Southern Pacific 04-A Parent Limited

Report and Financial Statements

30 November 2011

Registered No 05014807

Directors
S Lawrence
Capita Trust Corporate Services Limited
Capita Trust Corporate Limited

Secretary
Capita Trust Secretaries Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

Note Trustee
BNYM Corporate Trustee Services Limited
One Canada Square
London E14 5AL

Registered Office
4th Floor
40 Dukes Place
London EC3A 7NH

Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2011

Principal activities

The principal activity of the Company is that of a holding company The principal activity of the Group is the investment in mortgage loans secured by first charges over properties within the United Kingdom

Business review

On 28 April 2004 the Group purchased £348,581,000 of mortgages from Southern Pacific Mortgage Limited Further consideration may be payable dependent on future performance of the mortgages To facilitate the purchase, the Group issued a series of loan notes on 28 April 2004

The mortgage servicing, cash bond administration and accounting services are provided to the Group by Acenden Limited (formerly Capstone Mortgage Services Limited), an external party

The consolidated profit and loss account for the year ended 30 November 2011 is set out on page 9 The Group's business activities, together with the factors likely to affect its future development, financial performance and financial position are set out below

The current economic environment is difficult, but the Group has reported an operating profit for the year after Financial Reporting Standard No 26 adjustments, which are required in order to recognise the interest income on mortgage loans on an Effective Interest Rate (EIR) basis However the directors' consider that the outlook presents significant challenges in meeting the capital repayments and interest due to the holders of the loan notes as and when they fall due

Nevertheless the directors have concluded that the Group will continue as a going concern and set out the basis for this conclusion in the Going concern section of this report

At the year end the mortgage balance after the effective interest rate adjustment, was £28,388,000 (2010 – £30,570,000) At the December 2011 Interest Payment Date the Group held the following mortgage loans, excluding the effective interest rate adjustment

	Principal balance £000	*Number of loans*
First Mortgages	28,424	301

These mortgages provide security against loan notes in issue totalling £28,424,000 as at the December 2011 Interest Payment date

The mortgage loans exhibited the following quarterly arrears profile

	Q1 %	*Q2* %	*Q3* %	*Q4* %
Delinquencies days – (excluding repossessions)				
Current	75 57	76 20	74 68	72 92
>30<=60	6 07	3 42	4 64	6 60
>60<=90	4 99	4 14	5 26	4 79
>90<=120	1 53	2 97	4 13	3 34
>120	11 84	13 27	11 29	12 35
Total	100 00	100 00	100 00	100 00

At the March 2012 Interest Payment Date following the year end, the mortgage loan balance was £27,953,000, 16 77% of the balance was greater than 3 months in arrears

Directors' report

Business review (continued)

The directors consider the level of arrears to be within expectations and have not made any adjustment to the provisions recorded as at the year end

The performance of the mortgage loans during the year to 30 November 2011 enabled deferred consideration of £Nil (2010 – £Nil) to be paid to the current holder of the rights to the residual cash flows of the securitisation

Future development

The directors of the company do not envisage any change to the principal activities of the Group in the future

Going concern

As described in the Business review, the Group has reported an operating profit for the year and the Group is in a net asset position as at 30 November 2011

It is the intention of the directors of the Group to continue operations until such a time as the amount due from mortgage loans have been fully realised Forecasts indicate that the Group will have adequate cash to enable it to meet its obligations within the next 12 months Additionally, the Group has performed as expected during the year and is expected to do the same over the next 12 months Ultimately, due to the non-recourse nature of the loan notes, any shortfall in the proceeds from the mortgage assets will be a risk to the holders of those notes and accordingly the financial statements have been prepared on a going concern basis

Fair value

Note 18 discloses the fair values of the mortgage assets and loan notes The directors noted that as at 30 November 2011 the respective fair values of the mortgage assets and 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 sub prime mortgage sector and the decline in market demand for mortgage backed securities

As no liquid market exists for either the mortgage loans or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables This model takes into account expected payment rates, arrears, house price movements, level of repossessions, losses and discount rates based on the most recent available information

Dividend

The directors do not recommend the payment of a dividend for the year (2010 – £Nil)

Policy and practice on payment of creditors

The Group does not follow any stated code on payment practice It is the Group'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 Group to abide by the agreed terms of payment There are no creditor days of suppliers' invoices outstanding at the year end (2010 – nil days)

Directors

The directors who held office during the year were as follows

S Lawrence
Capita Trust Corporate Limited
Capita Trust Corporate Services Limited

Directors' report

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Group comprise mortgage assets, borrowings, cash and various other items (such as other debtors, other creditors etc) that arise directly from its operations

The Group also entered into derivative transactions where necessary (principally interest caps) to manage its interest rate risk

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

The main risks arising from the Group'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

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 Group 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 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 Group has used derivative financial instruments to mitigate any residual interest rate risk

Liquidity risk

The Group'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 Group holds a minimum cash balance to manage short term liquidity requirements

Corporate governance

The Directors are responsible for internal control in Southern Pacific 04-A Parent Limited and for reviewing the effectiveness Procedures have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud The procedures enable Southern Pacific 04-A Parent Limited to comply with the relevant regulatory obligations

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 is obliged to take as a director in order to make himself 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 Annual General Meeting

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

Capita Trust Corporate Services Limited

Director Sue Lawrence

Date 10 JUL 2012

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 Company and the Group and of the profit or loss of the Group for that period In preparing these financial statements, the directors are required to

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

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

Independent auditors' report

to the members of Southern Pacific 04-A Parent Limited

We have audited the financial statements of Southern Pacific 04-A Parent Limited for the year ended 30 November 2011 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Cash Flows and the related notes 1 to 24 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 November 2011 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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of Southern Pacific 04-A Parent Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, 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

Ernst&Young LLP

Amarjit Singh (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date 10 JULY 2012

Consolidated profit and loss account

for the year ended 30 November 2011

	Notes	2011 £000	2010 £000
Interest receivable and similar income	2	879	714
Interest payable and similar charges	3	(524)	(901)
Net interest receivable/ (payable)		355	(187)
Other operating income	4	61	83
Operating expenses		(413)	(42)
Profit/(loss) on ordinary activities before taxation	5	3	(146)
Tax on profit/(loss) on ordinary activities	6	–	25
Profit/(loss) on ordinary activities after taxation	16	3	(121)

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 13 to 27 form part of these financial statements

Consolidated balance sheet

at 30 November 2011

	Notes	2011 £000	2010 £000
Current assets			
Debtors			
Amounts falling due after one year	11	27,652	29,810
Amounts falling due within one year	12	766	815
Cash at bank and in hand		8,670	8,962
		37,088	39,587
Creditors amounts falling due within one year	13	(4,310)	(4,265)
Net current assets		32,778	35,322
Creditors amounts falling due after one year	14	(32,761)	(35,308)
Net assets		17	14
Capital and reserves			
Issued share capital	15	13	13
Profit and loss account	16	4	1
Shareholders' funds	17	17	14

The notes on pages 13 to 27 form part of these financial statements

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

Capita Trust Corporate Services Limited

Director Sue Lawrence

Date 10 JUL 2012

Company balance sheet

at 30 November 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Investments	8	13	13
Net assets		13	13
Capital and reserves			
Called up share capital	15	13	13
Profit and loss account	16	–	–
Shareholders' funds	17	13	13

The notes on pages 13 to 27 form part of these financial statements

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

Capita Trust Corporate Services Limited

Director Sue Lawrence

Date 10 JUL 2012

Consolidated statement of cash flows

for the year ended 30 November 2011

	Notes	2011 £000	2010 £000
Net cash outflow from operating activities	19	(397)	(19,581)
Returns on investment and servicing of finance			
Interest on mortgage loans		827	922
Other interest received		60	92
Interest on loan notes		(401)	(388)
Interest on subordinated loan		(73)	(66)
Other interest paid		–	(402)
		413	158
Capital expenditure and financial investment			
Proceeds from mortgage loans		2,268	2,602
Net cash inflow/(outflow)before management of liquid cash resources and financing		2,284	(16,821)
Financing			
Repayment of subordinated loan	20	71	(71)
Repayment of loan notes	20	(2,647)	(3,511)
		(2,576)	(3,582)
Decrease in cash in year		(292)	(20,403)

Reconciliation of movement in net cash flow to movement in net debt

	Notes	2011 £000	2010 £000
Decrease in cash in year		(292)	(20,403)
Repayment of subordinated loan		(71)	71
Repayment of loan notes		2,647	3,511
Change in net debt resulting from cash flows	20	2,284	(16,821)
Movement in capitalised issue costs		(29)	(30)
Movement in net debt		2,255	(16,851)
Net debt as at 1 December	20	(26,346)	(9,495)
Net debt as at 30 November	20	(24,091)	(26,346)

The notes on pages 13 to 27 form part of these financial statements

Notes to the financial statements

at 30 November 2011

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention except for derivative financial instruments which are carried at fair value through the profit and loss account The financial statements have been prepared on a going concern basis as referred to in the Going concern section of the Directors' report

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries for the year ended 30 November 2011 All the subsidiaries are accounted for using acquisition accounting

In accordance with section 408 (4) of the Companies Act 2006, Southern Pacific 04-A Parent Limited is exempt from the requirement to present its own profit and loss account The result for the year of Southern Pacific 04-A Parent Limited is disclosed in note 16 to the financial statements

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 recognises 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 make recovery doubtful A loan premium is recognised where mortgages are acquired at amounts in excess of the amount recoverable from customers This loan premium is amortised over the expected life of the mortgages

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated

An adjustment to the expected cash flows of the mortgage loans would be recognised where there is a risk that the income on the loan will be significantly reduced This could occur if the credit quality of the mortgage assets deteriorated significantly and is calculated in accordance with the provisions policy below

Provisions

Specific provisions for losses on loans and advances to customers 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)

Fixed asset investment

The Company's investment in subsidiary companies is stated at cost, less provision for diminution in value where the directors consider this necessary

Notes to the financial statements

at 30 November 2011

1. Accounting policies (continued)

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 that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax 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 an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Southern Pacific Mortgage Limited The payment of these amounts is conditional on the performance of the mortgages

Under the terms of the securitisation the Group earns a maximum annual profit in an amount equal to 0 01 per cent of the aggregate balances of the loans in the mortgage pool before any Financial Reporting Standard No 26 adjustments which include exchange gains or losses on revaluation of foreign currency liabilities, Effective Interest Rate adjustments, remeasurement adjustments to loan note liabilities and gains or losses on derivatives Profits in excess of 0 01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation as deferred consideration, unless the Group has cumulative adjusted losses from prior years Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the balance sheet

On a quarterly basis surplus income received from the mortgage assets is paid to the current holder of the rights to the residual cash flows and recorded as deferred consideration in the profit and loss account

Derivatives

The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities The Group does not hold or issue derivative financial instruments for trading purposes However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments

Financial Reporting Standard No 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet Subsequent to initial recognition, derivatives are remeasured 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 remeasurement to fair value is recognised immediately in the profit and loss account The fair value of the interest rate caps is the estimated amount that the Group would receive or pay to terminate the caps at the balance sheet date

Interest rate caps

A series of amortising interest rate caps were entered into in order to manage the Group's interest rate risk in relation to fixed rate mortgage loans The derivative contracts were designed to match the expected profile of the run-off of the fixed rate loans

Issue costs

Initial issue costs incurred in arranging funding facilities are amortised over the life of the facility 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

Notes to the financial statements

at 30 November 2011

1. Accounting policies (continued)

Loan notes

Loan notes are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, the loan notes are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans The directors periodically review the estimated future cash flows on the mortgage loans to determine whether the amortised cost carrying value of the loan notes requires adjustment If a shortfall in the cash flows is identified, an adjustment is credited to the profit and loss account to reduce the carrying value of the loan notes

Turnover

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

2. Interest receivable and similar income

	2011	*2010*
	£000	*£000*
On mortgage loans	827	622
Other interest	52	92
	879	714

3 Interest payable and similar charges

	2011	*2010*
	£000	*£000*
Loan notes	405	387
Subordinated loan	73	66
Amortisation of issue costs	29	30
Amortisation of premium paid on purchase of mortgage assets	17	16
Other interest	–	402
	524	901

4. Other operating income

	2011	*2010*
	£000	*£000*
Redemption fees	6	12
Sundry fee income	55	71
	61	83

Notes to the financial statements

at 30 November 2011

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

This is stated after charging/(crediting)

	2011 £000	2010 £000
Auditors' remuneration – for audit services – Group	14	14
– Company	5	5
Other fees to auditors – taxation services – Group	9	9
– Company	1	1
Deferred consideration	135	(20)
Provision of mortgage loans	(86)	(437)
Bad debts incurred on mortgage loans	63	219

6. Tax

(a) Tax on profit/(loss) on ordinary activities

The tax credit is made up as follows

	2011 £000	2010 £000
Current tax		
UK corporation tax on profit/(loss) in the year	–	–
Adjustment in respect of previous years	–	2
Total current tax (note 6(b))	–	2
Deferred tax		
Origination and reversal of timing differences	–	(27)
Total deferred tax credit (note 21)	–	(27)
Tax on profit/(loss) on ordinary activities	–	(25)

(b) Factors affecting the tax credit in the year

The tax rate assessed for the year is lower than the small companies' rate of corporation tax in the UK of 20% (2010 – 21%) The factors affecting the tax charge are explained below

	2011 £000	2010 £000
Profit/(loss) on ordinary activities before tax	3	(146)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax for small companies of 20% (2010 – 21%)	1	(31)
Effects of		
Other short-term timing differences	–	27
Utilisation of tax losses	(1)	–
Unutilised tax losses	–	4
Adjustments in respect of previous years	–	2
Current tax charge for the year (note 6(a))	–	2

Notes to the financial statements

at 30 November 2011

7 Information regarding directors and employees

The Group has no employees (2010 – none) The directors received no remuneration from the Group during the year (2010 – £Nil)

8. Investments

Company

	Shares in group undertakings £000
At 30 November 2011 and 2010	13

The undertakings in which the Company's interest at 30 November 2011 is more than 20% are as follows

Company	*Principal activity*	*Proportion held*
Southern Pacific Financing 04-A plc	Investment in residential loans	100%

At 30 November 2011 the Company held 49,998 ordinary shares of £1 each in Southern Pacific Financing 04-A plc, and has paid up 25p on each share The Company also held one fully paid share of £1 in the same company These holdings represent the entire issued share capital of that company except for one fully paid ordinary share of £1 held by a Trustee on a discretionary basis

Southern Pacific Financing 04-A plc acts as an investment company, holding mortgages financed by Floating Rate Notes The subsidiary is registered and operates in the United Kingdom The following information is presented in respect of its financial statements for the year ended 30 November 2011

	2011 £000	*2010 £000*
Aggregate capital and reserves	17	14
Profit/(loss) for the year	3	(121)

9 Mortgage loans – net balances

	Mortgage £000	*Mortgage loss provision £000*	*Total £000*
At 1 December 2010	31,155	(585)	30,570
Net movement in the year	(2,268)	86	(2,182)
At 30 November 2011	28,887	(499)	28,388

Mortgage loans of £28,388,000 (2010 – £30,570,000) are held as security against the loan notes referred to in note 14

The current mortgage loans in the pool have loan periods of between 3 to 303 months remaining with current interest rates ranging from 2 39% to 4 64% per annum

Notes to the financial statements

at 30 November 2011

10. Mortgage loans – unamortised premium

	2011	*2010*
	£000	*£000*
At the start of the year	34	50
Amortisation in the year	(17)	(16)
At the end of the year	17	34

11. Debtors amounts falling due after one year

Group

	2011	*2010*
	£000	*£000*
Mortgage balances	27,652	29,793
Premium paid on purchase of mortgage assets	–	17
	27,652	29,810

12. Debtors. amounts falling due within one year

Group

	2011	*2010*
	£000	*£000*
Mortgage balances	736	777
Premium paid on purchase of mortgage assets	17	17
Prepayments and accrued income	13	21
	766	815

13. Creditors: amounts falling due within one year

Group

	2011	*2010*
	£000	*£000*
Other creditors	487	578
Deferred consideration	3,635	3,501
Accruals and deferred income	188	186
	4,310	4,265

Notes to the financial statements

at 30 November 2011

14. Creditors: amounts falling due after one year

Group

	2011 *£000*	*2010* *£000*
GBP Denominated Mortgage backed loan notes due 2042 – Class A	17,998	20,645
GBP Denominated Mortgage backed loan notes due 2042 – Class B	5,044	5,044
GBP Denominated Mortgage backed loan notes due 2042 – Class C	2,774	2,774
GBP Denominated Mortgage backed loan notes due 2042 – Class D	2,101	2,101
GBP Denominated Mortgage backed loan notes due 2042 – Class E	841	841
	28,758	31,405
Less Issue costs	(30)	(59)
Subordinated loan	4,033	3,962
	32,761	35,308

All amounts falling due after one year fall due after five years

The mortgage backed floating rate notes due 2042 are secured over a portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom

The mortgages are administered by Acenden Limited on behalf of Southern Pacific Financing 04-A plc

The loan notes are repaid as the underlying portfolio redeems The terms and conditions of the 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 loans The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments

The mortgage backed floating rate notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage loans If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in September 2042

The loan notes issued by Southern Pacific Financing 04-A plc are full recourse obligations of that Company and are issued subject to an option of Southern Pacific Financing 04-A Parent Limited, to acquire the notes for nominal consideration, the post enforcement call option, should any of the notes remain outstanding following enforcement of their rights and realisation of the assets of Southern Pacific Financing 04-A plc The Post-Enforcement Call Option may be exercised by Southern Pacific Financing 04-A Parent Limited on the date following the enforcement by the Note Trustee of the Issuer Security on which the Note Trustee determines that there are no further assets available to pay amounts due and owing to the Noteholders Noteholders will be bound by the terms of the Post-Enforcement Call Option granted to Southern Pacific Financing 04-A Parent Limited and the Noteholders will not be paid more than a nominal amount for that transfer

The loan notes are repayable out of capital receipts from the mortgage loan receivables, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to the Class E Notes

Interest on the notes is payable quarterly in arrears at the following annual rates for three month deposits

Class A	Sterling LIBOR + 0 25%
Class B	Sterling LIBOR + 0 60%
Class C	Sterling LIBOR + 0 90%
Class D	Sterling LIBOR + 1 85%
Class E	Sterling LIBOR + 2 50%

Notes to the financial statements

at 30 November 2011

14 Creditors amounts falling due after one year (continued)

On 28 April 2004, Southern Pacific Mortgage Limited made available to the Group a subordinated loan The loan is repayable to Scarlet Funding No 1 Limited on or before September 2042 using the amounts available in accordance with the priority of payments as set out in the Note Terms and Conditions Interest is payable at a rate of 1 1% above the London Interbank Offered Rate for three month sterling deposits

15. Issued share capital

	2011	*2010*
	£	*£*
Allotted and called up		
12,501 ordinary shares 25% called and fully paid	12,501	12,501

16 Profit and loss account

	Group 2011 £000	*Company 2011 £000*	*Group 2010 £000*	*Company 2010 £000*
Retained profit brought forward	1	–	122	–
Profit/(loss) for the year	3	–	(121)	–
Retained profit carried forward	4	–	1	–

17. Reconciliation of movement in shareholders' funds

	Group 2011 £000	*Company 2011 £000*	*Group 2010 £000*	*Company 2010 £000*
Opening shareholders' funds	14	13	135	13
Profit/(loss) for the year	3	–	(121)	–
Closing shareholders' funds	17	13	14	13

Notes to the financial statements

at 30 November 2011

18 Derivatives and other financial instruments

Nature and extent of risks arising from financial instruments

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, and liquidity risk Financial instruments used by the Group for risk management purposes include derivative instruments Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes The principal derivative instruments used by the Group in managing its risks are interest rate caps The maturity profile of the derivative instruments reflects the nature of exposures arising from underlying business activities All of the Group's derivatives activities are contracted with financial institutions

During the year, the Group recognised fair value gains of £Nil (2010 – £Nil) due to the movements in the fair value of derivatives

The main risks arising from the Group's financial instruments and management of these risks are summarised below

Credit risk

Credit risk arises primarily from the potential for default in the mortgage loan portfolio Credit risk is managed through the arrears management process which ensures that mortgages going into arrears are quickly identified and closely monitored

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as set out in table (a)

Liquidity risk

The underlying mortgage loan assets are funded by the issue of non-recourse floating rate loan notes Liquidity risk is managed by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the loan notes The Group holds a minimum cash balance to manage short-term liquidity requirements

Interest rate risk

The Group is exposed to interest rate risk where assets and liabilities have interest rates set under different bases 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 Group takes out derivative financial instruments to manage interest rate mismatches

(a) Credit risk

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November was

	2011	*2010*
	£000	*£000*
Mortgage loans	28,388	30,570
Cash at bank and in hand	8,670	8,962
	37,058	39,532

Notes to the financial statements

at 30 November 2011

18 Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(b) Liquidity risk

The contractual undiscounted cash flows associated with financial liabilities were as follows

At 30 November 2011

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 due 2042	1 862	1,716	26,071	–	–	–	29,649
Subordinated loan	70	69	4 103	–	–	–	4,242
	1,932	1,785	30,174	–	–	–	33,891

At 30 November 2010

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 due 2042	2,350	1,814	1 725	26,675	–	–	32,564
Subordinated loan	68	68	68	4,031	–	–	4,235
	2,418	1,882	1,793	30,706	–	–	36,799

There is no contractual obligation to pay down the loan notes other than as set out in note 14

The undiscounted cash flows have been estimated by applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans and using the weighted average interest rate prevailing at the balance sheet date 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

Notes to the financial statements

at 30 November 2011

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(c) Interest rate risk

The table below summarises the interest rate risk profile of the Group's financial instruments

At 30 November 2011

	Total	*Total non-interest bearing*	*Within 3 months*	*After 3 months but within 6 months*	*After 6 months but within 1 year*	*After 1 year but within 5 years*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Financial assets						
Mortgage loans	28,388	–	28,388	–	–	–
Cash and deposits	8,670	–	8,670	–	–	–
Total assets	37,058	–	37,058	–	–	–
Financial liabilities						
Loan notes due 2042	28,758	–	28,758	–	–	–
Subordinated loan	4,033	–	4,033	–	–	–
Total liabilities	32,791	–	32,791	–	–	–

Notes to the financial statements

at 30 November 2011

18 Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(c) Interest rate risk (continued)

At 30 November 2010

	Total £000	*Total non-interest bearing £000*	*Within 3 months £000*	*After 3 months but within 6 months £000*	*After 6 months but within 1 year £000*	*After 1 year but within 5 years £000*
Financial assets						
Mortgage loans	30,570	–	30,570	–	–	–
Cash and deposits	8,962	–	8,962	–	–	–
Total assets	39,532	–	39,532	–	–	–
Financial liabilities						
Loan notes due 2042	31,405	–	31,405	–	–	–
Subordinated loan	3,962	–	3,962	–	–	–
Total liabilities	35,367	–	35,367	–	–	–

All financial assets and liabilities are subject to variable interest rates

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the loan notes, are set with reference to the London Interbank Offered Rate The rates of interest payable on the loan notes are set as detailed in note 14

The Group used interest rate caps in order to manage the interest rate risk in relation to fixed rate mortgage loans underlying the loan to originator All these loans have moved to a variable interest rate and the interest rate caps have therefore expired and as at 30 November 2011, the notional value of these caps was £Nil (2010 – £Nil) and the recognised positive fair value was £Nil (2010 – £Nil)

Notes to the financial statements

at 30 November 2011

18 Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(d) Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows

	At 30 November 2011			*At 30 November 2010*		
	Book value £000	*Fair value £000*	*If fair values increased by 1% £000*	*Book value £000*	*Fair value £000*	*If fair values increased by 1% £000*
Financial assets						
Mortgage loans	28,388	23,113	231	30,570	25,502	255
Cash and deposits	8,670	8,670	87	8,962	8,962	90
	37,058	31,783	318	39,532	34,464	345
Financial liabilities						
Loan notes due 2042	(28,758)	(23,275)	(233)	(31,405)	(26,006)	(260)
Subordinated loan	(4,033)	(4,033)	(40)	(3,962)	(3,962)	(40)
	(32,791)	(27,308)	(273)	(35,367)	(29,968)	(300)

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

As no liquid market exists for either the mortgage loans or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables This model takes into account expected payment rates, arrears, house price movements, level of repossessions, losses and discount rates based on the most recent available information

(e) Interest income and expense on financial instruments that are not at fair value through profit and loss

	2011 £000	*2010 £000*
Interest receivable on mortgage loans	827	622
Interest expense on loan notes	(405)	(387)
Subordinated loan interest	(73)	(66)
	349	169

Notes to the financial statements

at 30 November 2011

19. Reconciliation of operating profit/(loss) to net cash outflow from operating activities

	2011 £000	2010 £000
Operating profit/(loss)	3	(146)
Interest payable on subordinated loan	73	66
Interest payable on loan notes	405	387
Other interest payable	–	402
Amortisation of capitalised issue costs	29	30
Amortisation of premium paid on purchase of mortgage assets	17	16
Interest receivable on mortgage loans	(827)	(622)
Effective interest rate adjustment	–	(227)
Other interest receivable	(52)	(92)
Change in other debtors	–	380
Change in other creditors	41	(19,338)
Movement in provision for mortgage losses	(86)	(437)
Net cash outflow from operating activities	(397)	(19,581)

20 Analysis of net debt

	At 1 December 2010 £000	Cash flow £000	Non-cash movement £000	At 30 November 2011 £000
Cash in hand and at bank	8,962	(292)	–	8,670
Loan notes	(31,405)	2,647	–	(28,758)
Issue costs	59	–	(29)	30
Subordinated loan	(3,962)	(71)	–	(4,033)
Net debt	(26,346)	2,284	(29)	(24,091)

21 Deferred taxation

	2011 £000	2010 £000
Liability at the start of the year	–	(27)
Deferred tax credit during the year (note 6)	–	27
Liability at the end of the year	–	–

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No 26 adjustments Losses of £102,000 (2010 – £105,000) resulting in a deferred tax asset of £20,000 (2010 – £22,000) have not been recognised The deferred tax asset has not been recognised due to the uncertainty surrounding the Group's future profitability

Notes to the financial statements

at 30 November 2011

21 Deferred taxation (continued)

Deferred taxation has been recognised at 20% (2010 – 21%) being the UK small companies' corporation tax rate at the balance sheet date

In the Budget 2012 on 21 March 2012, there were no further changes announced to the small companies corporation tax rate, which had been reduced to 20% from 1 April 2011, as substantially enacted on 29 March 2011

22. Related party transactions

During the year, Southern Pacific Financing 04-A plc has paid the following amounts to Capita Trust Company, and the amounts outstanding at the end of the year were

Southern Pacific Financing 04-A plc

	Amount charged 2011 £000	*Amount outstanding 2011 £000*	*Amount charged 2010 £000*	*Amount outstanding 2010 £000*
Capita Trust Company				
Corporate services fees	24	–	22	–

23. Capital structure

The Company's capital is represented by the capital and reserves attributable to equity holders The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act 2006, with which it complies The Company manages its ordinary share capital in order that there is sufficient capital to meet the needs of the Company in its operation

24. Parent undertaking and control

The entire issued share capital of Southern Pacific 04-A Parent Limited is held by a Trustee under a declaration of trust for charitable purposes