Registered No: 03137809

Preferred Mortgages Limited

Report and audited Financial Statements

30 November 2019

Contents

Company information

Director
L Brandon

Registered Office
1 Chamberlain Square Cs
Birmingham
B3 3AX

Independent Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Strategic report

The Director presents his strategic report for Preferred Mortgages Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 30 November 2019.

Introduction

The principal activity of the Company and Group is residential mortgage lending. The Group suspended its mortgage origination activities on 2 April 2008. The Company originated mortgage loans to sell into securitisation special purpose vehicles. The Company retains legal title to the mortgage loans and has sold beneficial title to the securitisation special purpose vehicles. The vast majority of loans originated by the Group are held in securitisation special purpose vehicles.

Business Review

During the year the Group traded at a loss of (£2.7m) (2018: loss of £6m).

The Company traded at a profit of £3.1m (2018: loss of £3.1m). The Company received £2m residual income relating to the SPV's and a tax credit of £1.6m.

At the year end, the group held the following non-securitised mortgage loans (note 12)

	Principal balance £000	*2019 Number of loans*	*Principal balance £000*	*2018 Number of loans*
First Mortgages	190	2	465	11
Total	190	2	465	11

At the year end, the group held the following securitised mortgage loans (note 12)

	Principal balance £000	*2019 Number of loans*	*Principal balance £000*	*2018 Number of loans*
First Mortgages	209,505	2,807	232,736	3,032
Second Mortgages	380	56	480	61
Total	209,885	2,863	233,216	3,093

Strategic report (continued)

Key performance indicators

The key performance indicator of the Group is the quarterly arrears profile. The arrears profile of the Group's non-securitised mortgage assets is:

	Nov 2019	*Aug 2019*	*May 2019*	*Feb 2019*	*Nov 2018*
Delinquencies days	%	%	%	%	%
Not in arrears	100.00	100.00	100.00	100.00	81.82
<30	0.00	0.00	0.00	0.00	18.18
>30<=60	0.00	0.00	0.00	0.00	0.00
>60<=90	0.00	0.00	0.00	0.00	0.00
>90<=120	0.00	0.00	0.00	0.00	0.00
>120	0.00	0.00	0.00	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the yearend is £Nil (2018: £385,000).

The arrears profile of the Group's securitised mortgage assets within the securitisation entities is:

Securitised mortgages	*Nov 2019*	*Aug 2019*	*May 2019*	*Feb 2019*	*Nov 2018*
Delinquencies days	%	%	%	%	%
Current	77.75	76.26	76.13	76.69	79.53
>30<=60	5.31	6.21	6.34	6.00	4.66
>60<=90	3.85	3.27	4.25	3.64	2.96
>90<=120	2.16	2.36	1.70	2.37	1.67
>120	10.93	11.90	11.58	11.30	11.18
Total	100.00	100.00	100.00	100.00	100.00

The value of securitised mortgages in repossession at the yearend is £870,000 (2018: £833,000).

Principal risks and uncertainties

Financial instrument risks

The financial instruments held by the Group comprise mortgages, investments, borrowings, cash, liquid resources and various items (such as trade debtors and trade creditors) that arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, foreign exchange risk, interest rate risk and operational risk. The directors of each company review and agree policies for managing each of these risks as summarised below. These policies have remained unchanged from previous year.

(a) Credit risk

Credit risk is principally the risk that borrowers will not be able to meet their obligations as they fall due, allied to the risk that property values will fall to the extent that borrowers' failure to meet obligations is translated into losses. Credit risk is also the risk that intercompany undertakings will be unable to meet their obligations as they fall due.

Kensington Mortgage Company Limited services the mortgage portfolio of the Group. The directors of the subsidiary undertakings (holding mortgages) have agreed rigorous credit risk management procedures with Kensington Mortgage Company Limited to minimise the credit default risk upon which the directors rely.

Within the securitised entities the underlying securitised mortgages are classified as loans to originators, this means that in the first instance the recovery of the debt is against the originating company Preferred Mortgages Limited. The mortgages are fully secured against the loan and therefore ring fenced from other creditors in the originating company and the originating company is bound under the contractual terms to pay across the cash flows from the underlying loans, therefore credit risk is assessed as being against the underlying mortgages.

Strategic report (continued)

(b) Liquidity risk

Liquidity risk is the risk that the income receivable by the Group in the period will not arise in a timely manner to meet the Group's obligations as they fall due. The ongoing liquidity risk is closely monitored by the directors of each company, particularly in light of the net deficit position of certain Group companies. As mentioned in the going concern section of the Director's report following the bankruptcy of the ultimate parent, the administration of the Group's immediate parent, the overall economic environment and the potential implications thereof result in uncertainty and no assurance can be made that the Group will be able to continue to realise value from its assets and discharge its liabilities in an orderly manner.

The Group and the Company's policy is to manage liquidity risk by matching the timing of cash receipts from mortgage assets and investments with those of the cash payments due on the creditors. In addition the Group and the Company holds a minimum cash balance to manage short term liquidity requirements.

(c) Foreign exchange risk

Foreign exchange risk exists where the loan notes issued by the securitised mortgage vehicles are denominated in a currency which is different to the underlying sterling mortgage loans. The Group 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 Group considers the use of derivative financial instruments to mitigate any foreign exchange risk. Certain derivatives utilised by the Group are no longer in existence following the bankruptcy of the ultimate parent company.

Within the securitised entities derivative financial instruments have been used to mitigate any foreign exchange risk. Details of foreign exchange exposures and any related derivatives held by the company are disclosed in note 21.

(d) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different base or which reset at different times. The Group 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 directors of the relevant company consider the use of derivative financial instruments to mitigate any residual interest rate risk.

Within the securitised entities derivative financial instruments have been used to mitigate any residual interest rate risk. Details of interest rate risk exposures and any related derivatives held by the company are disclosed in note 21.

(e) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Group resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Director of the Company is in the process of reviewing each of the terms and conditions of the securitisations to determine the best course of action in order to transition LIBOR-linked loans and LIBOR-linked loan notes, to a new reference rate.

The Group operates under a robust controls and governance framework provided by the servicer of the mortgage assets. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

The Group and Company have remained resilient throughout the current COVID-19 crisis with staff able to work remotely from home.

Subsequent to the reporting date, extensions to lockdown periods have been announced following the COVID-19 crisis, and the UK Government introduced 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19. The payment holiday scheme relating to mortgage loans held by the SPV's results in a reduction of mortgage income by the group and subsequent reduction in residual interest income received by the Company.

As January 2021, 95 loans held by the SPV's had taken up the holiday payment scheme which represents 3.61% of the total loans and 4.13% of the total balance, the holiday payment scheme is expected end soon. The Company has seen a minimal impact with residual income far exceeding expenditure and residual income expected to return to pre-March 2020 levels with the ending of the holiday payment scheme.

Strategic report (continued)

EU referendum

The U.K. has now officially left the EU, the transitional period ended on 31 December 2020. The impact to the Group and Company, if any, is expected to be minimal.

The Group and Company's assets and operations are domiciled in the UK and there is no immediate impact on its operations. The wider macro-economic impact on the borrowers and recoverable values of the Group and Company's assets cannot be predicted at this moment in time. The full impact of the withdrawal may only be realised in years to come, as the economy adjusts to the new regime, but the Group and Company continue to monitor the most relevant risks, including those that may have a more immediate impact, for its business.

To date, there have been no matters that warrant adjustment to the Group's and the Company's financial results as at 30 November 2019 and for the year then ended.

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Lee Brandon
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L Brandon
Director

Date: 13th February 2021

Director's report

The Director presents his report and the audited consolidated financial statements for the year ended 30 November 2019.

Results

The loss for the year after taxation of the Group amounted to (£2,7m) (2018: loss of £6m), and profit for the Company £3.1m (2018: loss of £3.1m).

Dividend

The Company declared and paid dividends of £16,334,102 payment during the current year (2018: £75,266,872). Dividends of £3,500,000 have been declared and paid in 2020. The Director does not recommend a final dividend payment (2018: NIL). During the prior year 25m Ordinary-A Shares of £1 each were cancelled and extinguished, the capital reduction being credited to the profit and loss account of the Company.

Directors

The Director who held office during the year, and after the year end, was as follows:

L Brandon

Future developments

As a result of the suspension of the mortgage origination activities of the Group, the bankruptcy of its ultimate parent and the administration of its immediate parent, it is the Director's intention to continue with the Group's operations in order to orderly realise the Group's assets and settle its obligations.

Financial instruments

An assessment of the Group's financial instruments is described in the strategic report under the principal risks and uncertainties section.

Going Concern

The Group's and the Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review section of the Strategic Report and future developments section of this report. In addition, the Group's and the Company's financial risk management policies and objectives are set out in the Principal risks and uncertainties section of the Strategic Report.

On 2 April 2008, the Company announced a suspension of its mortgage origination activities.

On 15 September 2008, the ultimate parent company Lehman Brothers Holdings Inc. filed for Chapter 11 bankruptcy protection.

On 23 September 2008, the immediate parent company of the Company, Mable Commercial Funding Limited (in administration) was placed into administration.

On 6 December 2011, the United States Bankruptcy Court for the Southern District of New York confirmed the modified Third Amended Joint Chapter 11 Plan for Lehman Brothers Holdings Inc. and it's Affiliated Debtors (the "Plan") and on 6 March 2012, the "Effective Date" (as defined in the Plan) occurred. As a result of the effectiveness of the Plan, Lehman Brothers Holdings Inc. and its Affiliated Debtors have emerged from bankruptcy. Following this, distributions were made and Preferred Mortgages Limited received cash payments from Affiliated Debtors.

As a result of the suspension of the Group and Company's mortgage origination activities and the bankruptcy of its ultimate parent, it is the Director's intention to enter into an orderly wind down of its assets and operations and/or seek a disposal of its assets and business. The Group and Company continue to have amounts owed to group and related undertakings that are payable on demand.

Director's report (continued)

Going Concern (continued)

However, the Director acknowledges that the overall intention of the Group to continue as a going concern is dependent on the decision of the joint administrators of Mable Commercial Funding Limited (in administration) as the parent entity of the Group which could accelerate the wind down of Company's and the Group's business. Nonetheless, having made enquiries of the joint administrators, the Director believes that the overall strategy and intention to continue operating in order to realise their assets and settle their liabilities is supported by the joint administrators. However, no assurance can be given that the current intention will not change within the 12 month period from sign-off to February 2022 and all legal rights are retained by the joint administrators of Mable Commercial Funding Limited (in administration).

The payment holiday scheme introduced relating to mortgage loans held by the SPV's results in a reduction of mortgage income by the group and subsequent reduction in residual interest income received by the Company, the holiday payment scheme is expected to end shortly. The Company has seen a minimal impact with residual income far exceeding expenditure and residual income expected to return to pre-March 2020 levels.

Given the solvent net asset position of the Group and the sufficient cash that it currently holds and availability of resources for the Company, the Director considers that the Group and the Company will be able to continue in operational existence for the period from the date of signing of these annual financial statements to 28 February 2022 and therefore it is appropriate to prepare the financial statements on a going concern basis. Therefore, the Director believes that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern. The financial statements have been prepared in accordance with the accounting policies adopted in the prior year, as set out in note 2 'Significant Accounting Policies'.

Employees

The Group had no employees during the year (2018: nil).

Post balance sheet events

The UK has now left the EU and the impact on the Group and Company is expected to be minimal.

On 11 March 2020, the World Health Organisation ("WHO") recognised the Corona Virus (COVID-19) as a pandemic. The full extent of the pandemic is as of yet unknown and there is uncertainty over what the impact on the Company will be. The Group and Company's business continuity plans are operating as planned and have ensured operations continue to function effectively. These arrangements are expected to continue for as long as is required with no detrimental impact to the operations of the Company.

Subsequent to the reporting date, extensions to lockdown periods have been announced following the COVID-19 crisis, and the UK Government introduced 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19. The payment holiday scheme relating to mortgage loans held by the SPV's results in a reduction of mortgage income by the group and subsequent reduction in residual interest income received by the Company.

As January 2021, 95 loans held by the SPV's had taken up the holiday payment scheme which represents 3.61% of the total loans and 4.13% of the total balance, the holiday payment scheme is expected end in soon. The Company has seen a minimal impact with residual income far exceeding expenditure and with residual income expected to return to pre-March 2020 levels.

During 2020 3m Ordinary A shares of £1 each were cancelled and extinguished, the capital reduction being credited to the profit and loss account of the Company.

During 2020 the Company declared and paid dividends of £3,500,000.

Director's report (continued)

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions for the benefit of the director, in accordance with section 234 of the Companies Act 2006, were in force during the period under review and remain in force as at the date of approval of the director's report and financial statements.

Disclosure of information to the auditors

So far as the Director is aware at the date of approving this report, there is no relevant audit information, being information needed by the auditor in connection with preparing his report, of which the auditor is unaware. The Director has taken all the steps that he is obliged to take as director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting in accordance with the provisions of Section 485 of the Companies Act 2006.

DocuSigned by:
Lee Brandon
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L Brandon

Director
Date: 13th February 2021

Statement of director's responsibilities

The Director is responsible for preparing the Strategic report, the Director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the Group and Company and the profit or loss of the Group for that period.

In preparing these financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Director is responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable him to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Preferred Mortgages Limited

Opinion

We have audited the Financial Statements of Preferred Mortgages Limited ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 30 November 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Financial Position., the Company Statement of Financial Position, Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Financial Statements:

- give a true and fair view of the Group's and of the Parent Company's affairs as at 30 November 2019 and of the Group's loss 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director's use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Director has not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

Independent auditors' report

to the members of Preferred Mortgages Limited

Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The Director is responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Director's Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and Director's Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Director's Report.

We have nothing to report in respect of the following matters in relation to which 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 Parent Company 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

Responsibilities of directors

As explained more fully in the Director's Responsibilities Statement set out on page 10, the Director is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Director determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Director is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Director either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Independent auditors' report

to the members of Preferred Mortgages Limited

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Helen Joseph (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 17 February 2021

Consolidated income statement

	Notes	2019 £000	2018 £000
Interest receivable and similar income	3	4,757	12,976
Interest payable and similar charges	4	(3,206)	(3,446)
Group net interest income		1,551	9,530
Other operating income	5	143	195
Group operating income		1,694	9,725
Operating expenses	6	(3,700)	(10,408)
Share of (loss)/profit in associates	11	(1,573)	3,414
Loss on loss of control in subsidiaries		-	(11,237)
Loss on sale of associates		-	-
Net fair value (loss)/gains on derivatives	15 (b)	(5,404)	(3,189)
Unrealised exchange gain/(loss) on retranslation of loan notes	15 (b)	4,012	1,471
Provision for bad and doubtful debts		(554)	2,647
(Loss) on ordinary activities before taxation	6	(5,525)	(7,576)
Taxation	9	2,855	1,582
Profit/(loss) for the year		(2,670)	(5,994)

The Group has no recognised gains or losses in the current or preceding financial year other than those shown above and accordingly no other statement of comprehensive income has been prepared.

All amounts are derived from continuing operations.

The notes on pages 19 to 42 form part of these financial statements.

Consolidated statement of financial position
at 30 November 2019

	Notes	2019 £000	2018 £000
Fixed assets			
Fixed asset investments	10	1,000	969
Investment in associates	11	9,396	12,967
Debtors:Amounts falling due after more than one year	13	194,184	222,530
		204,580	236,466
Current assets			
Debtors:Amounts falling due within one year	14	31,776	30,584
Derivative financial instruments	15 (b)	24,444	30,155
Cash at bank and in hand	15 (a)	68,817	85,880
Total current assets		125,037	146,619
Creditors: amounts falling due within one year	16	(56,375)	(60,781)
Net current assets		68,662	85,838
Total asset less current liabilities		273,242	322,304
Creditors: amounts falling due after more than one year	17	(245,509)	(273,040)
Provisions	18	-	(672)
Deferred tax	19	(2,111)	(3,966)
Net assets		25,622	44,626
Capital and reserves			
Called up share capital	20	6,002	6,002
Share premium		573	573
Other reserves		38	38
Profit and loss account		19,009	38,013
Shareholder's funds		25,622	44,626

These financial statements were approved by the Board of Directors and were signed on its behalf by:

DocuSigned by:
Lee Brandon
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L Brandon
Director

Date: 13th February 2021

The notes on pages 19 to 42 form part of these financial statements.

Company statement of financial position
at 30 November 2019

	Notes	2019 £000	2018 £000
Fixed assets			
Fixed asset investments	10	11,595	13,510
Debtors: Amounts falling due after more than one year	13	180	333
		11,775	13,843
Current assets			
Debtors: Amounts falling due within one year	14	5,880	7,220
Cash at bank and in hand	15	1,823	13,387
Total current assets		7,703	20,607
Creditors: amounts falling due within one year	16	(440)	(951)
Net current assets		7,263	19,656
Creditors: amounts falling due after more than one year	17	(7,197)	(7,197)
Provisions	18	-	(672)
Deferred tax	19	(3,140)	(3,722)
Net assets		8,701	21,908
Capital and reserves			
Called up share capital	20	6,002	6,002
Share premium		573	573
Profit and loss account		2,126	15,333
Shareholders' funds		8,701	21, 908

The profit for the year after taxation of the Company amounted to £3.1m (2018: loss of (£3.1m).

These financial statements were approved by the Board of Directors and were signed on its behalf by:

DocuSigned by:
Lee Brandon
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L Brandon
Director

Date: 13th February 2021

The notes on pages 19 to 42 form part of these financial statements.

Consolidated and company statements of changes in equity
at 30 November 2019

Group	*Called-up share capital £000*	*Share premium £000*	*Other reserves £000*	*Profit and loss account £000*	*Total Equity £000*
At 30 November 2017	31,002	573	75	94,237	125,887
Capital reduction	(25,000)	-	-	25,000	-
Loss for the year	-	-	-	(5,994)	(5,994)
Loss of control	-	-	(37)	37	-
Dividend paid	-	-	-	(75,267)	(75,267)
At 30 November 2018	6,002	573	38	38,013	44,626
Profit for the year	-	-	-	(2,670)	(2,670)
Dividend paid	-	-	-	(16,334)	(16,334)
At 30 November 2019	6,002	573	38	19,009	25,622

Company	*Called-up share capital £000*	*Share premium £000*	*Other reserves £000*	*Profit and loss account £000*	*Total Equity £000*
At 30 November 2017	31,002	573	-	68,729	100,304
Capital reduction	(25,000)	-	-	25,000	-
Loss for the year	-	-	-	(3,129)	(3,129)
Dividend paid	-	-	-	(75,267)	(75,267)
At 30 November 2018	6,002	573	-	15,333	21,908
Profit for the year	-	-	-	3,127	3,127
Dividend paid	-	-	-	(16,334)	(16,334)
At 30 November 2019	6,002	573	-	2,126	8,701

The notes on pages 19 to 42 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 November 2019

Group	*Notes*	*2019 £000*	*2018 £000*
Cash flows from operating activities			
Loss before tax		(5,525)	(7,576)
adjusted for non – cash items:			
Net fair value (gain)/loss on derivatives		5,404	3,189
Unrealised exchange gain/(loss) on retranslation of loan notes		(4,012)	(1,471)
Effective interest rate adjustment on investments		(31)	(67)
Provision for bad and doubtful debts		554	(2,647)
Share of associates loss/(profit)		1,573	(3,414)
		(2,037)	(11,986)
Decrease/(Increase) in debtors excluding mortgages		(161)	10,348
Decrease in derivative financial instruments		307	853
Decrease in creditors and provisions		(5,085)	(6,961)
		(6,976)	(7,746)
Taxation received/(paid)		1,684	(99)
Net cash generated used by operating activities		(5,292)	(7,845)
Cash flows from investment activities			
Mortgage collections		26,084	24,567
Mortgage purchase		-	(266)
Mortgage sale		-	118,360
Repayment of loan notes		(23,519)	(121,911)
Loan note receipts		-	5,800
Receipts from associates		1,998	2,295
Net cash from/(used in) investment activities		4,563	28,845
Cash flows from financing activities			
Dividends paid to shareholders		(16,334)	(75,267)
Net increase/(decrease) in cash in year		(17,063)	(54,267)
Opening cash		85,880	140,147
Closing cash	15	68,817	85,880

The notes on pages 19 to 42 form part of these financial statements.

Notes to the financial statements
at 30 November 2019

1. General Information

Statement of compliance

Preferred Mortgages Limited is a private limited company and was incorporated and is domiciled in the UK. Its principal place of business is its registered office located at 1 Chamberlain Square Cs, Birmingham, B3 3AX.

The Group's and Company's financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

The Group and Company have applied FRS 102 as issued in March 2018, which reflects the amendments made as part of the Triennial Review 2017. The Triennial Review amendments have had no material impact on the financial statements of the Group or the Company, other than the provision of an additional note at 15(b) disclosing an analysis of changes in net debt.

2. Significant accounting policies

Basis of preparation

The financial statements of the Group and Company were authorised for issue by the director on 10th February 2021.

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling pounds which is the functional currency of the company and rounded to the nearest £'000. All references to '£' are to pounds sterling unless otherwise stated.

The Group and the Company have taken advantage of the following exemptions in preparing these financial statements as permitted by FRS 102:

- Section 33.1A: Disclosures in respect of transactions with wholly owned subsidiaries of the Group.

Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below:

Fundamental accounting concept - Going Concern

The Group's and the Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review section of the Strategic Report and future developments section of this report. In addition, the Group's and the Company's financial risk management policies and objectives are set out in the Principal risks and uncertainties section of the Strategic Report.

On 2 April 2008, the Company announced a suspension of its mortgage origination activities.

On 15 September 2008, the ultimate parent company Lehman Brothers Holdings Inc. filed for Chapter 11 bankruptcy protection.

On 23 September 2008, the immediate parent company of the Company, Mable Commercial Funding Limited (in administration) was placed into administration.

On 6 December 2011, the United States Bankruptcy Court for the Southern District of New York confirmed the modified Third Amended Joint Chapter 11 Plan for Lehman Brothers Holdings Inc. and it's Affiliated Debtors (the "Plan") and on 6 March 2012, the "Effective Date" (as defined in the Plan) occurred. As a result of the effectiveness of the Plan, Lehman Brothers Holdings Inc. and its Affiliated Debtors have emerged from bankruptcy. Following this, distributions were made and the Company received cash payments from Affiliated Debtors.

Notes to the financial statements

at 30 November 2019

2. Significant accounting policies (continued)

Fundamental accounting concept - Going Concern (continued)

As a result of the suspension of the Group's mortgage origination activities and the bankruptcy of its ultimate parent, it is the Director's intention to enter into an orderly wind down of its assets and operations and/or seek a disposal of its assets and business. The Group and the Company continue to owe amounts to group and related undertakings that are payable on demand.

However, the Director acknowledges that the overall intention of the Group to continue as a going concern is dependent on the decision of the joint administrators of Mable Commercial Funding Limited (in administration) as the parent entity of the Group which could accelerate the wind down of Company's and the Group's business. Nonetheless, having made enquiries of the joint administrators, the Director believes that the overall strategy and intention to continue operating in order to realise their assets and settle their liabilities is supported by the joint administrators. However, no assurance can be given that the current intention will not change within the 12 month period from sign-off to February 2022 and all legal rights are retained by the joint administrators of Mable Commercial Funding Limited (in administration).

The payment holiday scheme introduced relating to mortgage loans held by the SPV's results in a reduction of mortgage income by the group and subsequent reduction in residual interest income received by the Company, the holiday payment scheme is expected to end shortly. The Company has seen a minimal impact with residual income far exceeding expenditure and residual income expected to return to pre-March 2020 levels.

Given the solvent net asset position of the Group and the sufficient cash that it currently holds and availability of resources for the Company, the Director considers that the Group and the Company will be able to operate for the foreseeable future and therefore it is appropriate to prepare the financial statements on a going concern basis. Therefore, the Director believes that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

Provision for mortgage losses

In determining the required level of collective impairment provisions, the Group uses the output from statistical models, with management judgement required to assess the modelled outputs and, where necessary, make appropriate adjustments.

The key assumptions within the Group's collective provisioning models which give rise to significant estimation uncertainty are the PD and the LGD. Both measures are predicated on expectations of customer behaviour and performance, which requires management to form a judgement based on a wide range of historic and current evidence. These key assumptions are based on observed data and future expectations and updated regularly based on new data as it becomes available. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings together with the Group's share of the results of associates made up to 30 November 2019. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement.

The Group has sold by securitisation, certain mortgages to other companies on a non-recourse basis. The amounts cannot be derecognised and the results of the securitised companies have been disclosed on a line by line basis.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50% of the voting powers of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity, it accounts for that entity as a subsidiary.

Notes to the financial statements
at 30 November 2019

2. Significant accounting policies (continued)

Basis of consolidation (continued)

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and where the Group has significant influence. The Group considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate. The results of associates are accounted for using the equity method of accounting.

Any subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively. Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated income statement. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to retained earnings. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

The Company is producing consolidated accounts due to the voluntary liquidation of its intermediate parent, Resetfan Limited, in January 2018.

Structured Entities

Preferred Residential Securities 05-2 plc, Preferred Residential Securities 06-1 plc, Eurosail 2006-2BL plc, Eurosail 2007-1 plc and EMF-UK 2008-1 plc, have been included as structured entities as described above.

During 2018 the following securitisations were called and collapsed by Kensington limited. Preferred Residential Securities 7 plc, Preferred Residential Securities 8 plc, Preferred Residential Securities 05-1 plc.

The Group consolidates structured entities as subsidiaries where it retains the majority of the residual risk. Structured entities where the Group retains a minority interest in the residual assets are accounted for as associates.

Investments

Investments in subsidiary undertakings are stated at cost less any necessary provision for permanent diminution in value. The carrying value of investments in subsidiaries is reviewed for impairment when events of changes in circumstances indicate that the carrying value may not be recoverable.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group does not have an interest in a joint operation or joint control.

Deferred consideration from residual interest in structured entities is carried at fair value.

Other investments are carried at amortised cost less provision for impairment, if any.

Income and expense recognition

Non-securitised interest receivable and insurance commissions are accounted for on an accruals basis. Fees are credited to income when they have been charged to the borrower's account. Receipts and payments of expenses are accounted for on an accruals basis. The mortgage assets of the company are variable rate mortgages tracking 3 month Sterling LIBOR or Bank of England Base Rate plus margin. The margin applied to the mortgages is now fixed until maturity for all mortgages. Given the nature of the mortgages, an effective interest rate adjustment would be immaterial.

Within the securitised entities interest income on mortgage assets underlying the loans to originators, together with the interest expense on the mortgage backed loan notes, is recognised in the statement of comprehensive income on an Effective Interest Rate ("EIR") basis. The EIR basis recognises revenue and expenses equivalent to the rate that effectively discounts estimated future cash flows throughout the expected life to the net carrying value of the mortgage assets underlying the loans to originators or mortgage backed loan notes.

Notes to the financial statements
at 30 November 2019

2. Significant accounting policies (continued)
Income and expense recognition (continued)

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement. EIR amortised for the period is £4.6m. As the mortgages are variable interest mortgages, with interest rates re-set periodically, it is impractical to estimate the future changes in EIR.

Taxation

(a) Current tax

The tax expense represents the sum of tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit deposited in income statements because it excludes items of income and expense that are taxable or deductible in other years and its first excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Tax relating to items charged or credited directly to equity is also dealt with in equity.

(b) Deferred taxation

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements, except that deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled based on current tax rates.

(c) Group relief

Group relief tax rates are recognised in respect of taxable losses, where sufficient taxable profits are available for offset within other group undertakings in the same tax group.

Foreign currencies

The financial statements are presented in pounds Sterling (£), which is the functional and presentation currency of the company. All amounts in these financial statements have been rounded to the nearest thousand, unless otherwise indicated.

Transactions in foreign currency are initially converted to Sterling at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange prevailing at the reporting date. All differences on exchange are taken to the income statement.

Financial Instruments

Initial recognition

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Group commits to purchase or sell the asset.

Notes to the financial statements

at 30 November 2019

2. Significant accounting policies (continued)

Financial Instruments (continued)

Classification and measurement

Financial assets and liabilities are initially classified as financial assets or liabilities at fair value through profit or loss, loans and receivables and available for sale financial assets.

All financial assets are recognised initially at fair value plus directly attributable costs for those not at fair value through profit and loss.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings payables, net of directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. The Group has designated investments in residual interests upon initial recognition as at fair value through profit or loss.

Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable in the income statement. Losses arising from impairment are recognised in the income statement in operating expenses.

Debtors

Debtors including amounts owed by group undertakings and other debtors, with no stated interest rate and receivable within one year are recorded at transaction price less provisions made for doubtful debts.

Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic condition.

Non-Securitised mortgage assets

The book value of the mortgage assets is measured at amortised cost using the EIR method, with a provision made for impairment. The current model used to estimate future cash flows in the EIR is sensitive to certain key assumptions, the most important of which is the constant prepayment rate ("CPR").

The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the EIR, the group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Loans to originators (securitised mortgage assets)

The loans to originators are classified within debtors. The initial measurement is at fair value plus transaction costs that are directly attributable to the acquisitions of the mortgage assets, with subsequent measurement being amortised cost using the EIR method. The effective interest on the loans to originators is calculated with reference to the interest earned on the mortgage assets underlying the loans to originator.

Loans to originators are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable and similar income in the statement of comprehensive income.

Notes to the financial statements
at 30 November 2019

2. Significant accounting policies (continued)
Financial Instruments (continued)
Impairment of loans to originators

Each securitisation company assesses at each statement of financial position date whether there is evidence that a portfolio of financial assets or a mortgage asset underlying the loan to originator is impaired. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset ("a loss event"), and that loss event or events has had an impact on the estimated future cash flows of the portfolio of financial assets or mortgage assets underlying the loan to originator that can be reliably estimated.

Each securitisation company assesses whether objective evidence of impairment exists for mortgage assets underlying the loans to originators on an individual loan basis. Those evaluations are based on the individual loan risk characteristics, taking into account: asset type; borrower; loan scores; geographical location; collateral type; past-due status; and other relevant factors. These characteristics are relevant to the estimation of future cash flows by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the loan.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income.

Any impairment in the mortgage assets underlying the loan to originator will be reflected in the company's accounts by adjusting the carrying amount of the loan to originator in the statement of financial position.

Available for sale financial assets

After initial measurement, Available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income statement in the unrealised gains and losses reserve. When the investment is derecognised, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in other operating expenses and removed from the unrealised gains and losses reserve.

The Group evaluates its Available for sale financial assets and whether the ability and intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and when the Group has the intent and ability to hold these assets for the foreseeable future or until maturity.

Derecognition

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred, nor retained substantially all of the risks and rewards of the asset, and retained control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to the financial statements
at 30 November 2019

2. Significant accounting policies (continued)

Financial Instruments (continued)

Financial liabilities

Basic financial liabilities, trade and other creditors

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow Group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Creditors including amounts owed to group undertakings, other creditors and accruals, with no stated interest rate and due within one year are recorded at transaction price.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Mortgage backed loan notes

The mortgage backed loan notes were initially recognised at fair value, which was their par value at the date of issue less directly attributable transaction costs. The mortgage backed loan notes are subsequently re-measured at amortised cost taking into account repayments at interest payment dates where applicable.

Interest payable is recognised using the EIR method with the directly attributable transaction costs being amortised over the expected average life of the facility in line with FRS 102.11 (IAS 39). Any unamortised issue costs are disclosed in note 17.

Interest payable on the notes during the year and any associated EIR adjustments are included in interest payable and similar charges.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date in the principal or, in its absence, the most advantageous market to which the company has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Where applicable, the following methods are used to estimate the fair values of the financial instruments:

(i) cash, trade receivables and payables - the carrying value is a good approximation of the fair value;

(ii) mortgage assets - valued as detailed in note 21.

Notes to the financial statements
at 30 November 2019

2. *Significant accounting policies (continued)*

Financial Instruments (continued)

Fair value of financial assets and liabilities (continued)

The Group, where appropriate, classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy when the inputs have changed or there has been a change in the valuation method.

These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments

Where applicable each securitisation company may use derivative financial instruments to hedge its exposure to interest rate risk and foreign exchange risk arising from financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes. None of the economic hedge relationships held by the Group qualify for hedge accounting.

All derivative financial instruments are held at fair value through profit or loss. Subscquent to initial recognition, derivatives are re-measured 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 re-measurement to fair value is recognised immediately in the statement of comprehensive income. The fair value of the derivative financial instruments is the estimated amount that receivable or payable to terminate the derivative contract at the statement of financial position date. Where derivative contracts contain collateral agreements, which reduce counterparty risk the collateral is held in cash and recorded within creditors: due in less than one year.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA). The securitisation companies ' own risk of default is also incorporated into the fair value of derivative positions. This adjustment is known as the debit value adjustment (DVA).

Basis rate swaps

Amortising basis rate swaps may be entered into in order to manage each securitisation company's basis rate exposure that may arise from a difference in reset dates of the mortgage backed loan notes and the mortgage assets underlying the loan to originator. Where applicable, the net interest payable and receivable on the swaps is recorded on an accruals basis and included within interest payable and receivable within the statement of comprehensive income. The swaps held by the Group do not qualify for hedge accounting.

Currency swaps

Where the securitisation company holds non-Sterling denominated loan notes, the securitisation company may enter into currency swaps in order to manage the securitisation company's currency rate exposure. Where applicable, the derivative contracts are designed to match the expected profile of the run-off of the non-Sterling denominated loan notes. The swaps held by the Group do not qualify for hedge accounting.

Segmental analysis

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Notes to the financial statements

at 30 November 2019

3. Interest receivable and similar income

	2019	*2018*
	£000	*£000*
On mortgage loans	4,242	12,279
Bond interest	74	130
Bank interest	53	102
On taxation	70	309
Other	318	156
	4,757	12,976

4. Interest payable and similar charges

	2019	*2018*
	£000	*£000*
Interest payable on loan notes and other liabilities	3,206	3,446
	3,206	3,446

5. Other operating income

	2019	*2018*
	£000	*£000*
Sundry fee income	73	164
Other fees	70	31
	143	195

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/ (crediting):

	2019	*2018*
	£000	*£000*
Mortgage losses	64	2,485
Provision for mortgage losses	554	(2,647)
Provision for representations and warranties	(672)	672
Provision for amounts owed by group undertakings	-	-
Customer redress costs	-	3,700
Auditor's remuneration – audit of the financial statements	141	141
Auditor's remuneration – audit of subsidiaries*	64	34

*The audit fees for the subsidiaries are paid to auditors other than the Group auditors (EY)

7. Information regarding directors

Included within wages and salaries is the total remuneration of all the Group companies' directors amounting to £78,361 (2018: £90,496). The highest paid director of a Group company received £78,361 (2018: £90,496) during the year.

Notes to the financial statements
at 30 November 2019

8. Staff numbers and costs

	2019 *£000*	*2018* *£000*
Staff costs		
Wages and salaries	483	298
Social security costs	64	39
Workplace pension contributions	5	3
Total	552	340

The costs of employees are split between the Company and Southern Pacific Mortgage Limited, a related party. The amount shown in the table above represents the allocation of costs to the Company. The Group does not have any employees.

9. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

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

	2019 *£000*	*2018* *£000*
Current tax:		
UK corporation tax on (loss)/ profit for the year	739	26
Adjustments in respect of prior years	(1,739)	-
Group relief receivable	-	85
Total current tax	(1,000)	111
Deferred tax:		
Origination and reversal of timing differences (note 19)	(948)	(1,693)
Adjustments in respect of prior periods	(907)	-
Tax on profit on ordinary activities	(2,855)	(1,582)

(b) Factors affecting the tax charge in the year

The tax assessed for the year differs from the standard rate of current corporation tax in the UK of 19% (2018:19%). The differences are explained below:

	2019 *£000*	*2018* *£000*
(Loss) on ordinary activities before tax	(5,525)	(7,576)
(Loss) on ordinary activities multiplied by the standard rate of corporation tax of 19% (2018: 19%)	(1,050)	(1,439)
Effects of:		
Non-deductible expenditure/ (Non-taxable income)	841	(300)
Adjustments in respect of prior years	(2,646)	-
Utilisation of losses brought forward	-	72
Write off of group relief receivable	-	85
Total tax (note 9(a))	(2,855)	(1,582)

Notes to the financial statements
at 30 November 2019

9. Tax on profit on ordinary activities (continued)

The headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017 and, following the enactment of Finance Act 2016 on 15 September 2016 it was expected to reduce further to 17% from 1 April 2020.

On 11 March 2020 it was announced (and enacted on 22 July 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. Any deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under FRS 102.

However, following the enactment of the rate of 19%, the impact on the quantum of the unrecognised deferred tax asset will be an increase of £393,280 and on the net recognised deferred tax liability will be an increase of £248k.

10. Investments

Investments other – Residual interest and bonds

	Group *£000*	*Company* *£000*
At 30 November 2017	6,702	27,780
Cash receipts	(5,800)	(20,805)
Effective interest rate adjustment	67	67
Mark to market adjustment	-	6,468
At 30 November 2018	969	13,510
Cash receipts	-	(3,917)
Effective interest rate adjustment	31	31
Mark to market adjustment	-	1,971
At 30 November 2019	1,000	11,595

11. Associated undertaking

The carrying value of the Group's investment in associates was as follows:

	2019 *£000*	*2018* *£000*
At 1 December 2019 and 1 December 2018	12,967	11,848
Share of profit	(1,573)	3,414
Dividends received	(1,998)	(2,295)
At 30 November	9,396	12,967

The Group and Company hold a 38.49% residual interest in EMF-UK 2008-1 Plc (a structured entity), and a 39.22% residual interest in Eurosail-UK 2007-1 NC plc (a structured entity). The investments are accounted for using the equity method in the Group and as fair value fixed asset investments in the Company.

Notes to the financial statements
at 30 November 2019

12. Mortgage loans

	Group 2019 £000	*Group 2018 £000*	*Company 2019 £000*	*Company 2018 £000*
a) Non-securitised mortgages	189	358	189	358
b) Securitised mortgages (Loans to originators)	221,153	247,622	-	-
	221,342	247,980	189	358

a) The analysis of non-securitised mortgage balances is as follows:

Group and Company	*Mortgages £000*	*Mortgages Loss Provision £000*	*Total £000*
At 30 November 2018	465	(107)	358
Net movement in the year	(275)	106	(169)
At 30 November 2019	190	(1)	189

b) The analysis of securitised mortgage balances is as follows:

Group	*Mortgages £000*	*Mortgages Loss Provision £000*	*Total £000*
At 30 November 2018	248,416	(794)	247,622
Net movement in the year	(25,809)	(660)	(26,469)
At 30 November 2019	222,607	(1,454)	221,153

13. Debtors: amounts falling due after more than one year

	Group 2019 £000	*Group 2018 £000*	*Company 2019 £000*	*Company 2018 £000*
Non-securitised mortgage loans: Net balances (note 12a)	180	333	180	333
Securitised mortgage loans: Net balances (note 12b)	194,004	222,197	-	-
	194,184	222,530	180	333

Notes to the financial statements
at 30 November 2019

14. Debtors: amounts falling due within one year

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Amounts owed by related entities	63	63	1,654	2,261
Non-securitised mortgage loans: Net balances (note 12a)	9	25	9	25
Securitised mortgage loans: Net balances (note 12b)	27,149	25,424	-	-
Corporation tax	3,855	4,533	3,800	4,533
Other debtors	700	539	417	401
	31,776	30,584	5,880	7,220

15. Cash and cash equivalents

a) Cash and cash equivalent

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash at bank and in hand	68,817	85,880	1,823	13,387

b) Analysis of changes in net debt

	At 1 December 2018 £000	Cash flows £000	Changes in market value £000	Effects of exchange rates £000	At 30 November 2019 £000
Cash at bank and in hand	85,880	(17,603)	-	-	68,817
Derivative financial instruments	30,155	(307)	(5,404)	-	24,444
Loan notes	(265,843)	23,519		4,012	(238,312)
	(149,808)	5,609	(5,404)	4,012	(145,051)

16. Creditors: amounts falling due within one year

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Amounts owed to related entities	29	14	29	13
Corporation tax	65	3	-	-
Accruals and deferred income	1,645	2,033	411	810
Currency swap collateral	19,970	23,830	-	-
Amounts owed to liquidity facility provider	33,825	33,825	-	-
Other creditors	842	1,076	-	128
	56,376	60,781	440	951

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17. Creditors: amounts falling due after one year

	Group 2019 £000	*Group 2018 £000*	*Company 2019 £000*	*Company 2018 £000*
Loan notes	238,312	265,843	-	-
'A' redeemable preference shares of £1 each	7,197	7,197	7,197	7,197
	245,509	273,040	7,197	7,197

The securitised mortgage backed loan notes are secured over the portfolio of mortgage loans secured by first and second charges over residential properties in the UK.

The mortgage assets underlying the loans to originators are administered by Kensington Limited on behalf of the company.

The mortgage backed loan notes are repaid as the underlying portfolio redeems. The terms and conditions of the mortgage backed loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage assets underlying the loans to originators.

None (2018: None) of the mortgage backed loan notes are owed to a related party.

The loan notes issued by each securitisation company are limited recourse obligations of the securitisation company.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) once the outstanding mortgage backed loan notes reach 10% of the original issued amount. The threshold has not been satisfied for any securitisation as at the reporting date. The Director does not expect the call options to be exercised before 28 February 2022.

The 'A' redeemable preference shares rank pari passu with all other classes of shares in respect of distribution by way of dividend and rank in priority over all other classes of shares for repayment on liquidation or capital reduction. There are no voting rights attaching to these shares.

The 'A' redeemable preference shares are shown as creditors under UK GAAP requirements.

18. Provisions

Group and Company	*2019 £000*
Provision for representations and warranties	
Amount at 1 December 2018	672
Additional provision	-
Expiration of representation and warranties	(672)
Provision at 30 November 2019	-

The Group sold mortgages in 2018 and provided representations and warranties to the buyers that each loan sold was sold free of any security interests. The representations and warranties covered redress or restitution paid by the buyers in relation to events occurring prior to the completion date of the sale. The representation and warranties expired in September 2019.

Notes to the financial statements
at 30 November 2019

19. Deferred tax

	Group 2019 £000	*Group 2018 £000*	*Company 2019 £000*	*Company 2018 £000*
Opening deferred tax balance	3,966	5,659	3,722	4,303
Origination and reversal of timing differences	(948)	(1,693)	(582)	(581)
Adjustments in respect of prior periods	(907)	-	-	-
Closing deferred tax balance	2,111	3,966	3,140	3,722

The deferred tax liability consists of:

	Group 2019 £000	*Group 2018 £000*	*Company 2019 £000*	*Company 2018 £000*
FRS 102 transitional adjustment	3,140	3,722	3,140	3,722
Cumulative FRS 26 fair value gains	-	4,358	-	-
Deferred consideration in structured entities	(1,029)	(1,192)	-	
Carried forward tax losses	-	(2,922)	-	-
Closing deferred tax balance	2,111	3,966	3,140	3,722

The headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017 and, following the enactment of Finance Act 2016 on 15 September 2016 it was expected to reduce further to 17% from 1 April 2020.

On 11 March 2020 it was announced (and enacted on 22 July 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. Any deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under FRS 102.

Losses of £19,664,000 (2018; £4,284,000) resulting in a deferred tax asset of £3,343,000 (2018; £814,000) have not been recognised. The deferred tax asset has not been recognised due to the uncertainty surrounding the Company's future profitability.

20. Called up share capital

	2019 £000	*2018 £000*
Allotted, called up and fully paid:		
5,938,008 (2017: 30,938,008)'A' ordinary shares of £1 each	5,938	5,938
637,057 (2017: 637,057) 'C' ordinary shares of 10p each	64	64
	6,002	6,002

During the previous year 25m Ordinary-A Shares of £1 each were cancelled and extinguished, the capital reduction being credited to the profit and loss account of the Company.

Each 'A' ordinary share carries the right to one vote at general meetings of the Company and all the shares rank pari passu for all purposes, regardless of their nominal value or the price at which they were issued.

The 'C' ordinary shares carry the right to one vote at general meetings of the Company and all the shares rank pari passu for all purposes, regardless of their nominal value or the price at which they were issued.

Notes to the financial statements
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21. Financial Instruments and risk management

Nature and extent of risks arising from financial statements

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and interest rate risk as explained in the strategic report.

a) Credit risk

Credit risk is the risk that borrowers of the mortgage assets will not be able to meet their obligations as they fall due. All mortgage assets are required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage assets. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the Director of the Company and the directors of each securitisation company.

The level of arrears in the mortgage portfolio is considered consistent with the market conditions the UK mortgage market by the Director. Re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes are performed with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the Director acknowledges that market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance. With this in mind, the Director continues to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

Lockdown periods have been announced following the COVID-19 crisis, and the UK Government introduced a 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19. The payment holiday scheme is expected to end shortly and there has been no significant impact on the Group or Company.

Credit quality of the mortgages is assessed by an extensive assessment of each customer and the prevailing macroeconomic environment.

The maximum exposure to credit risk as at 30 November was:

	Group	*Group*	*Company*	*Company*
	2019	*2018*	*2019*	*2018*
	£000	*£000*	*£000*	*£000*
Mortgage assets	221,342	247,980	189	358
Investments	1,000	969	11,595	13,510
Amounts owed by group and related undertakings	63	63	1,654	2,485
Derivative financial instruments	24,444	30,155	-	-
Cash at bank and in hand	68,817	85,880	1,823	13,387
Other debtors	700	539	417	92
	316,366	365,586	15,678	29,832

Notes to the financial statements
at 30 November 2019

21. Financial Instruments and risk management (continued)
a) Credit risk (continued)

Mortgage assets and asset credit quality

A loan is considered in arrears when the borrower has failed to make a payment when due under the terms of the loan contract.

As at 30 November, the ageing analysis of mortgage assets is before adjustments for effective interest rate amortisation and provisions for mortgage losses, as follows:

	Group 2019 £000	*Group 2018 £000*	*Company 2019 £000*	*Company 2018 £000*
Not in arrears	130,539	184,261	190	169
less than 30 days	9,507	3,865	-	189
between 30 and 60 days	5,303	1,468	-	-
between 61 and 90 days	1,710	313	-	-
between 91 and 120 days	1,590	-	-	-
more than 120 days	64,337	81,897	-	-
	215,242	271,845	190	358

b) Liquidity risk

The undiscounted estimated cash flows associated with financial liabilities were as follows:

Group

As at 30 November 2019 **Financial liabilities**	*Less than 1 year* ***£'000***	*1-2 years* ***£'000***	*2-3 years* ***£'000***	*3-4 years* ***£'000***	*4-5 years* ***£'000***	*5+ years* ***£'000***	***Total £'000***
Loan notes	35,306	30,526	25,829	20,997	18,368	135,398	266,424
Currency Swap collateral	19,970	-	-	-	-	-	19,970
Liquidity facility provider	33,825	-	-	-	-	-	33,825
Creditors	2,345	-	-	-	-	-	2,345
Preference shares	-	-	-	-	-	7,197	7,197

Notes to the financial statements
at 30 November 2019

21. Financial Instruments and risk management (continued)
b) Liquidity risk (continued)

Group

As at 30 November 2018 **Financial liabilities**	*Less than 1 year* *£'000*	*1-2 years* *£'000*	*2-3 years* *£'000*	*3-4 years* *£'000*	*4-5 years* *£'000*	*5+ years* *£'000*	*Total* *£'000*
Loan notes	34,311	33,798	29,587	25,460	22,299	155,648	301,103
Currency Swap collateral	23,830	-	-	-	-	-	23,830
Liquidity facility provider	33,825	-	-	-	-	-	33,825
Creditors	3,126	-	-	-	-	-	3,126
Preference shares	-	-	-	-	-	7,197	7,197

Company

As at 30 November 2019 **Financial liabilities**	*Less than 1 year* *£'000*	*1-2 years* *£'000*	*2-3 years* *£'000*	*3-4 years* *£'000*	*4-5 years* *£'000*	*5+ years* *£'000*	*Total* *£'000*
Creditors	440	-	-	-	-	-	440
Preference shares	-	-	-	-	-	7,197	7,197

Company

As at 30 November 2018 **Financial liabilities**	*Less than 1 year* *£'000*	*1-2 years* *£'000*	*2-3 years* *£'000*	*3-4 years* *£'000*	*4-5 years* *£'000*	*5+ years* *£'000*	*Total* *£'000*
Creditors	951	-	-	-	-	-	951
Preference shares	-	-	-	-	-	7,197	7,197

There is no contractual obligation to pay down the loan notes or the preference shares other than as set out in note 17.

The estimated future cash flows are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. Future cash flows have been estimated using a combination of macro environmental factors, including market observable data, and individual borrower data. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

In addition, the Group holds a minimum cash balance and has access to liquidity facilities that can be drawn down in full to manage short term liquidity requirements which can be used in certain circumstances. The undiscounted cash flows have been estimated by previously applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans underlying the Group and using the weighted average interest rate prevailing at the statement of financial position date.

Notes to the financial statements
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21. Financial Instruments and risk management (continued)

b) Liquidity risk (continued)

The loan notes in the above table will not agree to the liability in statement of financial position as the table incorporates both principal and interest payments on an undiscounted basis. For the current and the prior year, all mortgage backed loan notes and subordinated loans have a contractual maturity date due after more than 5 years, and all other non-derivative creditors are repayable on demand. The loan note repayments are linked to the repayment profile of the mortgages.

The Group's policy is to manage liquidity risk by matching cash payments due on the mortgage backed loan notes to cash receipts from mortgage assets.

c) Foreign currency risk

With the exception of certain mortgage backed loan notes and cross currency swaps, as shown below, all financial instruments are denominated in sterling pounds. The outstanding mortgage backed loan notes include the following foreign currency denominated balances:

Group	*2019*	*2018*
	Notional amount local currency 000's	*Notional amount local currency 000's*
EUR Denominated mortgage backed loan notes	€109,553	€113,834
USD Denominated mortgage backed loan notes	$18,000	$18,175

A series of currency swaps have been entered into, in order to manage the securitised entities currency rate exposure in relation to non-Sterling denominated backed loan notes.

The Group is not materially exposed to foreign exchange risk as the currency swap notional matches the notional of the Euro denominated mortgage backed loan notes.

The fair value of the currency swaps are disclosed in note 21 (this note) Fair value of derivatives. The maturity profile of the foreign currency swaps is consistent with the mortgage backed loan notes.

Notes to the financial statements
at 30 November 2019

21. Financial Instruments and risk management (continued)

c) Foreign currency risk (continued)

Group	*2019*	*2018*
	Notional amount local currency 000's	*Notional amount local currency 000's*
EUR denominated currency swaps	€109,553	€113,834
USD denominated currency swaps	$18,000	$18,175

The Group is not materially exposed to foreign exchange risk as the currency swap notional matches the notional of the Euro denominated mortgage backed loan notes.

d) Interest rate risk

Interest rate risk profile of financial instruments

Group	*Total*	*Total variable rate*	*Total fixed rate*	*Weighted average interest rate**	*Interest rate*
	£000	*£000*	*£000*	*%*	*%*
2019					
Mortgage assets	217,366	217,366	-	3.84	-
Cash	68,817	-	68,817		0.47
Derivative financial instruments**	24,444	24,444	-	-	-
Mortgage backed loan notes	(238,312)	(238,312)	-	0.76	-
Liquidity facility	(33,825)	(33,825)	-	-	1.18
SWAP Collateral	(19,970)	(19,970)	-	-	-
2018					
Mortgage assets	248,881	248,881	-	3.88	-
Cash	85,880	-	85,880		0.23
Derivative financial instruments**	30,155	30,155	-	-	-
Mortgage backed loan notes	(265,843)	(265,843)	-	0.72	-
Liquidity facility	(33,825)	(33,825)	-	-	1.19
SWAP Collateral	(19,970)	(19,970)	-	-	-

* This is the weighted average spread above LIBOR

** the derivatives are shown at fair value. The corresponding notional amounts are disclosed in Note 21 (this note) Fair value of derivatives.

Interest payable on the mortgage backed loan notes and receivable on mortgage assets underlying loan to originators are both based on LIBOR. Whilst certain mortgage backed loan notes are denominated in foreign currency and incur interest based on EURIBOR (EUR notes) the Group has entered into currency swap agreements which allows the Group to settle its note liability obligations with reference to LIBOR. The Group thus has limited exposure to interest rate risk. The Group's approach to managing interest rate risk is included in the principal risks and uncertainties section of the strategic report.

Notes to the financial statements
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21. Financial Instruments and risk management (continued)

d) Interest rate risk (continued)

Interest rate sensitivity analysis on financial instruments

Group	*Increase in basis points*	*Effect on equity £000*	*Effect on result before tax £000*
2019			
Mortgage assets	25	543	543
Cash	25	172	172
Derivative financial instruments	25	62	62
Mortgage backed loan notes	25	596	596
Liquidity facility	25	85	85
SWAP Collateral	25	50	50
2018			
Mortgage assets	25	622	622
Cash	25	214	214
Derivative financial instruments	25	75	75
Mortgage backed loan notes	25	665	665
Liquidity facility	25	85	85
SWAP Collateral	25	60	60

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market conditions. In assessing the effect on financial assets of interest rate sensitivity, management have used a benchmark of 25 bps.

The Group also has certain financial instruments included within debtors (note 14) and creditors (note 16) which are not subject to interest rate risk as they bear no interest.

e) Fair values of financial assets and liabilities

Group	*2019 Book value £000*	*2019 Fair value £000*	*2018 Book value £000*	*2018 Fair value £000*
Financial assets				
Investments	1,000	1,000	969	998
Mortgage assets	221,342	214,623	247,980	250,798
Cash and deposits	68,817	68,817	85,880	85,880
Derivative financial instruments	24,447	24,447	30,155	30,155
	315,606	308,887	365,015	367,831
Financial liabilities				
Mortgage backed loan notes	238,312	202,164	265,843	235,307
Liquidity facility	33,825	33,825	33,825	33,825
SWAP Collateral	19,970	19,970	23,830	23,830
	292,107	255,959	323,498	292,962

All financial assets and liabilities other than derivative financial instruments are held at amortised cost. There were no transfers between categories in both periods. Management have assessed all other assets and liabilities and consider book value to be equal to fair value.

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The carrying value of financial assets held at amortised cost is determined in accordance with the relevant accounting policy in Note 2.

21. Financial Instruments and risk management (continued)

e) Fair values of financial assets and liabilities (continued)

The Director has considered the fair values of the Company's main financial instruments, which are mortgages, mortgage backed loans notes, fixed asset investments, derivatives and cash.

Management does not expect any losses from non-performance by the counterparties holding cash and short-term deposits. There are no material differences between their book values and fair values.

As part of the process of assessing fair value, management have refined the assumption used. This has been achieved using a combination of macro environment factors including market observable data and individual borrower data resulting in a more accurate reflection of the estimated cash flows used for computing fair value.

The fair value of mortgages is derived from discounting expected cash flows in a way that reflects the current market price for lending to issuers of similar credit quality. Where market data or credit information on the underlying borrowers is unavailable, a number of proxy/extrapolation techniques are employed to determine the appropriate discount rates. To determine the fair value mortgages are segregated, as far as possible, into portfolios of similar characteristics. Discounted cash flow models are used to estimate the fair value based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. From time to time, we may engage a third-party valuation specialist to measure the fair value of a pool of mortgages.

The fair value of the mortgage backed loan notes has been based upon their quoted prices; where available, or prices interpolated using latest available market data.

The fair value of fixed asset investments is based on price quotations at the reporting date, where available, or estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the valuation requires management to use unobservable inputs in the model. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Currency swaps are valued using valuation techniques, which employ the use of market observable inputs. A discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation, and is constructed by benchmarking to generic instruments in the market that are sensitive to Overnight Index Swap (OIS) movements. Consequently, the Group deems all its derivative financial instruments to be level 2. Some derivative contracts are fully cash collateralised, thereby eliminating both counterparty risk and the Group's own non-performance risk.

Mortgage assets, derivatives and investments other than cash are classified as level 2. Cash is classified as level 1.

f) Capital risk

The objectives of the Group's capital management policy is to ensure that sufficient capital resources are available for the companies to continue as going concerns through the balance of its capital resources and satisfy key stakeholders such as regulators.

Preferred Mortgages Limited (PML) is regulated by the Financial Conduct Authority (FCA). PML manages its own capital to ensure that sufficient capital resources are available for the Company to continue as going concern whilst optimising the return to shareholders through the balance of its capital resources. The capital structure of PML consists of debt, cash and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings.

The regulatory capital of PML is reviewed on a monthly basis by the Director on both a current and forward-looking basis.

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22. Related party transactions

During the year, the Group has entered into transactions, in the ordinary course of business with other related parties. Transactions entered into during the year and balances outstanding at the end of the year were:

Group	*2019 £000 Receipts and payments*	*2019 £000 Amounts owed from related parties*	*2019 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	(15)	–	29
	(15)	63	29

Group	*2018 £000 Receipts and payments*	*2018 £000 Amounts owed from related parties*	*2018 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	(28)	–	14
	(28)	63	14

Company	*2019 £000 Receipts and payments*	*2019 £000 Amounts owed from related parties*	*2019 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	(15)	–	29
Special Purpose Entities*	607	1,591	–
	592	1,654	29

Company	*2018 £000 Receipts and payments*	*2018 £000 Amounts owed from related parties*	*2018 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	(28)	–	14
Special Purpose Entities*	7,589	2,198	–
	7,561	2,261	14

* The Company has various receivables due from the following securitisations (Eurosail 2006-2, Eurosail 2006-4, Eurosail 2007-1, Eurosail 2007-2, Eurosail 2007-3, Eurosail 2007-4, Preferred Residential Securities 06-1, Preferred Residential Securities 05-2.

Compensation of key management personnel of the Group

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The director and key management are the same. Key management compensation has been disclosed in note 7.

23. Ultimate parent company

The ultimate parent company of the Company is Lehman Brothers Holding Inc., which is incorporated in the State of Delaware in the United States of America. On 15 September 2008, the ultimate parent company Lehman Brothers Holdings Inc. filed for Chapter 11 bankruptcy protection in the United States of America.

On 23 September 2008, the immediate parent company of the Company, Mable Commercial Funding Limited (in administration) was placed into administration in England under the Insolvency Act 1986.

On 6 December 2011, the United States Bankruptcy Court for the Southern District of New York confirmed the modified Third Amended Joint Chapter 11 Plan for Lehman Brothers Holdings Inc. and its Affiliated Debtors (the "Plan") and on 6 March 2012, the "Effective Date" (as defined in the Plan) occurred. As a result of the effectiveness of the Plan, Lehman Brothers Holdings Inc. and its Affiliated Debtors have emerged from bankruptcy but still in administration.

24. Post balance sheet events

The UK has now left the EU and the impact on the Group and Company is expected to be minimal.

On 11 March 2020, the World Health Organisation ("WHO") recognised the Corona Virus (COVID-19) as a pandemic. The full extent of the pandemic is as of yet unknown and there is uncertainty over what the impact on the Company will be. The Group and Company's business continuity plans are operating as planned and have ensured operations continue to function effectively. These arrangements are expected to continue for as long as is required with no detrimental impact to the operations of the Company.

Subsequent to the reporting date, extensions to lockdown periods have been announced following the COVID-19 crisis, and the UK Government introduced 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19. The payment holiday scheme relating to mortgage loans held by the SPV's results in a reduction of mortgage income by the group and subsequent reduction in residual interest income received by the Company.

As January 2021, 95 loans held by the SPV's had taken up the holiday payment scheme which represents 3.61% of the total loans and 4.13% of the total balance, the holiday payment scheme is expected end in soon. The Company has seen a minimal impact with residual income far exceeding expenditure and with residual income expected to return to pre-March 2020 levels.

During 2020 3m Ordinary A shares of £1 each were cancelled and extinguished, the capital reduction being credited to the profit and loss account of the Company.

During 2020 the Company declared and paid dividends of £3,500,000.