**(322)**	184
Tax received / (paid)		**417**	(2)
Cash flows from financing activities			
Interest paid on subordinated debt		**(76)**	(79)
Initial expense loan interest paid		-	(1)
Repayment of initial expense loan		-	(39)
Net increase in cash and cash equivalents		**19**	63
Cash and cash equivalents at start of period		**31**	(32)
Cash and cash equivalents at end of period		**50**	31

Leek Finance Number Three PLC

Statement of accounting policies for the year ended 31 December 2005

Basis of preparation

Prior to 2005, the company prepared its audited financial statements under UK Generally Accepted Accounting Principles (UK GAAP) and in accordance with Companies Act 1985. From 1 January 2005, the company has chosen to prepare its annual financial statements in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The date of transition to IFRS for the company was 1 January 2004 and the company prepared its opening IFRS balance sheet as at that date.

The comparative figures in respect of 2004 have been prepared in compliance with IFRS. Reconciliations and explanations of the effect of adopting IFRS compliant accounting policies on the company's equity (net assets) and profits are provided in note 21.

As a result of the company's decision to adopt the IFRS1 exemption and not restate comparatives for International Accounting Standard No. 32 'Financial instruments: Disclosure and presentation' (IAS32) and International Accounting Standard No. 39 'Financial instruments: Recognition and measurement' (IAS 39), certain accounting policies will only apply from 1 January 2005 and not to the 2004 comparatives. These policies have been denoted with an asterisk. The 2004 comparative accounting policies are reproduced on page 11.

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

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

Income and interest expense *

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

Effective interest rate

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

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

Deferred consideration payable

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

Fee and commission income

Fee and commission income other than that directly related to loans is recognised over the period for which service has been provided or on completion of an act to which the fee relates as per IAS 18.

Statement of accounting policies for the year ended 31 December 2005 (continued)

Deferred tax

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

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

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

Cash and cash equivalents

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

Financial assets *

The company classifies its financial assets into two categories: financial assets at fair value through profit or loss and loans and receivables.

The company's derivative instruments are classified as financial assets at fair value through profit or loss. These derivatives are accounted for as set out in the 'derivative financial instruments and hedge accounting' accounting policy set out below.

Deemed loans due from group undertakings*

The company purchased the beneficial title of mortgage portfolios and subsequently sold these to special purpose entities ("SPEs"). The beneficial ownership of the loans and advances to customers sold to and sold by the company fail the derecognition criteria of IAS 39 and therefore these loans remain on the balance sheet of the originator. IAS 39 therefore requires the company to recognise a "deemed loan" financial asset and the resulting "deemed loan" liability on the originator's balance sheet. IAS 39 also requires the company to recognise a "deemed loan" financial liability for sale of beneficial title of mortgage portfolio and the resulting "deemed loan" asset on the SPE's balance sheet.

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

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

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

Statement of accounting policies
for the year ended 31 December 2005 (continued)

Derivative financial instruments *

The company undertook transactions in derivative financial instruments to hedge its exposure to interest rate risk arising from its activities. The company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The company designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided specified criteria are met.

Fair value hedge

Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the Income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the Income statement over the period to maturity.

Segmental reporting

Leek Finance Number Three PLC operates in one business segment and all business is conducted in the UK, therefore, the directors have decided not to present segmental information.

Statement of accounting policies
for the year ended 31 December 2005 (continued)

Adoption of IAS 32 and IAS 39

The company decided to adopt the IFRS1 exemption not to restate comparatives for IAS 32 (Financial instruments: Disclosure and presentation) and IAS 39 (Financial instruments: Recognition and measurement).

As a result certain accounting policies, stated above, only applied from 1 January 2005 and not to the 2004 comparatives. The accounting policies used in the preparation of the 2004 comparatives, which comply with the relevant UK accounting standards are set out below:

Interest receivable and payable

Interest is accrued in the profit and loss account on a receivable and payable basis.

Premium on acquisition

Premiums paid for mortgages in excess of the fair value of the net tangible assets acquired are amortised through the profit and loss account on a reducing basis, based on the redemption of the portfolio, over the shorter of the expected life of the portfolio and five years.

Deferred consideration payable

Deferred consideration arises equal to the amount of premium on acquisition of mortgage loans. This is shown as a liability at the date of acquisition. Contingent deferred purchase consideration arising in future years is recorded in the profit and loss account in the year in which it arises.

Hedging contracts and instruments

The criteria required for an instrument to be classified as a hedge are that the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets or liabilities being hedged and which results from potential movements in interest rates; and adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets or liabilities being hedged, must be established at the outset of the transaction.

All interest rate instruments which are designated as hedges are accounted for on a consistent basis with the underlying assets, liabilities or positions. The company hedges its interest rate exposures on a portfolio basis. Amounts accrued on hedging contracts and instruments are included within accruals and deferred income or prepayments and accrued income.

Debt

Debt is initially stated as the amount of net proceeds after deduction of issue costs. The carrying amount is increased by the finance costs in respect of the accounting period and reduced by payments made in the year. Finance costs of the debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Notes to the financial statements for the year ended 31 December 2005

1 (Loss) / profit before tax

(Loss) / profit before tax is stated after charging:

	2005 £000	2004 £000
Auditors' remuneration in respect of audit services	9	2

2 Interest receivable and similar income

	2005 £000	2004 £000
Deemed loan interest	2,436	-
Loans and advances	-	5,280
Interest receivable from Britannia Building Society	395	565
Deferred consideration payable to Mortgage Agency Services Number Two Limited (note 14)	(1,244)	-
Other	24	340
	1,611	6,185

3 Interest expense and similar charges

	2005 £000	2004 £000
Interest and similar charges payable to banks	-	12
Interest payable to Britannia Building Society	304	300
Deferred consideration payable to Mortgage Agency Services Number Two Limited (note 14)	-	411
Debt securities in issue	1,883	3,360
Other	14	245
	2,201	4,328

4 Fee and commission expense

	2005 £000	2004 £000
Bank charges	2	-
	2	-

Notes to the financial statements for the year ended 31 December 2005 (continued)

5 Directors' emoluments and employees

The directors received no emoluments in respect of their services during the year (2004 £nil).

Phil Lee, director of PCSL Services No. 1 Limited receives emoluments for services rendered in respect of all group companies. However, these are not apportioned to individual companies.

There are no directors to whom benefits are accruing under the Britannia Building Society pension schemes (2004: nil).

The company had no employees during the year or during the previous period.

6 Taxation

	2005 £000	2004 £000
UK tax at 30% (2004: 30%)		
Corporation tax		
Adjustments in respect of prior periods	-	(54)
Total corporation tax	-	(54)
Deferred tax		
Current year	(271)	-
Adjustments in respect of prior periods	108	60
	(163)	6

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004 ("old UK GAAP"), for accounting periods ending before 1 January 2007. The directors are satisfied that this company meets the definition of a 'securitisation company'.

It is also expected that secondary legislation will be enacted ensuring that the taxation treatment of securitisation companies does not change significantly as a result of the introduction of IFRS so as to give rise to any incremental unfunded tax liabilities.

Factors affecting tax charge for the year

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

	2005 £000	2004 £000
(Loss) / Profit on ordinary activities before tax	(792)	6
Profit before tax multiplied by standard rate of tax	(237)	2
Effects of:		
Expenses not deductible for tax purposes	12	-
Utilisation of previously unrecognised tax losses	(46)	(2)
Adjustments in respect of prior periods	108	6
	(163)	6

Notes to the financial statements for the year ended 31 December 2005 (continued)

6 Taxation (continued)

The recognised deferred tax asset includes the following amounts:

	2005 £000	2004 £000
Allowances for loan losses	-	4
Unused tax losses	-	104
	-	108

As at 31 December 2005, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No. 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS37).

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

	2005 £000	2004 £000
Deferred tax asset at start of period	**108**	168
Deferred tax effect of adoption of IAS 39	**55**	-
Deferred tax provided during the year	**(163)**	(60)
Deferred tax asset at end of period	-	108

7 Bank deposits

	2005 £000	2004 £000
Bank deposits (included in cash and cash equivalents: note 8)	**50**	31
	50	31

8 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 3 months maturity from the date of acquisition:

	2005 £000	2004 £000
Bank deposits (note 7)	**50**	31
	50	31

Notes to the financial statements for the year ended 31 December 2005 (continued)

9 Loans and advances to customers

	2005 £000	2004 £000
Loans to individuals:		
Mortgages	-	42,293
Less: allowance for losses on loans and advances (below)	-	(1,839)
	-	40,454
Allowance for losses on loans and advances		
Balance at 1 January	-	1,881
Provision for loan impairment	-	41
Loans written off during the year as uncollectible	-	(83)
	-	1,839

10 Premium on acquisition

	2005 £000	2004 £000
At 1 January	443	1,731
Adoption of IAS 39	(443)	-
Amortised during the year	-	(1,288)
At 31 December	-	443

11 Other assets

	2005 £000	2004 £000
Amounts owed by Britannia Building Society	115	8,129
Other	-	3
	115	8,132

Notes to the financial statements for the year ended 31 December 2005 (continued)

12 Debt securities in issue

	2005 £000	2004 £000
Due within one year		
Class A Mortgage Backed Floating rate notes due 2037	-	2,457
Class M Mortgage Backed Floating rate notes due 2037	-	426
Class B Mortgage Backed Floating rate notes due 2037	-	246
Class C Mortgage Backed Floating rate notes due 2037	-	225
Floating rate notes interest payable	-	64
	-	3,418
Due in more than one year		
Class A Mortgage Backed Floating rate notes due 2037	-	28,841
Class M Mortgage Backed Floating rate notes due 2037	-	5,000
Class B Mortgage Backed Floating rate notes due 2037	-	2,888
Class C Mortgage Backed Floating rate notes due 2037	-	2,639
	-	39,368
Total debt securities in issue	-	42,786

The Mortgage Backed Floating Rate Notes due 2037 were secured over a portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom, the amount shown after deduction of an outstanding expense loan of £nil (2004: £108,021).

Due to the mortgage balances falling below 10%, the notes were redeemed during the year.

Notes to the financial statements for the year ended 31 December 2005 (continued)

12 Debt securities in issue (continued)

There were four classes of Mortgage Backed Floating Rate Notes. All classes were subject to interest based on the prevailing three month LIBOR (in the case of Class Ab notes, the LIBOR is Dollar LIBOR) plus an additional margin. The three month LIBORs were revised quarterly and the following margins, which were not subject to revision, applied to the classes of Notes as follows:

	Until 20 September 2006	From 21 September 2006 until 20 December 2037
Class A notes	**0.34%**	0.68%
Class M notes	**0.65%**	1.30%
Class B notes	**1.15%**	2.14%
Class C notes	**2.55%**	3.54%

The company did not have any defaults on principal, interest or any other breaches with respect to their liabilities during 2005, or during the previous year.

13 Other liabilities

	2005 £000	2004 £000
Amounts owed to Leek Finance Holdings Number Three Limited	**74**	74
Amounts owed to Mortgage Agency Services Number Two Limited	-	13
Subordinated debt owed to Britannia Building Society	-	4,268
Accruals and deferred income	**37**	19
Other		75
	111	4,449

The subordinated loan is secured by a second charge on the mortgage assets to which the company's deemed loans relate. The subordinated loan is not repayable until all obligations to the noteholders have been met. Interest is calculated on the loan at the prevailing three-month LIBOR plus a margin of 2.5%.

Notes to the financial statements for the year ended 31 December 2005 (continued)

14 Deferred purchase consideration payable

Deferred consideration is payable to Mortgage Agency Services Number Two Limited dependent on the extent to which surplus income is generated by the mortgage books, that Mortgage Agency Services Number Two Limited holds the beneficial title to. The surplus income generated during the year ended 31 December 2005 amounted to:

	2005	2004
	£000	£000
Amounts owed to Mortgage Agency Services Number Two Limited	**-**	2,300
	-	2,300

	2005	2004
	£000	£000
At 1 January	**2,300**	4,679
Additional consideration due to Mortgage Agency Services Number Two Limited arising in the year (note 2)	**1,244**	411
Repayment during the year	**(3,544)**	(2,790)
At end of period	-	2,300

15 Called up share capital

	2005	2004
	£000	£000
Authorised		
50,000 ordinary shares of £1 each	**50**	50
Issued and fully paid		
50,000 ordinary shares of £1 each	**50**	50

16 Retained earnings

Movements in retained earnings were as follows:

	2005	2004
	£000	£000
Balance at 1 January	**-**	-
Loss for the year	**(629)**	-
Changes in accounting policies on adoption of IAS 39	**633**	-
At 31 December	**4**	-

Notes to the financial statements for the year ended 31 December 2005 (continued)

17 Cash flow statement

Reconciliation of operating profit to net cash flows from operating activities

	2005 £000	2004 £000
(Loss)/Profit for the year	**(796)**	6
Decrease in prepayments and accrued income	**111**	500
Decrease in accruals and deferred income	**(44)**	(53)
Provisions for bad and doubtful debts	**-**	(41)
Amortisation	**443**	1,288
Cash flows from operating profits before changes in operating assets and liabilities	**(286)**	1,700
Net decrease in loans and advances to customers	**-**	42,406
Net decrease in other assets	**49,318**	3,699
Net decrease in other liabilities	**(49,354)**	(47,621)
Net cash flow from operating activities	**(322)**	184

18 Financial instruments

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

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

Interest rate risk

The company has no derivative financial instruments as at 31 December 2005 and has no significant interest rate re-pricing exposure.

Deferred consideration payable to Meerbrook Finance Number Two Limited are non-interest bearing financial liabilities. As described in note 14, the dates of repayment are dependent on the extent to which surplus income is generated by the mortgage book. Therefore, the weighted average period until maturity is unknown.

The Mortgage Backed Floating Rate Notes and the subordinated loan owed to Britannia Building society are classified as floating rate liabilities. The benchmark rates used for determining interest rate payments are disclosed in note 12 and 13.

Notes to the financial statements for the year ended 31 December 2005 (continued)

18 Financial instruments (continued)

Fair values of financial instruments

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

	Book Value 2005 £000	Fair Value 2005 £000
Bank deposits	**50**	50

Credit risk

Deemed loans:

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

Effective interest rates

The effective interest rates of those monetary financial instruments not carried at fair value through income and expense as at 31 December 2005 are disclosed in the relevant notes to the accounts.

Additional disclosures relating to 2004 comparative financial information

As previously stated, the company has adopted the exemption in International Financial Reporting Standard No 1 (First time adoption of international financial reporting standards) and not restated comparative information for International Accounting Standard No 32 (Disclosure and presentation) and International Accounting Standard No 39 (Recognition and measurement). As a consequence, certain comparative information is required to be reported under UK Generally Accepted Accounting Principles (UK GAAP) applicable as at 31 December 2004 to the extent that this has not already been disclosed elsewhere.

The financial instruments disclosures below are derived from the company's audited UK GAAP financial statements to 31 December 2004, prepared in accordance with Financial Reporting Standard No 13 (Derivatives and other financial instruments disclosures).

Types of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps, which are used to hedge balance sheet exposures arising from fixed rate mortgage lending.

Notes to the financial statements for the year ended 31 December 2005 (continued)

18 Financial instruments (continued)

Fair values of financial instruments at 31 December 2004

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

This table excludes mortgage advances fully secured on residential property as they are an asset for which a liquid and active market does not exist and the future cash flows associated with the assets are difficult to predict with any reliability.

As permitted by Financial Reporting Standard No 13, all debtors recoverable in less than one year and creditors due within one year have been excluded from the table.

	Book Value 2004 £000	Fair Value 2004 £000
Deferred consideration payable to Mortgage Agency Services Number Two Limited	**(2,300)**	(2,300)
Mortgage backed floating rate notes	**(42,722)**	(42,886)
Subordinated loan owed to Britannia Building Society	**(4,268)**	(4,268)
Interest rate swaps	**-**	82

Gains and losses on hedges

The company had no gains or losses on hedges carried forward in the balance sheet as at 30 December 2004.

19 Ultimate parent undertaking and controlling entity

The company's immediate parent undertaking is Leek Finance Holdings Number Three Limited.

Royal Exchange Trust Company Limited holds 100% of the issued share capital of Leek Finance Holdings Number Three Limited, subject to terms of a declaration of trust for general charitable purposes.

The ultimate parent undertaking of Leek Finance Number Three PLC is Britannia Building Society by virtue of amendments introduced by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.

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

Britannia House, Cheadle Road, Leek, Staffordshire, ST13 5RG.

Notes to the financial statements for the year ended 31 December 2005 (continued)

20 Related party disclosures

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

Year ended 31 December 2005	Interest receivable and similar income £000	Interest expense and similar charges £000	Balance due to/(by) Leek 3 £000
Britannia Building Society	395	304	115
Mortgage Agency Services Number Two Limited	-	1,244	-
Leek Finance Holdings Number Three Limited	-	-	(74)

Year ended 31 December 2004	Interest receivable and similar income £000	Interest expense and similar charges £000	Balance due to/(by) Leek 3 £000
Britannia Building Society	565	300	3,960
Mortgage Agency Services Number Two Limited	-	411	(2,314)
Leek Finance Holdings Number Three Limited	-	-	(74)

Notes to the financial statements for the year ended 31 December 2005 (continued)

21 Transition to International Financial Reporting Standards

A Reconciliation between the Income statement for the period ended 31 December 2004 under UK GAAP and IFRS have not been prepared, as there are no differences arising from the adoption of IFRS.

Balance sheet as at 31 December 2003 and 1 January 2004: Reconciliation between UK GAAP and IFRS

	Notes	UK GAAP 31 December 2003 £000	Balance sheet re-classification £000	IFRS 1 January 2004 £000
Assets				
Loans and advances to customers		82,785	-	82,785
Premium on acquisition		1,731	-	1,731
Other assets		12,291	-	12,291
Total assets		**96,807**	-	**96,807**
Liabilities				
Deposits from banks		32	-	32
Debt securities in issue		86,560	-	86,560
Other liabilities	1	10,165	(1)	10,164
Total liabilities		96,757	(1)	96,756
Equity				
Called up share capital		50	-	50
Retained earnings	1	-	1	1
Total equity and liabilities		**96,807**	-	**96,807**

Notes to the reconciliation:

1. Write back dividend for 2003 year end, which under IFRS cannot be recognised until approved.

Notes to the financial statements for the year ended 31 December 2005 (continued)

21 Transition to International Financial Reporting Standards (continued)

Balance sheet as at 31 December 2004: Reconciliation between UK GAAP and IFRS

	Notes	UK GAAP 31 December 2004 £000	Balance sheet re-classification £000	IFRS 31 December 2004 £000
Assets				
Bank deposits		31	-	31
Loans and advances to customers	1	40,420	34	40,454
Premium on acquisition		443	-	443
Other assets	2	8,108	24	8,132
Current tax recoverable		417	-	417
Deferred tax asset		108	-	108
Total assets		**49,527**	**58**	**49,585**
Liabilities				
Debt securities in issue	3	42,614	172	42,786
Deferred purchase consideration payable		2,300	-	2,300
Other liabilities	4	4,563	(114)	4,449
Total liabilities		49,477	58	49,535
Equity				
Called up share capital		50	-	50
Retained earnings		-	-	-
Total equity and liabilities		**49,527**	**58**	**49,585**

Notes to the reconciliation:

1. Reclassification of accrued interest receivable on loans to loans and advances
2. Net effect of Note 1 and the reclass of an intercompany asset from other liabilities
3. Reclassification of accrued interest payable and the securitisation asset to debt securities
4. Effect of Notes 3 and reclass of an intercompany asset to other assets

Notes to the financial statements for the year ended 31 December 2005 (continued)

21 Transition to International Financial Reporting Standards (continued)

Balance Sheet as at 31 December 2004 and 1 January 2005: effects of IAS 32 and 39

	Notes	IFRS 31 December 2004 £000	Effects of IAS 32 and IAS 39 £000	IFRS 1 January 2005 £000
Assets				
Bank deposits		31	-	31
Loans and advances to customers	1	40,454	(40,454)	-
Deemed loans due from group undertakings	1	-	41,801	41,801
Premium on acquisition	2	443	(443)	-
Deferred tax asset	3	108	(108)	-
Other assets		8,132	-	8,132
Current tax recoverable		417	-	417
Total assets		49,585	796	50,381
Liabilities				
Debt securities in issue		42,786	-	42,786
Deferred purchase consideration payable		2,300	-	2,300
Deferred tax liabilities	3	-	163	163
Other liabilities		4,449	-	4,449
Total liabilities		49,535	163	49,698
Equity				
Called up share Capital		50	-	50
Retained earnings	4	-	633	633
Total equity and liabilities		49,585	796	50,381

Notes to the reconciliation:

1. Loans and advances fail the derecognition criteria of IAS 39, therefore these loans are now shown on the originator company balance sheet
2. Premium paid on acquisition of the loans and advances to customers reclassified on transition to IAS 39.
3. Tax effects of adjustments and reclassifications.
4. Net impact to retained earnings of above adjustments.