
SOUTHERN PACIFIC 04-2 PARENT LIMITED

Annual report and financial statements
for the year ended 30 November 2014



SOUTHERN PACIFIC 04-2 PARENT LIMITED

Company Information

Directors	C Benford Capita Trust Corporate Services Limited Capita Trust Corporate Limited
Company secretary	Capita Trust Corporate Limited
Registered number	05088296
Registered office	4th Floor 40 Dukes Place London EC3A 7NH
Auditors	Ernst & Young LLP 25 Churchill Place London E14 5EY
Note trustee	BNYM Corporate Trustee Services Limited One Canada Square London E14 5AL

SOUTHERN PACIFIC 04-2 PARENT LIMITED

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SOUTHERN PACIFIC 04-2 PARENT LIMITED

Group strategic report for the year ended 30 November 2014

Introduction

On 9 August 2004 the Group purchased £700,000,000 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 9 August 2004. These loan notes are listed on the London Stock Exchange.

The mortgage servicing, cash bond administration and accounting services are provided by Acenden Limited an external party.

Business review

The results for the year ended 30 November 2014 are 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 economic environment has improved which led to a fall in the number of repossessions and in the number of mortgages in arrears. However the Group has reported an operating loss for the year after Financial Reporting Standard No. 26 adjustments, include the recognition of interest income on mortgage loans on an Effective Interest Rate (EIR) basis. 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 the Director's report.

The results for the year include the following adjustments as required by Financial Reporting Standard No.26.

	2014 £000	2013 £000
Net fair value (loss)/gain on derivatives	(297)	19
Unrealised exchange gain/(loss) on loan liabilities	270	(31)
EIR adjustment	(27)	(30)
	<u>(54)</u>	<u>(42)</u>

At the year end the mortgage balance after the effective interest rate adjustment and specific provisions, was £42,024,000 (2013 – £45,567,000). At the December 2014 Interest Payment Date the Group held the following mortgage loans, excluding the effective interest rate adjustment:

	Principal balance £000	Number of Loans
First mortgages	37,579	582
Second mortgages	2,983	211
	<u>40,562</u>	<u>793</u>

These mortgages provide security against loan notes in issue totalling £36,438,000 and €7,587,000 as at the December 2014 Interest Payment date.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Group strategic report for the year ended 30 November 2014 (continued)

Business review (continued)

The mortgage loans exhibited the following quarterly arrears profile:

Delinquencies days – (excluding repossessions)	Q1 %	Q2 %	Q3 %	Q4 %
Current	64.99	66.72	65.20	66.06
>30<=60	5.55	5.44	8.31	7.04
>60<=90	5.40	4.15	3.46	4.10
>90<=120	4.60	5.13	2.40	2.12
>120	19.46	18.56	20.63	20.68
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

At the March 2015 Interest Payment Date following the year end, the mortgage loan balance was £39,687,000, 23.25% of the balance was greater than 3 months in arrears.

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 2014 did not enable any deferred consideration (2013 - Nil) to be paid to the current holder of the rights to the residual cash flows of the securitisation.

Principal risks and uncertainties

(a) 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 rate and currency swaps) to manage its interest rate risk and currency 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, foreign exchange risk, and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

(b) 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. In addition there is credit risk associated with the ability of the swap counterparty to meet its obligations under the swap agreement. This has been mitigated by the payment of cash collateral to the Group.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Group strategic report for the year ended 30 November 2014 (continued)

Principal risks and uncertainties (continued)

(c) 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.

(d) Foreign exchange risk

Foreign exchange risk exists where the loan notes are denominated in a currency which is different to the underlying Sterling mortgage loans. The Group minimises its exposure to foreign currency risk by ensuring that the currency characteristics of its assets and liabilities are similar. Where this is not possible the Group has used derivative financial instruments to mitigate any foreign exchange risk.

(e) 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.

This report was approved by the board on

10 AUG 2015



and signed on its behalf.

Colin Arthur Benford

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Directors' report for the year ended 30 November 2014

The directors present their report and the audited consolidated financial statements for the year ended 30 November 2014.

Results and dividends

The loss for the year, after taxation, amounted to £128,000 (2013 - loss £30,000).

The directors do not recommend the payment of a dividend for the year (2013 – £Nil).

Directors

The directors who served during the year were:

S Lawrence (resigned 31 July 2015)
Capita Trust Corporate Services Limited
Capita Trust Corporate Limited
C Benford (appointed 3 August 2015)

Company secretary

Capita Trust Secretaries Limited resigned as Company Secretary on 17 January 2014 and Capita Trust Corporate Limited were appointed in their place.

Going concern

As described in the strategic review, the Group has reported an operating loss for the year. The Group is in a net liability position as at 30 November 2014.

It is the intention of the directors of the Company to continue operations until such a time as the amounts 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 17 discloses the fair values of the mortgage assets and loan notes. The directors noted that as at 30 November 2014 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.

Future developments

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

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Directors' report for the year ended 30 November 2014 (continued)

Corporate governance

The Directors are responsible for internal control in Southern Pacific 04-2 Parent Limited and for reviewing their 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 04-2 Parent Limited to comply with the relevant regulatory obligations.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the company and the group's auditors are aware of that information.

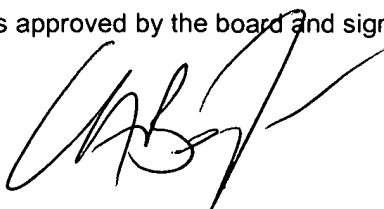
Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

Director

Date:


10 AUG 2015

Colin Arthur Benford

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Directors' responsibilities statement for the year ended 30 November 2014

The directors are responsible for preparing the Group strategic report, the Directors' 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 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Independent auditor's report to the members of Southern Pacific 04-2 Parent Limited

We have audited the financial statements of Southern Pacific 04-2 Parent Limited for the year ended 30 November 2014, which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash flow Statement and the related notes 1 to 24, set out on pages 9 to 31. 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 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

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 and express an opinion on 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 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 Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 of the parent company's affairs as at 30 November 2014 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

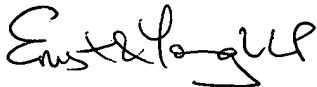
SOUTHERN PACIFIC 04-2 PARENT LIMITED

Independent auditors' report to the members of Southern Pacific 04-2 Parent Limited (continued)

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.



Amarjit Singh (Senior statutory auditor)

for and on behalf of

Ernst & Young LLP (Statutory Auditor)

London

Date: 11 AUG 2015

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Consolidated profit and loss account
for the year ended 30 November 2014**

	Note	2014 £000	2013 £000
Interest receivable and similar income	2	2,087	2,263
Interest payable and similar charges	3	<u>(2,136)</u>	<u>(2,052)</u>
Net interest receivable		(49)	211
Operating expenses		(296)	(472)
Other operating income	4	<u>211</u>	<u>235</u>
		(134)	(26)
Net fair value (loss)/gain on derivatives		(297)	19
Unrealised exchange gain/(loss) on loan liabilities		<u>270</u>	<u>(31)</u>
(Loss) on ordinary activities before taxation	5	(161)	(38)
Tax on loss on ordinary activities	6	<u>33</u>	<u>8</u>
Loss for the financial year after taxation		<u>(128)</u>	<u>(30)</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2014 or 2013 other than those included in the Profit and loss account.

The notes on pages 13 to 31 form part of these financial statements.

SOUTHERN PACIFIC 04-2 PARENT LIMITED
Registered number: 05088296

**Consolidated balance sheet
as at 30 November 2014**

	Note	£000	2014 £000	£000	2013 £000
Current assets					
Debtors: amounts falling due after more than one year	11	41,643		45,396	
Debtors: amounts falling due within one year	11	1,395		1,576	
Cash at bank		<u>52,340</u>		<u>52,828</u>	
		95,378		99,800	
Creditors: amounts falling due within one year	12	<u>(52,959)</u>		<u>(53,070)</u>	
Net current assets			<u>42,419</u>		<u>46,730</u>
Total assets less current liabilities			42,419		46,730
Creditors: amounts falling due after more than one year	13		(42,461)		(46,630)
Provisions for liabilities					
Deferred tax	18		<u>-</u>		<u>(14)</u>
Net (liabilities)/assets			<u>(42)</u>		<u>86</u>
Capital and reserves					
Issued share capital	14		13		13
Profit and loss account	15		<u>(55)</u>		<u>73</u>
Shareholders' (deficit)/funds	16		<u>(42)</u>		<u>86</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Director

10 AUG 2015

Date:

Colin Arthur Benford

The notes on pages 13 to 31 form part of these financial statements.

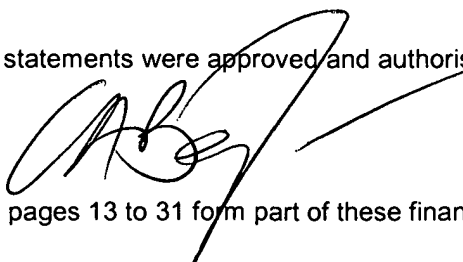
SOUTHERN PACIFIC 04-2 PARENT LIMITED
Registered number: 05088296

Company balance sheet
as at 30 November 2014

	Note	2014 £000	2013 £000
Fixed assets			
Investments	8	<u>13</u>	<u>13</u>
Net assets		<u>13</u>	<u>13</u>
Capital and Reserves			
Issued share capital	14	<u>13</u>	<u>13</u>
Shareholders' funds	16	<u>13</u>	<u>13</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

Director



Colin Arthur Benford

The notes on pages 13 to 31 form part of these financial statements.

10 AUG 2015

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Consolidated cash flow statement
for the year ended 30 November 2014**

	Note	2014 £000	2013 £000
Net cash flow from operating activities	19	(399)	(130)
Returns on investments and servicing of finance	20	29	252
Taxation		-	(2)
Capital expenditure and financial investment	20	3,801	4,035
Cash inflow before financing		3,431	4,155
Financing	20	(3,919)	(4,204)
Decrease in cash in the year		(488)	(49)

**Reconciliation of net cash flow to movement in net funds/debt
for the year ended 30 November 2014**

	2014 £000	2013 £000
Decrease in cash in the year	(488)	(49)
Cash outflow from decrease in debt	3,919	4,204
Change in net debt resulting from cash flows	3,431	4,155
Unrealised exchange gain/(loss) on loan notes	267	(28)
Amortisation of issue costs	(17)	(17)
Movement in net debt in the year	3,681	4,110
Net funds at 1 December	6,198	2,088
Net funds at 30 November	9,879	6,198

The notes on pages 13 to 31 form part of these financial statements.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Notes to the financial statements for the year ended 30 November 2014

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:

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards 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.

1.2 Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries for the year ended 30 November 2014. All the subsidiaries are accounted for using acquisition accounting.

In accordance with section 408 (4) of the Companies Act 2006, Southern Pacific 04-2 Parent Limited is exempt from the requirement to present its own profit and loss account. The result for the year of Southern Pacific 04-2 Parent Limited is disclosed in note 16 to the financial statements.

1.3 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.

1.4 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.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Notes to the financial statements for the year ended 30 November 2014 (continued)

1. Accounting policies (continued)

1.5 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).

1.6 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.

1.7 Premium paid on mortgage assets

A premium is recognised where mortgage assets are acquired at amounts in excess of their carrying values. This premium was capitalised by the Group and amortised over the expected repayment period of the mortgage assets with the amount amortised in the year included in interest payable.

1.8 Taxation

The charge or credit for taxation is based on the profit or loss 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.

1.9 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 exchange gains or losses on revaluation of foreign currency liabilities and any Financial Reporting Standard No. 26 adjustments which may include 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.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Notes to the financial statements for the year ended 30 November 2014 (continued)

1. Accounting policies (continued)

Deferred consideration (continued)

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.

1.10 Derivatives

The Group use derivative financial instruments to hedge its exposure to interest rate risk and currency 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 derivative financial instruments is the estimated amount that the Group would receive or pay to terminate them at the balance sheet date.

1.11 Currency swaps

A series of currency swaps were entered into in order to manage the Group's currency rate exposure in relation to non-Sterling denominated Loan Notes. The derivative contracts were designed to match the expected profile of the run-off of the non-Sterling denominated Loan Notes.

1.12 Foreign currencies

Monetary assets and monetary liabilities denominated in foreign currencies at the balance sheet date, are reported at the rates of exchange prevailing at the reporting date. Any exchange differences arising in the year on the settlement or retranslation of foreign currency assets or liabilities are included in the profit and loss account.

1.13 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.

1.14 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.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

1. Accounting policies (continued)

Loan notes (continued)

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.

1.15 Turnover

The Group's income and trading activities 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

	2014	2013
	£000	£000
On mortgage loans	2,004	2,188
Other interest	<u>83</u>	<u>75</u>
	<u>2,087</u>	<u>2,263</u>

3. Interest payable and similar charges

	2014	2013
	£000	£000
Loan notes	928	989
Other interest	1,185	1,040
Amortisation of issue costs	17	17
Amortisation of premium paid on purchase of mortgage assets	<u>6</u>	<u>6</u>
	<u>2,136</u>	<u>2,052</u>

4. Other operating income

	2014	2013
	£000	£000
Redemption fees	16	20
Sundry fee income	<u>195</u>	<u>215</u>
	<u>211</u>	<u>235</u>

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

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

The operating loss is stated after charging/(crediting):

	2014	2013
	£000	£000
Auditors' remuneration - audit services - Group	23	22
Other fees to auditors - taxation services - Group	-	10
Provision of mortgage loans	(383)	(329)
Bad debts incurred on mortgage loans	97	151
Deferred consideration	292	300
Auditors' remuneration - for audit services - Company	6	6
Other fees to auditors - taxation services - Company	-	1
	<u>-</u>	<u>1</u>

Auditors other services includes £Nil for corporation tax compliance work (2013 - £10,000).

Auditors' remuneration - audit services of £6,200 (2013 - £5,900) and other fees to auditors - corporation tax compliance services of £Nil (2013 - £800) for the company, were borne by the subsidiary.

6. Taxation

	2014	2013
	£000	£000
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on profit/(loss) for the year	-	-
Deferred tax (see note 18)		
Origination and reversal of timing differences	<u>(33)</u>	<u>(8)</u>
Tax on profit/(loss) on ordinary activities	<u>(33)</u>	<u>(8)</u>

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

6. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2013 - *higher than*) the standard rate of corporation tax in the UK of 20% (2013 - 20%). The differences are explained below:

	2014 £000	2013 £000
Profit/(loss) on ordinary activities before tax	<u>(161)</u>	<u>(38)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2013 - 20%)	(32)	(8)
Effects of:		
Utilisation of tax losses	(1)	-
Short term timing difference leading to an increase/(decrease) in taxation	33	8
	<u> </u>	<u> </u>
Current tax charge for the year (see note above)	<u>-</u>	<u>-</u>

7. Information regarding directors and employees

The Group has no employees other than the directors, who did not receive any remuneration (2013 - *ENIL*).

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

8. Investments

Company	2014 £000	2013 £000
Shares in group undertakings	<u>13</u>	<u>13</u>

The undertakings in which the Company's interest at 30 November 2014 is more than 20% are as follows:

Company name	Country	Percentage Shareholding	Description
Southern Pacific Securities 04-2 plc	United Kingdom	100%	Investment in residential loans

At 30 November 2014 the Company held 49,998 ordinary shares of £1 each in Southern Pacific Securities 04-2 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 Securities 04-2 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 2014:

	2014 £000	2013 £000
Aggregate shareholders' (deficit) / funds	<u>(42)</u>	<u>86</u>
Loss for the year	<u>(128)</u>	<u>(30)</u>

9. Mortgage loans - net balances

	Mortgage £000	Mortgage loss provision £000	Total £000
At 1 December 2013	46,285	(718)	45,567
Net movement in the year	<u>(3,926)</u>	<u>383</u>	<u>(3,543)</u>
At 30 November 2014	<u>42,359</u>	<u>(335)</u>	<u>42,024</u>

The mortgage loans are held as security against the loan notes referred to in note 13.

The current mortgage loans in the pool have loan periods of between 1 to 297 months remaining with current interest rates ranging from 1.53% to 12.56% per annum.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

10. Mortgage loans - unamortised premium

	2014 £000	2013 £000
At 1 December	12	18
Amortisation in the year	<u>(6)</u>	<u>(6)</u>
At 30 November	<u>6</u>	<u>12</u>

11. Debtors

	2014 £000	2013 £000
Due after more than one year		
Mortgage balances (note 9)	40,689	44,027
Derivative financial instruments	954	1,363
Premium paid on purchase of mortgage assets (note 10)	-	6
	<u>41,643</u>	<u>45,396</u>
Due within one year		
Mortgage balances (note 9)	1,335	1,540
Premium paid on purchase of mortgage assets (note 10)	6	6
Prepayments and accrued income	22	17
Other debtors	13	13
Deferred tax asset (see note 18)	19	-
	<u>1,395</u>	<u>1,576</u>

**12. Creditors:
Amounts falling due within one year**

	2014 £000	2013 £000
Deferred consideration	8,504	8,212
Other creditors	43,895	44,329
Accruals and deferred income	560	529
	<u>52,959</u>	<u>53,070</u>

Other creditors include £42,350,000 (2013 – £42,350,000) owing to the liquidity facility provider and cash collateral of £1,310,000 (2013 – £1,740,000) owing to the foreign currency swap counterparty. This arises from the drawdown of the liquidity facility due to the increased counterparty default risk of the provider and the payment of collateral by the swap counterparty, under the currency swap agreement, following the downgrade in their credit rating. The cash drawings of £42,350,000 (2013 – £42,350,000) and cash collateral of £1,310,000 (2013 – £1,740,000) are included in Cash at bank and in hand.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

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

	2014	2013
	£000	£000
EUR Denominated Mortgage backed loan notes due 2042 - Class C1a	2,059	2,840
GBP Denominated Mortgage backed loan notes due 2042 - Class C1c	10,038	13,274
EUR Denominated Mortgage backed loan notes due 2042 - Class D1a	3,981	4,150
GBP Denominated Mortgage backed loan notes due 2042 - Class D1c	19,400	19,400
GBP Denominated Mortgage backed loan notes due 2042 - Class E	7,000	7,000
	<u>42,478</u>	<u>46,664</u>
Less: Issue costs	<u>(17)</u>	<u>(34)</u>
	<u>42,461</u>	<u>46,630</u>

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

The mortgages are administered by Acenden Limited on behalf of Southern Pacific Securities 04-2 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 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 December 2042.

The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. The loan notes are repayable out of capital receipts from the mortgage loan receivables, with the Class C Notes ranking in priority to the Class D Notes, which rank in priority to the Class E Notes.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Notes to the financial statements for the year ended 30 November 2014 (continued)

13. Creditors : amounts falling due after more than one year (continued)

The loan notes issued by Southern Pacific Securities 04-2 plc are full recourse obligations of that Company. However they are issued subject to an option of Southern Pacific 04-2 Parent Limited, the parent undertaking, 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 the Company. The Post-Enforcement Call Option may be exercised by Southern Pacific 04-2 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 04-2 Parent Limited and the Noteholders will not be paid more than a nominal amount for that transfer.

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

Class C1a Notes	EURIBOR + 0.70%
Class C1c Notes	Sterling LIBOR + 0.80%
Class D1a Notes	EURIBOR + 1.50%
Class D1c Notes	Sterling LIBOR + 1.60%
Class E Notes	Sterling LIBOR + 3.25%

14. Issued share capital

	2014 £	2013 £
Allotted, called up and fully paid		
12,501- Ordinary shares of £1 each	<u>12,501</u>	<u>12,501</u>

15. Profit and loss account

Group	£000
At 1 December 2013	73
Loss for the financial year	(128)
At 30 November 2014	<u>(55)</u>

SOUTHERN PACIFIC 04-2 PARENT LIMITED

Notes to the financial statements for the year ended 30 November 2014 (continued)

16. Reconciliation of movement in shareholders' funds

	2014 £000	2013 £000
Group		
Opening shareholders' funds	86	116
Loss for the financial year	<u>(128)</u>	<u>(30)</u>
Closing shareholders' (deficit)/funds	<u><u>(42)</u></u>	<u><u>86</u></u>
 Company	 2014 £000	 2013 £000
Shareholders' funds at 1 December 2013 and 30 November 2014	<u><u>13</u></u>	<u><u>13</u></u>

The company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own Profit and loss account.

The profit for the year dealt with in the accounts of the company was £NIL (2013 - £NIL).

17. 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, foreign exchange 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 and foreign currency swaps. 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 net fair value losses of £28,000 (2013 – £12,000 loss) due to the movements in the fair value of derivatives and exchange rate movements on the loan notes

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).

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

17. Derivatives and other financial instruments (continued)

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

Liquidity risk

The underlying mortgage loan assets are funded by the issue of 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.

Foreign exchange risk

Certain loan notes are issued in Euro and US Dollar denominations and repayments of principal and payments of interest are made in Euros and US Dollars. The Group takes out derivative instruments to manage movements in foreign currency exchange rates.

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:

	2014 £000	2013 £000
Mortgage loans	42,024	45,567
Cash at bank and in hand	52,340	52,828
Derivative financial instruments	<u>954</u>	<u>1,363</u>
	<u>95,318</u>	<u>99,758</u>

Collateral as mentioned in Note 12 is held against the derivative financial instrument.

(b) Liquidity risk

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

At 30 November 2014

Financial liabilities	Less than 1 year £000	1-2 years £000	2-3 years £000	3-5 years £000	5+ years £000	Total £000
Loan notes	<u>3,171</u>	<u>39,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,442</u>

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

17. Derivatives and other financial instruments (continued)

(b) Liquidity risk (continued)

At 30 November 2013

Financial liabilities	Less than 1 year £000	1-2 years £000	2-3 years £000	3-5 years £000	5+ years £000	Total £000
Loan notes	<u>3,252</u>	<u>2,722</u>	<u>41,197</u>	<u>-</u>	<u>-</u>	<u>47,171</u>

There is no contractual obligation to pay down the loan notes other than as set out in note 13.

The undiscounted cash flows have been estimated by applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans underlying the loans to originators 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.

(c) Foreign currency risk

With the exception of the Loan Notes and loan note interest, as shown below, all financial instruments are denominated in Sterling.

	2014 Euro £000	2013 Euro £000
Mortgage backed loan notes due 2042	(6,040)	(6,990)
Loan note interest	<u>(18)</u>	<u>(22)</u>
Financial liabilities	<u>(6,058)</u>	<u>(7,012)</u>

A series of currency swaps have been entered into, in order to manage the Group's currency rate exposure in relation to non-Sterling denominated Loan Notes.

The Group uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks. At 30 November 2014 the notional value of the swaps held was £5,083,000 (2013 – £5,642,000) and the recognised positive fair value was £964,000 (2013 – £1,363,000).

All Euro denominated Mortgage Backed Loan Notes due 2042 are hedged by the foreign currency swap described above.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

(d) Interest rate risk

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

At 30 November 2014

	Total	Total	Within
	£000	non-interest bearing £000	3 months £000
Financial assets			
Mortgage loans	42,024	-	42,024
Cash and deposits	52,340	-	52,340
Derivative financial Instruments	<u>954</u>	<u>954</u>	<u>-</u>
Total assets	<u>95,318</u>	<u>954</u>	<u>94,364</u>
Financial liabilities			
Loan notes due 2042	(42,478)	-	(42,478)
Liquidity facility provider creditor	(42,350)	-	(42,350)
Currency swap counterparty creditor	<u>(1,310)</u>	<u>-</u>	<u>(1,310)</u>
Total liabilities	<u>(86,138)</u>	<u>-</u>	<u>(86,138)</u>

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

17. Derivatives and other financial instruments (continued)

(d) Interest rate risk (continued)

At 30 November 2013

	Total £000	Total non-interest bearing £000	Within 3 months £000
Financial assets			
Mortgage loans	45,567	-	45,567
Cash and deposits	52,828	-	52,828
Derivative financial Instruments	<u>1,363</u>	<u>1,363</u>	<u>-</u>
Total assets	<u><u>99,758</u></u>	<u><u>1,363</u></u>	<u><u>98,395</u></u>
Financial liabilities			
Loan notes due 2042	(46,664)	(1,348)	(45,316)
Liquidity facility provider creditor	(42,350)	-	(42,350)
Currency swap counterparty creditor	<u>(1,740)</u>	<u>-</u>	<u>(1,740)</u>
Total liabilities	<u><u>(90,754)</u></u>	<u><u>(1,348)</u></u>	<u><u>(89,406)</u></u>

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 13.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

17. Derivatives and other financial instruments (continued)

(e) Fair values

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

	2014 Book value £000	2014 Fair value £000	2014 1% increase in fair value £000	2013 Book value £000	2013 Fair value £000	2013 1% increase in fair value £000
Financial assets						
Mortgage loans	42,024	35,575	356	45,567	38,002	380
Cash and deposits	52,340	52,340	-	52,828	52,828	-
Derivative financial Instruments	<u>954</u>	<u>954</u>	<u>10</u>	<u>1,363</u>	<u>1,363</u>	<u>14</u>
	<u>95,318</u>	<u>88,869</u>	<u>366</u>	<u>99,758</u>	<u>92,193</u>	<u>394</u>
Financial liabilities						
Loan notes due 2042	(42,478)	(38,040)	(380)	(46,664)	(37,906)	(379)
Liquidity facility provider creditor	(42,350)	(42,350)	-	(42,350)	(42,350)	-
Currency swap counterparty creditor	<u>(1,310)</u>	<u>(1,310)</u>	<u>-</u>	<u>(1,740)</u>	<u>(1,740)</u>	<u>-</u>
	<u>(1,182)</u>	<u>(5,620)</u>	<u>(380)</u>	<u>(90,754)</u>	<u>(81,996)</u>	<u>(379)</u>

The directors have considered the fair values of the Group'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 and discount rates based on the most recent available information.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

17. Derivatives and other financial instruments (continued)

(f) Interest income and expense on financial instruments that are not at fair value through profit and loss		
	2014	2013
	£000	£000
Interest receivable on mortgage loans	2,004	2,188
Interest expense on loan notes	<u>(928)</u>	<u>(989)</u>
Total	<u>1,076</u>	<u>1,199</u>

18. Deferred taxation

	2014	2013
	£000	£000
At beginning of year	(14)	(22)
Released during the year (P&L)	33	8
	<hr/>	<hr/>
At end of year	<u>19</u>	<u>(14)</u>

The deferred taxation balance is made up as follows:

	2014	2013
	£000	£000
Effect of EIR adjustment	5	11
Effect of adjustment for Derivatives	191	272
Effect of adjustment for Foreign exchange revaluation	(215)	(269)
	<hr/>	<hr/>
	<u>(19)</u>	<u>14</u>

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No. 26 adjustments. Accumulated losses of £116,000 (2013 – £120,000) resulting in a deferred tax asset of £23,000 (2013 – £24,000) have not been recognised. The deferred tax asset has not been recognised due to the uncertainty surrounding the Group's future profitability.

Deferred taxation has been recognised at 20% (2013 – 20%) being the UK small companies' corporation tax rate at the balance sheet date.

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

19. Net cash flow from operating activities

	2014	<i>Restated</i> 2013
	£000	£000
Operating loss	(161)	(38)
Decrease in debtors	436	11
Interest receivable and similar income	(2,087)	(2,263)
(Decrease)/increase in creditors	(146)	285
Interest payable and similar charges	2,136	2,052
Movement in provision for mortgage losses	(383)	(329)
Mortgage write off	97	151
EIR adjustment	(27)	(30)
Unrealised exchange gain/(loss) on loan liabilities	(264)	31
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	(399)	(130)

The 2013 figures have been restated to ensure better presentation.

20. Analysis of cash flows for headings netted in cash flow statement

	2014	2013
	£000	£000
Returns on investments and servicing of finance		
Interest on mortgage loans	2,026	2,237
Other interest received	83	75
Interest on mortgage backed loan notes	(941)	(1,019)
Other interest paid	(1,139)	(1,041)
	<hr/>	<hr/>
Net cash (outflow)/inflow from returns on investments and servicing of finance	29	252
	<hr/>	<hr/>
	2014	2013
	£000	£000
Capital expenditure and financial investment		
Repayment of mortgage backed loan notes	<u>3,801</u>	<u>4,035</u>
	<hr/>	<hr/>
	2014	2013
	£000	£000
Financing		
Repayment of other loans	<u>(3,919)</u>	<u>(4,204)</u>

SOUTHERN PACIFIC 04-2 PARENT LIMITED

**Notes to the financial statements
for the year ended 30 November 2014 (continued)**

21. Analysis of changes in net funds

	1 December 2013 £000	Cash flow £000	Other non-cash changes £000	30 November 2014 £000
Cash at bank and in hand	52,828	(488)	-	52,340
Debt:				
Mortgage backed loan notes	<u>(46,630)</u>	<u>3,919</u>	<u>250</u>	<u>(42,461)</u>
Net funds	<u><u>6,198</u></u>	<u><u>3,431</u></u>	<u><u>250</u></u>	<u><u>9,879</u></u>

22. Related party transactions

During the year, Southern Pacific Securities 04-2 plc has paid the following amounts to Capita Trust Company, and the amounts outstanding at the end of the year were:

	Amount charged 2014 £000	Amount outstanding 2014 £000	Amount charged 2013 £000	Amount outstanding 2013 £000
Capita Trust Company				
Corporate services fees	<u>33</u>	<u>-</u>	<u>28</u>	<u>-</u>
Total	<u><u>33</u></u>	<u><u>-</u></u>	<u><u>28</u></u>	<u><u>-</u></u>

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 04-2 Parent Limited is held by a Trustee under a declaration of trust for charitable purposes.