Registered No: 03137809

Preferred Mortgages Limited

Report and Audited Financial Statements

30 November 2021

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 2021.

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 profit of £0.9m (2020: loss of £1.3m).

The Company traded at a loss of (£0.2m) (2020: loss of £0.6m). The Company received £2.5m residual income relating to the SPV's and had expenses and mortgage provisions of £10m.

On 1 October 2021 the redeemable 'A' preference shares of £1.00 each in the capital of the Company all held by the Sole Shareholder were re-designated into 'A' ordinary shares of £1.00 each (the "Shares") to rank pari passu with the existing issued 'A' ordinary shares and 'C' ordinary shares (the "Re-designation"), all of which are held by the Sole Shareholder.

On 1 October 2021 the Company reduce the share capital of the Company from £10,198,867 to £7,178,118 by cancelling and extinguishing 3,020,749 'A' ordinary shares of £1.00 each in the capital of the Company.

During the year the Group and Company did not securitise any mortgages, following the suspension of the mortgage origination activities of the Group.

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

	Principal balance £000	*2021 Number of loans*	*Principal balance £000*	*2020 Number of loans*
First Mortgages	189	2	189	2
Total	189	2	189	2

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

	Principal balance £000	*2021 Number of loans*	*Principal balance £000*	*2020 Number of loans*
First Mortgages	171,012	2,378	192,296	2,605
Second Mortgages	240	38	303	44
Total	171,252	2,416	192,599	2,649

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:

	Feb 2021	*May 2021*	*Aug 2021*	*Nov 2021*
Delinquencies days	%	%	%	%
Not in arrears	100.00	100.00	100.00	100.00
<30	0.00	0.00	0.00	0.00
>30<=60	0.00	0.00	0.00	0.00
>60<=90	0.00	0.00	0.00	0.00
>90<=120	0.00	0.00	0.00	0.00
>120	0.00	0.00	0.00	0.00
Total	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the year end is £Nil (2020: £Nil).

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

Securitised mortgages	*Feb 2021*	*May 2021*	*Aug 2021*	*Nov 2021*
Delinquencies days	%	%	%	%
Current	76.04	77.78	77.20	77.05
>30<=60	3.63	2.36	2.95	3.14
>60<=90	1.80	2.30	2.04	2.59
>90<=120	2.24	1.72	1.89	1.65
>120	16.29	15.84	15.92	15.57
Total	100.00	100.00	100.00	100.00

The value of securitised mortgages in repossession at the year end is £223,000 (2020: £267,000).

The UK Government introduced 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19. The mortgage payment holiday scheme has now ended. There has been no significant impact on the Group or Company.

Principal risks and uncertainties

Political and economic risk

The impact of political and economic matters that have arisen since the year end date, in particular the Russian invasion of Ukraine in February 22 and rising inflation, on the regional and global economy remains uncertain and is difficult to assess in terms of duration and severity. The effect on markets and cost of living may have an adverse impact on the Company including future cash flows, however the potential impact at this stage is not known. For these financial statements, the recent political and economic matters are considered to be non-adjusting events and consequently there is no impact on recognition and measurement of assets and liabilities as at 30 November 2021. The Company will continue to monitor market conditions and to evaluate the potential impact, if any, on its operations going forward.

COVID-19

The director has continued to monitor the potential implications of COVID-19 pandemic in its assessment of the financial and operational viability of the Company and has a reasonable expectation that the Company retains adequate levels of financial resources (capital and liquidity). In assessing the viability of the Company, the director has considered the potential impact and risks facing the Company with respect to the virus. The servicer, KMC, an external party, undertook a variety of activities in the year to support consistent implementation of mortgage payment holidays and to manage the customers experience as those payment holidays came to an end. The potential impact of the

Strategic report (continued)

pandemic on the economy and the Company's operations is subject to continuous monitoring by the servicer, KMC, with appropriate escalation to the director.

Brexit

The Company's business model is focused in the UK and the business does not have direct exposure to the European Union ("EU"). However, the Company is exposed to secondary impacts, particularly any volatility in the UK economy and financial markets. The UK left the EU on 31 January 2020. Following the agreement of the UK and EU Trade Deal on 24 December 2020 the UK withdrew from the EU single market and customs union on 1 January 2021. The Company has not experienced and adverse impact or identified any additional risks as a result of these developments. The Company will continue to closely monitor and analyse political, economic and regulatory developments to ensure it remains well positioned to respond to any potential shocks and minimise any disruption for customers.

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 Group and 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. In the event of default of the mortgage assets only the originating company, Preferred Mortgages Limited, will be entitled to take any remedial actions against the underlying mortgage holders,

(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 20.

Strategic report (continued)

(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 20.

(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.

A programme to transfer all LIBOR linked mortgages to a SONIA-based reference rate was completed during the year. The necessary adjustments to customer contracts was based on the rate adjustments published by ISDA, following the FCA's announcement regarding the cessation of LIBOR as a reliable benchmark.

For mortgage back loan notes exposed to LIBOR a synthetic LIBOR was used in place of LIBOR until May 2022. An exercise to replace the LIBOR-based reference rate with equivalent term SONIA-based reference rate completed in May 2022. The necessary adjustments to these contracts will again be based on the rate adjustments published by ISDA.

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.

Over the past two years operational risk has been impacted by COVID-19. This has led to changes to working practices, in particular increased working from home and provision of payment holidays to help alleviate the financial impact of the virus. The mortgage payment holiday scheme has ended. However, the nature of the risks to which the Group and Company are exposed remains similar to those when staff were working from the office locations prior to COVID-19. The technology required has been adapted to allow employees to work from home.

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Lee Brandon
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Director

Date: 21/3/2023

Director's report

The Director presents his report and the audited consolidated financial statements for the year ended 30 November 2021.

Results

The profit for the year after taxation of the Group amounted to £0.9m (2020: loss of £1.3m), and loss for the Company £0.2m (2020: loss of £0.6m).

Dividend

The Company declared and paid dividends of £2,500,000 payment during the current year (2020: £3,500,000). Dividends of £2,500,000 have been declared and paid in 2022. The Director does not recommend a final dividend payment (2020:NIL).

During the year 3,020,749 Ordinary-A Shares of £1 each were cancelled and extinguished, the capital reduction being credited to the profit and loss account included in the equity 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

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 31 March 2024 and all legal rights are retained by the joint administrators of Mable Commercial Funding Limited (in administration).

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 31 March 2024 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 (2020: nil).

Post balance sheet events

During 2022 the Company has not declared and paid any dividends.

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.

Director's report

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.

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Lee Brandon
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Director
Date: 21/3/2023

Statement of director's responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and regulations.
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with the requirements of the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard FRS 102 The Financial Reporting Standard applicable in the UK and Ireland ("FRS 102"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss of the group and the parent company for that period.
In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with section 10 of FRS 102 Accounting Policies, Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 102 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and parent company financial position and financial performance;
- in respect of the group's and the parent company's financial statements, state whether applicable UK Accounting Standards including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the group and/or parent company will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the parent company and enable them to ensure that the group and the parent company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing the Strategic Report and Directors' Report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information.

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 2021 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 23, 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 2021 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained an understanding of the preparation of the going concern assessment including the governance process.
- We obtained management's going concern assessment, including forecasts for the going concern period covering more than 12 months from the date of signing this audit opinion. We compared previous periods' budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We challenged the completeness of the risk factors identified in the Group and Company's going concern assessment by comparing against risks independently identified by us.
- We evaluated the reasonableness of the Group's forecasts. We assessed the assumptions used to develop forecasted results and including challenging the volume and cashflow assumptions used.
- We evaluated the results of management's stress testing, including its reverse stress testing, to assess the reasonableness of the economic assumptions, and their impact on the Group and Company's solvency and liquidity.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group's and Company's ability to continue as a going concern.
- We reviewed the going concern disclosures in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Independent auditors' report
to the members of Preferred Mortgages Limited

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period up to 31 March 2024, being not less than 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

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.

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 themselves. 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

Independent auditors' report

to the members of Preferred Mortgages Limited

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 determines 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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Parent Company and determined that the most significant are those that relate to the reporting framework (The Companies Act 2006, UK GAAP, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"), relevant tax compliance regulations, and the regulations, licence conditions and supervisory requirements of the Financial Conduct Authority (FCA).
- We understood how Preferred Mortgages Limited is complying with those frameworks by making inquiries of management and the directors for their awareness of any non-compliance with laws and regulations and to understand how the Group and Parent Company maintain and communicate their policies as well as through the evaluation of corroborating documentation. We corroborated our inquiries through review of minutes of the board of directors, and correspondence with relevant regulatory and tax authorities.
- We assessed the susceptibility of the Group and Parent Company financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue recognition to be a fraud risk. We considered the controls that the Group and Parent Company has established to address fraud risks identified, or that otherwise seek to prevent, deter or detect fraud. Our procedures to address the risks identified also included challenging assumptions and judgements made by management in their significant accounting estimates, and testing year end adjustments and other targeted journal entries. These procedures were designed to provide reasonable assurance that the Financial Statements were free from material fraud or error.

Independent auditors' report
to the members of Preferred Mortgages Limited

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures inquiries of senior management and the director, review of board minutes and correspondence with regulators and tax authorities for evidence of non-compliance, and exercising professional scepticism in assessing the results of audit procedures and audit evidence.

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

James Billingham (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 March 2023

Consolidated income statement

	Notes	2021 £000	2020 £000
Interest receivable and similar income	3	5,060	6,396
Interest payable and similar charges	4	(1,233)	(2,013)
Group net interest income		3,827	4,383
Other operating income	5	19	88
Group operating income		3,846	4,471
Operating expenses		(4,034)	(3,555)
Share of (loss)/profit in associates	11	1,904	(140)
Net fair value (loss)/gains on derivatives	15 (b)	(5,684)	3,501
Unrealised exchange gain/(loss) on retranslation of loan notes	15 (b)	4,496	(4,248)
Provision for bad and doubtful debts		1,065	(609)
Profit/(loss) on ordinary activities before taxation		1,593	(580)
Taxation	9	(646)	(724)
Profit/(loss) for the year		947	(1,304)

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 20 to 43 form part of these financial statements.

Consolidated statement of financial position
at 30 November 2021

	Notes	2021 £000	2020 £000
Fixed assets			
Investment in associates	11	8,620	7,972
Debtors: Amounts falling due after more than one year	13	159,692	176,193
		168,312	184,165
Current assets			
Debtors: Amounts falling due within one year	14	22,032	27,323
Derivative financial instruments	15 (b)	22,066	27,869
Cash at bank and in hand	15 (a)	69,597	71,721
Total current assets		113,695	126,913
Creditors: amounts falling due within one year	16	(53,570)	(56,919)
Net current assets		60,125	69,994
Total asset less current liabilities		228,437	254,159
Creditors: amounts falling due after more than one year	17	(198,895)	(230,523)
Deferred tax	18	(3,080)	(2,818)
Net assets		26,462	20,818
Capital and reserves			
Called up share capital	19	7,178	3,002
Share premium		573	573
Other reserves		38	38
Profit and loss account		18,673	17,205
Shareholder's funds		26,462	20,818

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

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Lee Brandon
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L Brandon
Director

Date: 21/3/2023

The notes on pages 20 to 43 form part of these financial statements.

Company statement of financial position

at 30 November 2021

	Notes	2021 £000	2020 £000
Fixed assets			
Fixed asset investments	10	7,414	9,039
Debtors: Amounts falling due after more than one year	13	181	181
		7,595	9,220
Current assets			
Debtors: Amounts falling due within one year	14	1,650	1,643
Cash at bank and in hand	15 (a)	3,981	4,610
Total current assets		5,631	6,253
Creditors: amounts falling due within one year	16	(1,270)	(731)
Net current assets		4,361	5,522
Creditors: amounts falling due after more than one year	17	-	(7,197)
Deferred tax	18	(2,814)	(2,906)
Net assets		9,142	4,639
Capital and reserves			
Called up share capital	19	7,178	3,002
Share premium		573	573
Profit and loss account		1,391	1,064
Shareholders' funds		9,142	4,639

The loss for the year after taxation of the Company amounted to £0.2m (2020: loss of £0.6m).

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: 21/3/2023

The notes on pages 20 to 43 form part of these financial statements.

Consolidated and company statements of changes in equity
at 30 November 2021

Group	*Called-up share capital £000*	*Share premium £000*	*Other reserves £000*	*Profit and loss account £000*	*Total Equity £000*
At 30 November 2019	6,002	573	38	19,009	25,622
Capital reduction	(3,000)	-	-	3,000	-
Loss and total comprehensive income for the year	-	-	-	(1,304)	(1,304)
Dividend paid	-	-	-	(3,500)	(3,500)
At 30 November 2020	3,002	573	38	17,205	20,818
Preference share conversion	7,197	-	-	-	7,197
Capital reduction	(3,021)	-	-	3,021	-
Profit and total comprehensive income for the year	-	-	-	947	947
Dividend paid	-	-	-	(2,500)	(2,500)
At 30 November 2021	7,178	573	38	18,673	26,462

Company	*Called-up share capital £000*	*Share premium £000*	*Other reserves £000*	*Profit and loss account £000*	*Total Equity £000*
At 30 November 2019	6,002	573	-	2,126	8,701
Capital reduction	(3,000)	-	-	3,000	-
Loss for the year	-	-	-	(562)	(562)
Dividend paid	-	-	-	(3,500)	(3,500)
At 30 November 2020	3,002	573	-	1,064	4,639
Preference share conversion	7,197	-	-	-	7,197
Capital reduction	(3,021)	-	-	3,021	-
Loss for the year	-	-	-	(194)	(194)
Dividend paid	-	-	-	(2,500)	(2,500)
At 30 November 2021	7,178	573	-	1,391	9,142

The notes on pages 20 to 43 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 November 2021

Group	*Notes*	*2021* *£000*	*2020* *£000*
Cash flows from operating activities			
Profit/(loss) before tax		1,593	(580)
adjusted for non – cash items:			
Net fair value (gain)/loss on derivatives		5,684	(3,501)
Unrealised exchange gain/(loss) on retranslation of loan notes		(4,496)	4,248
Provision for bad and doubtful debts		(1,065)	609
Share of associates loss/(profit)		(1,904)	140
		(188)	916
Decrease/(Increase) in debtors excluding mortgages		-	300
Decrease in derivative financial instruments		119	76
Decrease in creditors and provisions		(3,349)	608
		(3,418)	1,900
Taxation received/(paid)		(219)	3,270
Net cash generated/ (used) by operating activities		(3,637)	5,170
Cash flows from investment activities			
Mortgage collections		22,692	18,184
Repayment of loan notes		(19,935)	(19,234)
Cash receipts from investments		-	1,000
Receipts from associates		1,256	1,284
Net cash from/(used in) investment activities		4,013	1,234
Cash flows from financing activities			
Dividends paid to shareholders		(2,500)	(3,500)
Net increase/(decrease) in cash in year		(2,124)	2,904
Opening cash		71,721	68,817
Closing cash	15	69,597	71,721

The notes on pages 20 to 43 form part of these financial statements.

Notes to the financial statements
at 30 November 2021

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.

2. Significant accounting policies

Basis of preparation

The financial statements of the Group and Company were authorised for issue by the director on 21 March 2023.

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 2021

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 31 March 2024 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 resulted in a reduction of mortgage income by the group and subsequent reduction in residual interest income received by the Company. The holiday payment scheme has ended. The Company has seen a minimal impact with residual income far exceeding expenditure and residual income having returned 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 31 March 2024 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, structured entities, together with the Group's share of the results of associates made up to 30 November 2021. 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 2021

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 Group consolidates an entity from the date on which the Group: (i) has power over the entity; (ii) is exposed to, or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through the exercise of its power. The assessment of control is based on all facts and circumstances. The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Group ceases to consolidate subsidiaries and structured entities from the date that control ceases.

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.

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 2021

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. 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 2021

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 2021

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 2021

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 20.

Notes to the financial statements

at 30 November 2021

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. Subsequent 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 2021

3. Interest receivable and similar income

	2021 £000	2020 £000
On mortgage loans	5,055	6,216
Bond interest	-	1
Bank interest	-	183
On taxation	5	(4)
	5,060	6,396

4. Interest payable and similar charges

	2021 £000	2020 £000
Interest payable on loan notes and other liabilities	1,233	2,013
	1,233	2,013

5. Other operating income

	2021 £000	2020 £000
Sundry fee income	19	28
Other fees	-	60
	19	88

6. Profit on ordinary activities before taxation

	2021 £000	2020 £000
Profit on ordinary activities before taxation is stated after charging/ (crediting):		
Provision for mortgage losses	(1,065)	609
Provision for representations and warranties	-	-
Auditor's remuneration – audit of the financial statements	141	141
Auditor's remuneration – audit of subsidiaries*	82	58

*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 £54,737 (2020: £57,878). The highest paid director of a Group company received £54,737 (2020: £57,878) during the year.

Notes to the financial statements
at 30 November 2021

8. Staff numbers and costs

	2021 £000	2020 £000
Staff costs		
Wages and salaries	344	330
Social security costs	35	44
Workplace pension contributions	6	6
Total	385	380

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:

	2021 £000	2020 £000
Current tax:		
UK corporation tax on (loss)/ profit for the year	601	446
Adjustments in respect of prior years	(217)	(429)
Total current tax	384	17
Deferred tax:		
Origination and reversal of timing differences (note 19)	(273)	463
Adjustments in respect of prior periods	-	-
Rate change in respect of timing difference	535	244
Tax on profit on ordinary activities	646	724

(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% (2020:19%). The differences are explained below:

	2021 £000	2020 £000
(Loss) on ordinary activities before tax	1,593	(580)
(Loss) on ordinary activities multiplied by the standard rate of corporation tax of 19% (2020: 19%)	302	(110)
Effects of:		
Non-deductible expenditure/ (Non-taxable income)	26	1,019
Adjustments in respect of prior years	(217)	(429)
Effect of rate change	535	244
Total tax (note 9(a))	646	724

Notes to the financial statements

at 30 November 2021

9. Tax on profit on ordinary activities (continued)

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24 May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1 April 2023. Deferred tax balances have been remeasured accordingly where appropriate.

10. Investments

Investments other – Residual interest and bonds

	Group *£000*	*Company* *£000*
At 30 November 2019	1,000	11,595
Cash receipts	(1,000)	(3,633)
Effective interest rate adjustment	-	-
Mark to market adjustment	-	1,077
At 30 November 2020	-	9,039
Cash receipts	-	(2,501)
Mark to market adjustment	-	876
At 30 November 2021	-	7,414

11. Associated undertaking

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

	2021 *£000*	*2020* *£000*
At 1 December 2020 and 1 December 2019	7,972	9,396
Share of profit/(loss)	1,904	(140)
Dividends received	(1,256)	(1,284)
At 30 November 2021 and 30 November 2020	8,620	7,972

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 2021

12. Mortgage loans

	Group 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
a) Non-securitised mortgages	189	189	189	189
b) Securitised mortgages (Loans to originators)	180,733	202,360	-	-
	180,922	202,549	189	189

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

Company	*Mortgages £000*	*Mortgages Loss Provision £000*	*Total £000*
At 30 November 2020	189	-	189
Net movement in the year	-	-	-
At 30 November 2021	189	-	189

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

Group	*Mortgages £000*	*Mortgages Loss Provision £000*	*Total £000*
At 30 November 2020	204,424	(2,064)	202,360
Net movement in the year	(22,692)	1,065	(21,627)
At 30 November 2021	181,732	(999)	180,733

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

	Group 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
Non-securitised mortgage loans: Net balances (note 12a)	181	181	181	181
Securitised mortgage loans: Net balances (note 12b)	159,511	176,012	-	-
	159,692	176,193	181	181

Notes to the financial statements
at 30 November 2021

14. Debtors: amounts falling due within one year

	Group 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
Amounts owed by related entities	63	63	903	765
Non-securitised mortgage loans: Net balances (note 12a)	8	8	8	8
Securitised mortgage loans: Net balances (note 12b)	21,222	26,348	-	-
Corporation tax	339	504	339	504
Other debtors	400	400	400	366
	22,032	27,323	1,650	1,643

15. Cash and cash equivalents

a) Cash and cash equivalent

	Group 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
Cash at bank and in hand	69,597	71,721	3,981	4,610

b) Analysis of changes in net debt

	At 1 December 2020 £000	*Cash flows £000*	*Changes in market value £000*	*Effects of exchange rates £000*	*At 30 November 2021 £000*
Cash at bank and in hand	71,721	(2,124)	-	-	69,597
Derivative financial instruments	27,869	(119)	(5,684)	-	22,066
Loan notes	(223,326)	19,935	-	4,496	(198,895)
	(123,736)	17,692	(5,684)	4,496	(107,232)

16. Creditors: amounts falling due within one year

	Group 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
Amounts owed to related entities	317	3	317	3
Accruals and deferred income	966	1,217	265	361
Currency swap collateral	17,150	20,850	-	-
Amounts owed to liquidity facility provider	33,825	33,825	-	-
Other creditors	1,312	1,024	688	367
	53,570	56,919	1,270	731

Notes to the financial statements
at 30 November 2021

17. Creditors: amounts falling due after one year

	Group 2021 £000	Group 2020 £000	Company 2021 £000	Company 2020 £000
Loan notes	198,895	223,326	-	-
'A' redeemable preference shares of £1 each	-	7,197	-	7,197
	198,895	230,523	-	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 Group.

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 (2020: 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 Director does not expect the call options to be exercised before 31 March 2024.

On 1 October 2021 the redeemable 'A' preference shares of £1.00 each in the capital of the Company all held by the Sole Shareholder was re-designated into 'A' ordinary shares of £1.00 each (the "Shares") to rank pari passu with the existing issued 'A' ordinary shares and 'C' ordinary shares (the "Re-designation"), all of which are held by the Sole Shareholder.

Notes to the financial statements
at 30 November 2021

18. Deferred tax

	Group 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
Opening deferred tax balance	2,818	2,111	2,906	3,140
Origination and reversal of timing differences	(273)	463	(581)	(582)
Adjustments in respect of prior periods	-	-	-	-
Rate change	535	244	489	348
Closing deferred tax balance	3,080	2,818	2,814	2,906

The deferred tax liability consists of:

	Group 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
FRS 102 transitional adjustment	2,814	2,906	2,814	2,906
Deferred consideration in structured entities	266	(88)	-	-
Closing deferred tax balance	3,080	2,818	2,814	2,906

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24 May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1 April 2023. Deferred tax balances have been remeasured accordingly where appropriate.

Losses of £19,640,730 (2020; £19,644,000) resulting in a deferred tax asset of £4,517,368 (2020; £3,734,000) have not been recognised. The deferred tax asset has not been recognised due to the uncertainty surrounding the Company's future profitability.

19. Called up share capital

	2021 £000	*2020 £000*
Allotted, called up and fully paid:		
7,114,412 (2020: 2,938,008)'A' ordinary shares of £1 each	7,114	2,938
637,057 (2020: 637,057) 'C' ordinary shares of 10p each	64	64
	7,178	3,002

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.

On 1 October 2021 the redeemable 'A' preference shares of £1.00 each in the capital of the Company all held by the Sole Shareholder was re-designated into 'A' ordinary shares of £1.00 each (the "Shares") to rank pari passu with the existing issued 'A' ordinary shares and 'C' ordinary shares (the "Re-designation"), all of which are held by the Sole Shareholder.

On 1 October 2021 the Company reduce the share capital of the Company from £10,198,867 to £7,178,118 by cancelling and extinguishing 3,020,749 'A' ordinary shares of £1.00 each in the capital of the Company.

Notes to the financial statements
at 30 November 2021

20. 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 were 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 has ended. 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 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
Mortgage assets	180,922	202,549	189	189
Investments	-	-	7,414	9,039
Amounts owed by group and related undertakings	63	63	903	765
Derivative financial instruments	22,066	27,869	-	-
Cash at bank and in hand	69,597	71,721	3,981	4,610
Other debtors	400	400	400	367
	273,048	302,602	12,887	14,970

Notes to the financial statements
at 30 November 2021

20. 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 2021 £000	*Group 2020 £000*	*Company 2021 £000*	*Company 2020 £000*
Current	140,220	159,129	189	189
between 30 and 60 days	5,715	10,855	-	-
between 61 and 90 days	4,703	7,870	-	-
between 91 and 120 days	3,006	4,416	-	-
more than 120 days	28,277	22,343	-	-
	181,921	204,613	189	189

b) Liquidity risk

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

Group

As at 30 November 2021 **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	27,400	27,916	23,819	24,998	22,487	87,252	213,872
Currency Swap collateral	17,150	-	-	-	-	-	17,150
Liquidity facility provider	33,825	-	-	-	-	-	33,825
Creditors	2,595	-	-	-	-	-	2,595
Preference shares	-	-	-	-	-	-	-

Notes to the financial statements
at 30 November 2021

20. Financial Instruments and risk management (continued)

b) Liquidity risk (continued)

Group

As at 30 November 2020 **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	31,599	28,269	23,558	19,814	22,638	82,540	208,418
Currency Swap collateral	20,850	-	-	-	-	-	20,850
Liquidity facility provider	33,825	-	-	-	-	-	33,825
Creditors	2,167	-	-	-	-	-	2,167
Preference shares	-	-	-	-	-	7,197	7,197

Company

As at 30 November 2021 **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	1,270	-	-	-	-	-	1,270
Preference shares	-	-	-	-	-	-	-

Company

As at 30 November 2020 **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	731	-	-	-	-	-	731
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
at 30 November 2021

20. 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	*2021*	*2020*
	Notional amount local currency 000's	*Notional amount local currency 000's*
EUR Denominated mortgage backed loan notes	€103,072	€105,809
USD Denominated mortgage backed loan notes	$18,109	$18,000

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 20 (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 2021

20. Financial Instruments and risk management (continued)

c) Foreign currency risk (continued)

Group	*2021*	*2020*
	Notional amount local currency 000's	*Notional amount local currency 000's*
EUR denominated currency swaps	€103,072	€105,809
USD denominated currency swaps	$18,109	$18,000

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*	*%*	*%*
2021					
Mortgage assets	180,922	180,922	-	3.15	-
Cash	69,597	-	69,597		-
Derivative financial instruments**	22,066	22,066	-	-	-
Mortgage backed loan notes	(198,895)	(198,895)	-	1.29	-
Liquidity facility	(33,825)	(33,825)	-	-	1.18
SWAP Collateral	(17,150)	(17,150)	-	-	-
2020					
Mortgage assets	202,549	202,549	-	3.15	-
Cash	71,721	-	71,721		0.20
Derivative financial instruments**	27,869	27,869	-	-	-
Mortgage backed loan notes	(223,326)	(223,326)	-	0.79	-
Liquidity facility	(33,825)	(33,825)	-	-	1.18
SWAP Collateral	(20,850)	(20,850)	-	-	-

* This is the weighted average spread above LIBOR

** the derivatives are shown at fair value. The corresponding notional amounts are disclosed in Note 20 (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

at 30 November 2021

20. 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*
2021			
Mortgage assets	25	452	452
Cash	25	174	174
Derivative financial instruments	25	55	55
Mortgage backed loan notes	25	497	497
Liquidity facility	25	85	85
Swap Collateral	25	43	43
2020			
Mortgage assets	25	506	506
Cash	25	179	179
Derivative financial instruments	25	69	69
Mortgage backed loan notes	25	558	558
Liquidity facility	25	85	85
Swap Collateral	25	52	52

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	*2021 Book value £000*	*2021 Fair value £000*	*2020 Book value £000*	*2020 Fair value £000*
Financial assets				
Mortgage assets	180,922	170,186	202,549	182,775
Cash and deposits	69,597	69,597	71,721	71,721
Derivative financial instruments	22,066	22,066	27,869	27,869
	272,585	261,849	302,139	308,887
Financial liabilities				
Mortgage backed loan notes	198,895	228,238	223,326	228,580
Liquidity facility	33,825	33,825	33,825	33,825
Swap Collateral	17,150	17,150	20,850	20,850
	249,870	279,213	278,001	255,959

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

Notes to the financial statements
at 30 November 2021

20. 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.

Notes to the financial statements

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21. 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	*2021 £000 Receipts and payments*	*2021 £000 Amounts owed from related parties*	*2021 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	314	–	317
	314	63	317

Group	*2020 £000 Receipts and payments*	*2020 £000 Amounts owed from related parties*	*2020 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	(26)	–	3
	(26)	63	3

Company	*2021 £000 Receipts and payments*	*2021 £000 Amounts owed from related parties*	*2021 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	314	–	317
Special Purpose Entities*	138	840	–
	452	903	29

Company	*2020 £000 Receipts and payments*	*2020 £000 Amounts owed from related parties*	*2020 £000 Amounts owed to related parties*
Preferred Mortgage Collections Limited	–	63	–
Southern Pacific Mortgage Limited	(26)	–	3
Special Purpose Entities*	889	702	–
	863	765	29

* 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

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

Notes to the financial statements
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22. 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.

23. Post balance sheet events.

During 2022 the Company has not declared and paid any dividends.