

Preferred Funding One Limited

Report and Financial Statements

30 November 2007

Registered No: 3871334

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COMPANIES HOUSE

Preferred Funding One Limited

Registered No: 3871334

Directors

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

Secretary

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

Auditors

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

Bankers

Barclays Bank Plc
54 Lombard Street
London EC3V 9EX

Solicitors

Clifford Chance
10 Upper Bank Street
London E14 5JJ

Registered Office

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

Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2007.

Principal activities

The principal activity of the Company, which is a wholly owned subsidiary of Wilmington Trust SP Services (London) Limited, is the provision of residential mortgages.

Results and business review

The results for the year are shown in the profit and loss account on page 7. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory.

Dividend

The directors do not recommend the payment of a dividend for the year (2006: £nil).

Directors

The directors who held office during the year were as follows:

M H Filer
R G Baker (resigned 28 February 2008)
Wilmington Trust SP Services (London) Limited
J Schroeder (appointed 28 February 2008)

Clifford Chance Secretaries (CCA) Limited resigned as secretary to the Company on 27 January 2009. Wilmington Trust SP Services (London) Limited were appointed as secretary to the Company on 25 January 2009.

Policy and practice on payment of creditors

The Company does not follow any stated code on payment practice. It is the Company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with supplier at the outset. It is the policy of the Company to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the year-end (2006: nil days).

Principal risks and uncertainties

Financial instrument risk

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

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

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

Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgages purchased by the Company during the year were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors.

Directors' report

Principal risks and uncertainties (continued)

Interest rate risk

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

Liquidity risk

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

Disclosure of information to the auditors

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

Auditors

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

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



Wilmington Trust SP Services (London) Limited
Director

Date: 30 JUNE 2009

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards 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 inappropriate to presume that the Company will continue in business.

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

Independent auditors' report

to the members of Preferred Funding One Limited

We have audited the company's financial statements for the year ended 30 November 2007 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Independent auditors' report

to the members of Preferred Funding One Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP.

Ernst & Young LLP
Registered Auditor
London
30 June 2009

Profit and loss account

for the year ended 30 November 2007

	Notes	2007 £	2006 £
Interest receivable and similar income	2	148,320	260,556
Interest payable and similar charges	3	–	(171,921)
Net interest receivable		<u>148,320</u>	<u>88,635</u>
Other operating income	4	4,410,727	468,351
Total operating income		<u>4,559,047</u>	<u>556,986</u>
Operating expense		(4,559,047)	(556,985)
Operating profit		<u>–</u>	<u>1</u>
Profit on ordinary activities before taxation	5	<u>–</u>	<u>1</u>
Tax on profit on ordinary activities	7	–	–
Profit on ordinary activities after taxation		<u>–</u>	<u>1</u>
Retained profit for the year	11	<u>–</u>	<u>1</u>

The profit for the year was derived from continuing operations.

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

The notes on pages 9 to 14 form part of these financial statements.

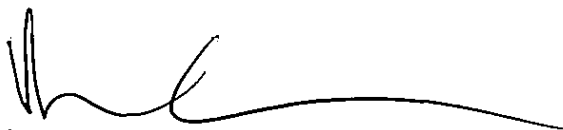
Balance sheet

at 30 November 2007

	Notes	2007 £	2006 £
Current assets			
Debtors:			
Amounts falling due within one year	8	1,512,423	1,987,145
Cash at bank and in hand		3,451,688	3,099,882
		<u>4,964,111</u>	<u>5,087,027</u>
Creditors: amounts falling due within one year	9	(4,951,736)	(5,074,652)
Net assets		<u>12,375</u>	<u>12,375</u>
 Capital and reserves			
Called up share capital	10	2	2
Profit and loss account	11	12,373	12,373
Shareholder's funds	12	<u>12,375</u>	<u>12,375</u>

The notes on pages 9 to 14 form part of these financial statements.

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



Wilmington Trust SP Services (London) Limited

Director:

Date: 30 JUNE 2009

Notes to the financial statements

at 30 November 2007

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention. The financial statements have been prepared on a going concern basis.

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Preferred Mortgages Limited. The payment of these amounts is conditional on the performance of the acquired mortgages. Provision is made for deferred consideration within the financial statements as amounts become payable as a result of the performance of the acquired mortgages.

Cash flow statement

Under Financial Reporting Standard No.1 (Revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is included in consolidated financial statements under Financial Reporting Standard No. 5.

Expenses

Expenses are accounted for on an accruals basis.

Mortgage loans

Mortgage loans are stated at cost less provision made to reduce the value of the loans to their estimated recoverable amount. Provisions are made against mortgages when, in the opinion of the directors, credit risk or economic risk make recovery doubtful.

Provisions

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

Deferred taxation

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

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Interest

Receipts and payments of interest are accounted for on an accruals basis.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Redemption fee income

Redemption fees are receivable on mortgage loans when partially or fully repaid. The level of the fee is dependent on the specific product. The income is credited to the profit and loss account as received.

Sundry fee income

Borrowers may be charged fees as a result of specific information requests and where mortgage accounts fall into delinquency. This income is credited to the profit and loss account on an accruals basis.

Turnover

The Company's turnover and trade are wholly within the UK and within a single market sector. Consequently, no segmental analysis has been prepared.

2. Interest receivable and similar income

	2007 £	2006 £
On mortgage loans	2,912	120,360
On cash balances	145,408	140,196
	<u>148,320</u>	<u>260,556</u>

3. Interest payable and similar charges

	2007 £	2006 £
Loan facilities	–	171,921
	<u>–</u>	<u>171,921</u>

4. Other operating income

	2007 £	2006 £
Provision write back	–	455,255
Sundry fee income	13,850	13,096
Waiver of an intercompany balance	4,396,877	–
	<u>4,410,727</u>	<u>468,351</u>

Sundry fee income includes redemption fee income, insurance commission income and sundry fee income.

5. Profit on ordinary activities before taxation

	2007 £	2006 £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration	10,434	8,900
Deferred consideration	4,534,741	269,305
Provision for mortgage losses	–	(455,255)
	<u>4,545,175</u>	<u>282,950</u>

Notes to the financial statements

at 30 November 2007

6. Information regarding directors and employees

	2007	2006
	£	£
Directors' emoluments	5,038	6,609

Directors' emoluments represent fees payable to Wilmington Trust SP Services (London) Limited in respect of its services as provider of directors to the Company. None of the other directors received any remuneration from the Company during the year.

The Company has no employees (2006: none).

7. Taxation

(a) Analysis of tax charge in the year

	2007	2006
	£	£
Current tax:		
UK corporation tax on profits of the year	—	—

(b) Factors affecting the tax charge in the year

The tax assessed on the profit/(loss) on ordinary activities for the year is equal to the standard rate for corporation tax in the UK, currently 20% (2006: 30%), as explained below:

	2007	2006
	£	£
Profit on ordinary activities before tax	—	1
Profit on ordinary activities multiplied by the standard companies rate of corporation tax of 20% (2006: 30%)	—	—
Effects of:		
Other tax rates/credits	—	—
Total current tax	—	—

8. Debtors: amounts falling due within one year

	2007	2006
	£	£
Other debtors	1,512,423	1,664,566
Deferred consideration	—	322,579
	1,512,423	1,987,145

Notes to the financial statements

at 30 November 2007

9. Creditors: amounts falling due within one year

	2007	2006
	£	£
Accruals	18,239	231,416
Other creditors	721,336	4,843,236
Deferred consideration	4,212,161	—
	<u>4,951,736</u>	<u>5,074,652</u>

10. Called up share capital

	2007	2006
	£	£
<i>Authorised</i>		
Ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	2	2
	<u> </u>	<u> </u>

11. Profit and loss account

	2007	2006
	£	£
Retained profit for the year	—	1
Profit and loss account brought forward	12,373	12,372
	<u>12,373</u>	<u>12,373</u>
Profit and loss account carried forward	<u>12,373</u>	<u>12,373</u>

12. Reconciliation of shareholder's funds

	2007	2006
	£	£
Retained profit for the year	—	1
Opening shareholder's funds	12,375	12,374
	<u>12,375</u>	<u>12,375</u>
Closing shareholder's funds	<u>12,375</u>	<u>12,375</u>

Notes to the financial statements

at 30 November 2007

13. Derivatives and other financial instruments

As explained on page 2 the Company uses financial instruments in its normal course of business. The following numerical analysis gives an indication of the significance of these instruments to the Company.

(a) Interest rate risk profile of financial liabilities

	<i>Total</i>	<i>Total variable rate</i>	<i>Total fixed rate</i>	<i>Weighted average interest rate</i>	<i>Weighted average time for which rate is fixed</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>%</i>	<i>Years</i>
30 November 2007					
Interest rate and currency profile	—	—	—	—	—
30 November 2006					
Interest rate and currency profile	—	—	—	—	—

All financial liabilities are denominated in pounds sterling.

(b) Interest rate risk profile of financial assets

	<i>Total</i>	<i>Total variable rate</i>	<i>Total fixed rate</i>	<i>Weighted average interest rate</i>	<i>Weighted average time for which rate is fixed</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>%</i>	<i>Years</i>
30 November 2007					
Interest rate and currency profile	3,451,688	3,451,688	—	—	—
30 November 2006					
Interest rate and currency profile	3,099,882	3,099,882	—	—	—

All financial assets are denominated in pounds sterling.

The rates of interest receivable and payable on variable rate financial instruments are set with reference to the London Interbank Offered Rate.

(c) Fair value of financial instruments

	<i>Book value 2007</i>	<i>Fair value 2007</i>	<i>Book value 2006</i>	<i>Fair value 2006</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
On balance sheet				
Mortgage loans	—	—	—	—
Cash and deposits	3,451,688	3,451,688	3,099,882	3,099,882
Bank loan	—	—	—	—

Notes to the financial statements

at 30 November 2007

14. Parent company and ultimate controlling party

Wilmington Trust SP Services (London) Limited, a company registered in England and Wales, holds all of the issued shares in the Company on a discretionary trust basis. Its financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ. Under the terms of the discretionary trust, there is no ultimate controlling party.

Preferred Funding One Limited is a quasi-subsiidiary of Preferred Holdings Limited, a company registered in England and Wales. Its financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.