# Preferred Residential Securities 5 PLC

## Report and Financial Statements

30 November 2007

Registered No 4442862

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COMPANIES HOUSE

Registered No 4442862

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

## Secretary
Clifford Chance Secretaries (CCA) Limited
10 Upper Bank Street
London E14 5JJ

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

## Bankers
Barclays Bank Plc
54 Lombard Street
London EC3V 9EX

## Solicitors
Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

## Registered Office
1st Floor
6 Broadgate
London EC2M 2QS

# 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 is the investment in mortgage loans secured by first charges over residential properties within the United Kingdom

## Business review

The profit and loss account for the year ended 30 November 2007 is set out on page 8 Both the level of business during the year and the financial position of the Company at the year end were satisfactory

The Company's existing transaction was terminated on 15 March 2007 because the mortgage-backed loan notes were fully redeemed, in accordance with the arrangements established when the Company was formed in 2002 This was facilitated by Preferred Funding Five Limited purchasing the outstanding mortgages at a price equal to par plus accrued interest In addition, a premium was paid by Preferred Mortgages Limited which will be sufficient to cover costs incurred by the Company in redeeming the notes, settling creditor balances and the winding up (if applicable) of the Company

The directors have taken a view that, at the time of approving the financial statements, the Company has adequate resources to continue in existence for the foreseeable future

The performance of the mortgage loans during the year to 30 November 2007 enabled deferred consideration of £7,943,789 (2006 £1,381,480) to be paid to Preferred Mortgages Limited from whom the mortgage loans were purchased

## Fair value

Note 16 discloses the fair values of the Company's mortgage asset receivables and non recourse loan notes The Directors note that as at 30 November 2007 the respective fair values of the mortgage asset receivables and non recourse loan notes are less than the carrying values recorded in the balance sheet

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

The fair values use indicative of the amount, based on calibrations to observed secondary traded UK prime mortgage assets, for which the mortgage assets might be sold, or the loan notes settled, between willing parties in an arm's length transaction although in reality no liquid secondary market exists for either the mortgage asset receivables or the non recourse loan notes

The fair values disclosed do not necessarily represent the directors view of the current value of the predicted future cash flows on either the mortgage asset receivables or non recourse loan notes

## Dividend

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

## Policy and practice on payment of creditors

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

# Directors' report

## Directors

The directors who held office during the year and after the year end were as follows

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

## Principal risks and uncertainties

### Financial instrument risks

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

The Company entered into derivative transactions where necessary (principally interest rate and currency swaps) to manage the exposure to interest rate and foreign currency risk

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

The main risks arising from the Company's financial instruments are credit risk, interest rate risk 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 2006

### 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 in June 2002 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

### 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 notes 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

# Directors' report

### Auditors

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

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

Sunil Masson
Authorised Signatory

Director Wilmington Trust SP Services (London) Limited

Date 25/07/2008

# 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

Ernst & Young

# Independent auditors' report

**to the members of Preferred Residential Securities 5 PLC**

We have audited the Company's financial statements for the year ended 30 November 2007 which comprise the Profit and Loss Account and the Balance Sheet and the related notes 1 to 18 These financial statements have been prepared under the accounting policies set out in Note 1

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

Ernst & Young

# Independent auditors' report

**to the members of Preferred Residential Securities 5 PLC** (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
Date 25 July 2008

# Profit and loss account

**for the year ended 30 November 2007**

| | Notes | 2007 £000 | 2006 £000 |
|---|---|---|---|
| Interest receivable and similar income | 2 | 743 | 3,219 |
| Interest payable and similar charges | 3 | (400) | (2,256) |
| ***Net interest receivable*** | | 343 | 963 |
| Other operating income | 4 | 8 | 155 |
| Amounts owed to group undertakings written off | | 3,603 | - |
| ***Total operating income*** | | 3,954 | 1,118 |
| Operating expenses | | (3,847) | (1,346) |
| ***Profit/(loss) on ordinary activities before taxation*** | 5 | 107 | (228) |
| Tax on profit/(loss) on ordinary activities | 6 | (24) | 43 |
| ***Profit/(loss) on ordinary activities after taxation*** | 14 | 82 | (185) |

The profit for the year was derived from continuing operations

The notes on pages 11 to 19 form part of these financial statements

# Statement of total recognised gains and losses

**for the year ended 30 November 2007**

| | 2007 £000 | 2006 £000 |
|---|---|---|
| ***Profit/(loss) for the year*** | 82 | (185) |
| Prior year adjustment | (20) | - |
| ***Total gains and losses recognised since last financial statements*** | 62 | (185) |

The notes on pages 11 to 19 form part of these financial statements

# Balance sheet

**as at 30 November 2007**

| | *Notes* | *2007* *£000* | *2006* *£000* *Restated* |
|---|---|---|---|
| ***Current assets*** | | | |
| Debtors | | | |
| Amounts falling due after one year | 9 | – | 21,719 |
| Amounts falling due within one year | 10 | 8 | 549 |
| Cash at bank and in hand | | 170 | 9,405 |
| | | 178 | 31,673 |
| ***Creditors***: amounts falling due within one year | 11 | (152) | (8,043) |
| ***Net current assets*** | | 26 | 23,630 |
| ***Creditors***: amounts falling due after one year | 12 | – | (23,686) |
| ***Net assets*** | | 26 | (56) |
| ***Capital and reserves*** | | | |
| Called up share capital | 13 | 13 | 13 |
| Profit and loss account | 14 | 13 | (69) |
| ***Shareholders' funds/(deficit)*** | 15 | 26 | (56) |

The notes on pages 11 to 19 form part of these financial statements

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

**Sunil Masson**
**Authorised Signatory**

Wilmington Trust SP Services (London) Limited

Director

Date 25/04/2008

# 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 under the historical cost convention The financial statements have been prepared taking into account the fact that the mortgage-backed loan notes have been redeemed and the underlying mortgage assets sold to Preferred Mortgage Limited, and as such the Company is no longer engaging in its principal activities Certain balances in the 2006 comparatives have been reclassified to be consistent with the current year presentation

### Income recognition

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

### Mortgage loans

Mortgage loans are valued on the amortised cost basis using the effective interest rate method 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 made recovery doubtful

### Provisions

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

A provision for losses is made for the collective risk of default by customers which is inherent in a mortgage portfolio, on balances excluding those in arrears and possession provided for specifically

### Prior year adjustment

The prior year adjustment is required to be made to recognise the correct treatment of deferred tax relating to Financial Reporting Standards No 26 adjustments as at 1 December 2005 of the Company The adjustment decreases retained profits by £19,705 and decrease the deferred tax asset by £19,705

### Taxation

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

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

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

# Notes to the financial statements

**at 30 November 2007**

## 1 Accounting policies (continued)

### 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

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

Profit in excess of 0 01 per cent accrue to Preferred Mortgages Limited, the portfolio seller of the underlying mortgages Accordingly a creditor for amounts payable to Preferred Mortgages Limited for this residual interest has been recognised at year end, however where a debtor and income has been recognised, it is expected that the Company will recoup the losses towards the end of the deal

### Issue costs

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

### Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3 (c) of Financial Reporting Standard No 8, since the Company is 100% owned by PRS 1 Limited and is consolidated on a linked presentation basis under Financial Reporting Standard No 5 into the financial statements of Preferred Mortgages Limited, which are publicly available

Preferred Mortgages Limited retains an interest in the cashflows and profits of the Company Accordingly Preferred Mortgages Limited, whilst having no direct investment in the Company or its parent, is treated as a related party

### 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 a parent undertaking includes the Company in its own consolidated financial statements

### 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* |
|---|---|---|
| | *£000* | *£000* |
| On mortgage loans | 625 | 2,899 |
| Other interest | 118 | 320 |
| | 743 | 3,219 |

# Notes to the financial statements

**at 30 November 2007**

## 3. Interest payable and similar charges

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Detachable 'A' coupon interest | – | 143 |
| Mortgage backed loan notes | 400 | 2,113 |
| | 400 | 2,256 |

## 4. Other operating income

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Insurance renewal commission | – | 12 |
| Redemption administration fees | – | 96 |
| Sundry fee income | 8 | |
| | 8 | 155 |

## 5. Profit/(loss) on ordinary activities before taxation

This is stated after charging/(crediting)

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Auditors' remuneration - audit services | 10 | 9 |
| Provision for mortgage losses | (162) | (1,317) |
| Deferred consideration | 3,768 | 1,456 |
| Bad debts incurred on mortgage loans | 2 | 859 |

## 6. Tax on profit/(loss) on ordinary activities

(a) Analysis of tax charge in the year

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Current tax | | |
| UK corporation tax on profits of the year | – | 1 |
| Total current tax (note 6(b)) | – | 1 |
| Deferred tax | | |
| Origination and reversal of timing differences | 25 | (44) |
| Effect of rate change on opening liability | (1) | – |
| Total deferred tax charge/(credit) (note 17) | 24 | (44) |
| Tax on profit on ordinary activities | 24 | (43) |

# Notes to the financial statements

**at 30 November 2007**

## 6. Tax on profit/(loss) on ordinary activities (continued)

(b) Factors affecting the tax charge in the year

The tax assessed for the year is lower than the small companies rate of corporation tax in the UK, currently 20% (2006 19%) The differences are explained below

| | *2007* *£000* | *2006* *£000* |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | 107 | (228) |
| Profit/(loss) on ordinary activities before tax multiplied by the small companies rate of corporation tax of 20% (2006 19%) | 21 | (43) |
| Effects of | | |
| Short-term timing differences (note 17) | (25) | 44 |
| Unrelieved tax losses | 4 | – |
| Total current tax (note 6(a)) | – | 1 |

## 7 Information regarding directors and employees

The Company has no employees (2006 nil employees) The directors received no remuneration from the Company during the year (2006 £Nil)

## 8 Mortgage loans – net balances

| | *Mortgages* *£000* | *Mortgage loss provision* *£000* | *Total* *£000* |
|---|---|---|---|
| At 30 November 2006 | 22,240 | (162) | 22,078 |
| Net movement in the year | (2,924) | 162 | (2,762) |
| Disposal | (19,316) | – | (19,316) |
| At 30 November 2007 | – | – | – |

Net mortgage loans of £Nil (2006 £22,077,784) are held as security against the loan notes referred to in note 12

# Notes to the financial statements

**at 30 November 2007**

## 9. Debtors: amounts falling due after one year

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Mortgage loans Net balances (note 8) | – | 21,719 |

## 10. Debtors amounts falling due within one year

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| | | Restated |
| Mortgage loans Net balances (note 8) | – | 359 |
| Prepayments and accrued income | – | 77 |
| Other debtors | – | 89 |
| Deferred tax (note 17) | – | 24 |
| Amounts owed by group undertakings | 8 | – |
| | 8 | 549 |

## 11. Creditors. amounts falling due within one year

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Other creditors | 20 | 11 |
| Corporation tax | 1 | 2 |
| Deferred consideration | – | 4,176 |
| Accruals and deferred income | 18 | 347 |
| Amounts owed to group undertakings | 113 | 3,507 |
| | 152 | 8,043 |

## 12. Creditors: amounts falling due after one year

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| Mortgage backed loan notes due 2034 – Class M | – | 15,686 |
| Mortgage backed loan notes due 2034 – Class B | – | 8,000 |
| | – | 23,686 |

All amounts falling due after more than one year fall due after less than five years

The mortgage backed floating rate notes were secured over a portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom

The mortgages were purchased from Preferred Mortgages Limited The mortgages are administered by Capstone Mortgage Services Limited on behalf of Preferred Residential Securities 5 PLC

The mortgage backed floating rate notes were fully redeemed on 15 March 2007, in accordance with arrangements established when the company was formed in 2002

# Notes to the financial statements

**at 30 November 2007**

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

Interest on the notes was payable quarterly in arrears at the following rates for three month sterling deposits

| | |
|---|---|
| Class M | LIBOR + 1 25% |
| Class B | LIBOR + 2 60% |

## 13. Called up share capital

| | 2007 | 2006 |
|---|---|---|
| | £ | £ |
| Authorised | | |
| Ordinary shares of £1 each | 50,000 | 50,000 |
| Allotted and called up | | |
| 2 shares 100% called and fully paid | 2 | 2 |
| 49,998 shares 25% called and fully paid | 12,499 | 12,499 |
| | 12,501 | 12,501 |

## 14. Profit and loss account

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| | | Restated |
| Retained (loss)/profit brought forward | (69) | 136 |
| Profit/(loss) for the year | 82 | (185) |
| Retained loss carried forward | 13 | (49) |
| Opening adjustment for<br>Deferred taxation of Financial Reporting Standard No 26 adoption | – | (20) |
| Retained profit/(loss) carried forward (adjusted) | 13 | (69) |

## 15. Reconciliation of movement in shareholders' funds

| | 2007 | 2006 |
|---|---|---|
| | £000 | £000 |
| | | Restated |
| Opening shareholders' fund | (56) | 149 |
| Profit/(loss) for the year | 82 | (185) |
| Closing shareholders' fund | 26 | (36) |
| Opening adjustment for<br>Deferred taxation of Financial Reporting Standards No 26 adoption | – | 20 |
| Closing shareholders funds (adjusted) | 26 | (56) |

# Notes to the financial statements

**at 30 November 2007**

## 16 Derivatives and other financial instruments

As explained on page 3 the Company uses financial instruments in its normal course of business The following analysis gives an indication of the significance of these instruments to the Company

(a) Interest rate risk profile of financial liabilities

| | *Total* *£000* | *Total variable rate* *£000* | *Total fixed rate* *£000* | *Weighted average interest rate* *%* | *Weighted average time for which rate is fixed years* |
|---|---|---|---|---|---|
| 2007 | | | | | |
| Interest rate profile | – | – | – | – | – |
| 2006 | | | | | |
| Interest rate profile | 23,686 | 23,686 | – | – | – |

All financial liabilities are denominated in pounds sterling

(b) Interest rate risk profile of financial assets

| | *Total* *£000* | *Total variable rate* *£000* | *Total fixed rate* *£000* | *Weighted average interest rate* *%* | *Weighted average time for which rate is fixed years* |
|---|---|---|---|---|---|
| 2007 | | | | | |
| Interest rate profile | 170 | 170 | – | – | – |
| 2006 | | | | | |
| Interest rate profile | 31,645 | 31,645 | – | – | – |

All financial assets are denominated in pounds sterling

The Company also has certain financial instruments included within the debtors (notes 9&10) and creditors (notes 11&12) which are not subject to interest rate risk as they bear no interest

The rates of interest receivable and payable on variable rate financial instruments are set with reference to the London Interbank Offered Rate The rates of interest payable on the mortgage backed loan notes are set as detailed in note 12

# Notes to the financial statements

**at 30 November 2007**

## 16 Financial instruments (continued)

(c) Fair value disclosures

| | *Book value 2007 £000* | *Fair value 2007 £000* | *Book value 2006 £000* | *Fair value 2006 £000* |
|---|---|---|---|---|
| On balance sheet | | | | |
| Mortgage loans | – | – | 22,240 | 22,240 |
| Cash and deposits | 170 | 170 | 9,405 | 9,405 |
| Mortgage backed loan notes due 2034 | – | – | (23,686) | (23,686) |

The detachable A coupon notes have no value in the balance sheet but a notional value of £Nil was ascribed to these notes at issue

The directors have considered the fair values of the Company's main financial instruments which are mortgage which are mortgage loan receivables and non recourse loan notes

As no liquid secondary market exists for either the mortgage loan receivables or non recourse loan notes, the directors have ascribed an approximate fair value based on an internal model that is used to value non-securitised mortgage loan receivables

In previous years the directors have considered that the carrying amount of the mortgage loan receivables measured at amortised cost using the effective interest rate less any impairment, and limited recourse loan notes approximate to their fair values

## 17 Deferred taxation

| | *2007 £000* | *2006 £000 Restated* |
|---|---|---|
| Asset at start of year | 24 | – |
| Deferred tax (charge)/credit for the year (note 6) | (24) | 44 |
| Asset at the end of the year | – | 44 |
| Opening adjustment for | | |
| Deferred taxation on adoption of Financial Reporting Standards No 26 | – | 20 |
| Asset at the end of the year (adjusted) | – | 24 |

Full provision is made for deferred tax assets arising as a result of Financial Reporting Standards No 26 adjustments

Deferred taxation has been recognised at 20% (2006 19%) being the UK small companies corporation tax rate at the balance sheet date

# Notes to the financial statements

**at 30 November 2007**

## 17. Deferred taxation (continued)

As of 1 April 2008 the UK corporation tax rate increased to 21% The impact of the rate change on the deferred tax asset/(liability) expected to reverse is greater than one year would be an increase of £1

| | *2007* | *2006* |
|---|---|---|
| | *£000* | *£000* |
| Effect of Financial Reporting Standards No 26 adjustment for EIR | – | 44 |
| Effect of Financial Reporting Standards No 26 adjustment for Derivatives | – | - |
| Total deferred tax asset recognised at 19% | – | 44 |
| Total deferred tax asset recognised at 20% | - | 46 |
| Total deferred tax asset recognised at 21% | - | – |
| Difference | – | 2 |

There is an unrecognised deferred tax asset of £4,394 (2006 Nil) based on a tax rate of 20% (2006 19%) being the small companies corporation tax rate at the balance sheet date As of 1 April 2008 the UK corporation tax rate increased to 21% The impact of the rate change on the deferred tax asset expected to reverse in greater than one year would be an increase of £220 (2006 Nil)

The deferred tax asset arising on excess management expenses of £21,791 has not been recognised due to uncertainty surrounding the Company's future profitability

## 18 Parent undertaking and control

The Company is controlled by its parent undertaking, PRS 1 Limited, which is registered and operates in the United Kingdom

The entire issued share capital of PRS 1 Limited is held by a Trustee under the terms of a trust primarily for the benefit of the creditors of the Company or, if none, for the benefit of the holders of notes issued by the Company, and ultimately for charitable purposes

The smallest group in which the results of the Company are consolidated on a linked presentation basis is that headed by Preferred Mortgages Limited, registered in England and Wales The largest group in which the results of Preferred Mortgages Limited are consolidated is that headed by Lehman Brothers Holdings Inc , incorporated in the United States of America The financial statements of these groups are available from 25 Bank Street, London, E14 5LE, United Kingdom and 745 Seventh Avenue, New York, USA respectively