Preferred Residential Securities 8 PLC

Report and Financial Statements

30 November 2006

Registered No 05109183

Registered No 05109183

Directors
Wilmington Trust SP Services (London) Limited
R G Baker
M H Filer

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

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

Bankers
Barclays Bank PLC
54 Lombard Street
London EC3V 9EX

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

Registered Office
First Floor
No 6 Broadgate
London EC2M 2QS

Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2006

Principal activities

The principal activity of the Company is the investment in mortgage loans secured by first and second charges over residential properties within the United Kingdom

Business review

The profit and loss account for the year ended 30 November 2006 is set out on page 8 Both the level of business during the year and the financial position of the Company at the year end were satisfactory

As required by FRS 26, the result for the year includes a fair value gain on derivative financial instruments of £944,318 (2005 £Nil)

At the year end the mortgage balance after FRS 26 adjustments was £263,571,631 At the December 2006 Interest Payment Date following the year end, the Company held the following mortgage loans, excluding any FRS 26 adjustments

	Principal Balance £	*Number of loans*
First mortgages	261,813,788	3,558
Second mortgages	–	–
Total	261,813,788	3,558

These mortgages provide security against loan notes in issue totalling £257,780,005 The directors consider the mortgage loans to be adequate collateral against the loan notes in issue

At the year end the mortgage loans generated a weighted average margin over funding costs of 1 94% The weighted average cost of funds at the year end was 6 69% The directors consider there to be adequate arrangements in place to hedge against future movements in cost of funds

The mortgage loans exhibited the following quarterly arrears profile

	Q1 %	*Q2 %*	*Q3 %*	*Q4 %*
Delinquencies days – (excluding repossessions)				
Current	73 54	71 23	72 72	73 08
> 30 <= 60	8 09	7 06	7 57	7 16
> 60 <= 90	5 82	5 17	3 63	4 51
> 90 <= 120	3 14	3 58	2 96	3 64
> 120	9 43	12 96	13 12	11 61
Total	100 00	100 00	100 00	100 00

The directors consider the level of arrears to be within expectations

Directors' report

Going concern

The opening reserves adjustment in accordance with FRS 26 as shown in Note 14, the net effect of which resulted in a net liability position of £449,296 as at 30 November 2006 The directors are satisfied that these adjustments will reverse in future years Consequently, the directors believe that the Company is a going concern and accordingly have prepared the financial statements on this basis

Dividend

The Directors do not recommend the payment of a dividend for the year (2005 £nil)

Policy and practice on payment of creditors

The Company does not follow any stated code on payment practice It is the Company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with the suppliers at the outset It is the policy of the Company to abide by the agreed terms of payment There are no creditor days of suppliers' invoices outstanding at the year end (2005 £nil)

Directors

R G Baker, Wilmington Trust SP Services (London) Limited and M H Filer served throughout the year

SPV Management Limited changed its name to Wilmington Trust Services SP (London) Limited on 19 December 2005

Principal risks and uncertainties

Financial instrument risk

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

The Company also enters 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 Company's policy that no trading in financial instruments shall be undertaken

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

Credit risk

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

Directors' report

Principal risks and uncertainties (continued)

Interest rate risk

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

Foreign exchange risk

Foreign exchange risk exists where loan notes are denominated in a currency which is different to the underlying sterling mortgage loans The Company 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 Company considers the use of derivative financial instruments to mitigate any foreign exchange risk

Liquidity risk

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

Disclosure of information to the auditors

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

Auditors

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

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

Director Robin Baker

Date 20th December 2007

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

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

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

ERNST & YOUNG

Independent auditors' report

to the members of Preferred Residential Securities 8 PLC

We have audited the Company's financial statements for the year ended 30 November 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Independent auditors' report

to the members of Preferred Residential Securities 8 PLC (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 November 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
Date 21 12 07

Profit and loss account

for the year ended 30 November 2006

	Notes	2006 £	2005 £
Interest receivable and similar income	2	34,085,166	37,946,218
Interest payable and similar charges	3	(25,970,112)	(26,431,653)
Net interest receivable		8,115,054	11,514,565
Net fair value gain on derivatives		944,318	–
Other operating income	4	1,189,775	1,077,554
Total operating income		10,249,147	12,592,119
Operating expenses		(8,766,488)	(12,550,535)
Profit on ordinary activities before taxation	5	1,482,659	41 584
Tax on profit on ordinary activities	6	(281,447)	(7,319)
Profit on ordinary activities after taxation	14	1 201 212	34,265

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 FRS 26 adjustments for the prior year are disclosed in note 14

The notes on pages 10 to 20 form part of these financial statements

Balance sheet
as at 30 November 2006

	Notes	2006 £	2005 £
Current assets			
Debtors			
Amounts falling due after one year	9	259,107,476	272.928 537
Amounts falling due within one year	10	4,193,149	104,345,351
Cash at bank and in hand		39,065,292	40,375 142
		302,365,917	417 649,030
Creditors: amounts falling due within one year	11	(17,431,951)	(19,695,382)
Net current assets		284,933,966	397 953,648
Creditors amounts falling due after one year	12	(285,383,262)	(397,900,546)
Net assets		(449,296)	53,102
Capital and reserves			
Called up share capital	13	12,502	12,502
Profit and loss account	14	(461,798)	40,600
Shareholders' funds	15	(449,296)	53,102

The notes on pages 10 to 20 form part of these financial statements

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

Robin Baker

Director

Date 20|12|2007.

Notes to the financial statements

at 30 November 2006

1. Accounting policies

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

Basis of preparation

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

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

The corresponding charge or release to the profit and loss account related to the prior year has been adjusted in the retained profits

Mortgage loans

Mortgage loans are valued on the amortised cost basis using the effective interest rate method less provision made to reduce the value of the loans to their estimated recoverable amount Provisions are made against mortgages when in the opinion of the directors credit risk or economic risk made recovery doubtful

Provisions

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

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

Deferred taxation

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

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

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

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Preferred Mortgages Limited The payment of these amounts is conditional on the performance of the acquired mortgages

Notes to the financial statements

at 30 November 2006

1. Accounting policies (continued)

Derivatives

The Company use derivative financial instruments to hedge its exposure to interest rate and currency risk arising from operational financing and investment activities The Company 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

FRS 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 and currency swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the balance sheet date

Currency swaps

A series of currency swaps has been entered into, in order to manage the Company's currency rate exposure in relation to non-sterling denominated loan notes The derivative contracts match the expected profile of the run-off of the non-sterling denominated loan notes

Interest rate caps

Interest rate caps have been entered into, in order to manage the Company s interest rate risk in relation to fixed rate mortgage loans The derivative contracts match the expected profile of the run-off of the fixed rate loans

Foreign currencies

Mortgage-backed floating rate notes included in financial 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 period on the settlement or retranslation of foreign currency liabilities are included in the profit and loss account

Issue costs

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

Related party transactions

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

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

Cash flow statement

Under Financial Reporting Standard No 1 (Revised) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own consolidated financial statements

Notes to the financial statements

at 30 November 2006

1 Accounting policies (continued)

Turnover

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

2. Interest receivable and similar income

	2006	*2005*
	£	£
On mortgage loans	33 002,994	35,881,501
Other interest	1,082,172	2,064,717
	34,085,166	37,946,218

3. Interest payable and similar charges

	2006	*2005*
	£	£
Detachable A' coupon interest	7,672,044	2,299,972
Subordinated loan interest	399,662	681,363
Mortgage backed loan notes	17 007,144	22,559,056
Amortisation of capitalised issue costs	891,262	891,262
	25,970,112	26,431,653

4. Other operating income

	2006	*2005*
	£	£
Insurance renewal commission	86,618	10,644
Redemption administration fees	371,457	398,757
Sundry fee income	731,700	668,153
	1,189,775	1,077,554

5. Profit on ordinary activities before taxation

This is stated after charging/(crediting)

	2006	*2005*
	£	£
Auditors remuneration - audit services	8,500	8,400
Provision for mortgage losses	(312 661)	2 095,491
Deferred consideration	6,399,389	9,150,444

Notes to the financial statements

at 30 November 2006

6. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2006 £	*2005* £
Current tax		
UK Corporation tax		
Current year tax charge	6,112	7,501
Over provision in prior period	–	(182)
Total current tax (note 6(b))	6,112	7 319
Deferred tax		
Current year charge	275,335	–
	281,447	7,319

(b) Factors affecting the tax charge in the year

The tax assessed on the profit on ordinary activities for the year is lower than the small companies rate of corporation tax in the UK, currently 19% (2005 19%) The differences are explained below

	2006 £	*2005* £
Profit on ordinary activities before tax	1,482,659	41,584
Profit on ordinary activities multiplied by the small (2005 small) companies rate of corporation tax of 19% (2005 19%)	281,706	7,901
Effects of		
Overprovision in prior years	–	(182)
Small companies rate relief	(259)	(400)
Timing differences	(275,335)	–
Total current tax (note 6(a))	6,112	7,319

7 Information regarding directors and employees

The Company has no employees (2005 none) The directors received no remuneration from the Company during the year (2005 nil)

Notes to the financial statements

at 30 November 2006

8. Mortgage loans – net balances

	Mortgages	Mortgage loss provision	Total
	£	£	£
At start of year	375,762,336	(2,253,081)	373,509,255
Net movement in the year	(112,190,705)	312,661	(111,878,044)
At 30 November 2006	263,571,631	(1,940,420)	261 631,211

Net mortgage loans of £261 631,211 (2005 £373 509,255) are held as security against the loan notes referred to in note 12

9. Debtors: amounts falling due after one year

	2006	2005
	£	£
Mortgage loans net balances (note 8)	259 107,476	272,928,537

10. Debtors: amounts falling due within one year

	2006	2005
	£	£
Mortgage loans net balances (note 8)	2,523,735	100,580,718
Prepayments and accrued income	264,604	232,073
Other debtors	1,404,810	3,532,560
	4,193,149	104,345,351

11. Creditors: amounts falling due within one year

	2006	2005
	£	£
Accruals and deferred income	3,456,963	4,346,050
Subordinated loan	3,863,400	4 957,458
Corporation tax	13,431	7 319
Deferred taxation	275,335	–
Other creditors	3,690,162	2 286,026
Deferred consideration	6,132,660	8,098,529
	17,431 951	19,695,382

On 13 August 2004, Preferred Mortgages Limited made available to the Company a subordinated loan ("the loan") comprising of three tranches The first tranche of the loan ("Tranche A") was £2,668 000 and was used to meet the costs and expenses arising in respect of the issue of the Notes The second tranche of the loan ("Tranche B") was £4,738 000 and was used in funding the reserve fund initially The third tranche ("Tranche C") was £3 320 000 and was used for funding the prefunding interest shortfall amount Interest on the loan is charged at a rate of LIBOR plus 4% per annum

Notes to the financial statements

at 30 November 2006

11. Creditors: amounts falling due within one year (continued)

Each tranche of the loan is repayable using the amounts available in accordance with the priority of payments as set out in the Note Terms and Conditions Any balance outstanding on the loan is due and payable in September 2042

12 Creditors. amounts falling due after one year

	2006	2005
	£	£
GBP denominated mortgage backed loan notes due 2042 – Class A1a1	102,522,794	153,735,748
GBP denominated mortgage backed loan notes due 2042 – Class A1a2	56,642,540	84,936,877
USD denominated mortgage backed loan notes due 2042 – Class A1b	29,040,630	46,800,211
EUR denominated mortgage backed loan notes due 2042 – Class A1c	38,142,350	56,313,146
GBP denominated mortgage backed loan notes due 2042 – Class B1a	18 500,000	18,500,000
EUR denominated mortgage backed loan notes due 2042 – Class B1c	5,723,790	5,700,000
GBP denominated mortgage backed loan notes due 2042 – Class C1a	5,900,000	5,900,000
EUR denominated mortgage backed loan notes due 2042 – Class C1c	3,366,935	3,350,000
GBP denominated mortgage backed loan notes due 2042 – Class D1a	16,200,000	16,200,000
EUR denominated mortgage backed loan notes due 2042 – Class D1c	3,366,935	3,350,000
GBP denominated mortgage backed loan notes due 2042 – Class E	4,600,000	4,600,000
	284,005,974	399,385,982
Less issue costs	(589,124)	(1,485,436)
Derivative financial instruments	1,966,412	–
	285,383,262	397,900,546

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

Class A1a1	LIBOR +0 24% pa
Class A1a2	LIBOR +0 24% pa
Class A Detachable Coupons	see below
Class A1b	LIBOR +0 24% pa
Class A1c	EURIBOR +0 23% pa
Class B1a	LIBOR +0 48% pa
Class B1c	EURIBOR +0 42% pa
Class C1a	LIBOR +0 75% pa
Class C1c	EURIBOR +0 68% pa
Class D1a	LIBOR +1 55% pa
Class D1c	EURIBOR +1 45% pa
Class E	LIBOR +3 00% pa

The Detachable A Coupon rate means on any Interest Payment Date the rate (expressed as a percentage per annum) is the product of the following

$$D\% \quad \times \quad \frac{(A1 + A2)}{A2}$$

Where

D% means on the first to fourth Interest Determination Dates the rate of 0 10% On each of the fifth to the twelfth Interest Determination Dates the rate of 2 45%, and 0% at all other times

Notes to the financial statements

at 30 November 2006

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

A1 means the aggregate principal amount outstanding in respect of the A1 notes, and

A2 means the aggregate principal amount outstanding in respect of the A2 notes

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

The mortgages were purchased from Preferred Mortgages Limited The mortgages are administered by Preferred Mortgages Limited on behalf of Preferred Residential Securities 8 PLC

13. Called up share capital

	2006	*2005*
	£	*£*
Authorised		
Ordinary shares of £1 each	50,000	50,000
Allotted and called up		
Ordinary shares of £1		
2 shares 100% called and fully paid	2	2
49,998 shares 25% called and fully paid	12,500	12,500
	12,502	12,502

Share capital of £2 was issued on incorporation on 22 April 2004 Share capital of £12,500 was issued on 11 June 2004

14. Profit and loss account

	Year ended 30 November 2006	*Period ended 30 November 2005*
	£	*£*
Retained (loss)/profit brought forward	(1,663,010)	6,335
Profit for the year	1,201,212	34,265
Retained (loss)/profit carried forward	(461,798)	40,600
Opening adjustments for		
Fair value of derivatives	–	(1,387,327)
Impact of EIR	–	(316,283)
Retained loss carried forward (adjusted)	(461,798)	(1,663,010)

Notes to the financial statements

at 30 November 2006

15. Reconciliation of movement in shareholders' funds

	2006 £	2005 £
Issue of ordinary share capital	–	–
Retained profit for the year	1,201,212	34,265
Net increase in shareholders funds	1,201,212	34,265
Opening shareholders' funds	(1,650,508)	18,837
Closing shareholders' funds	(449,296)	53,102
Opening adjustments for		
Fair value of derivatives	–	(1,387 327)
Impact of EIR	–	(316,283)
Closing shareholders' funds	(449,296)	(1 650,508)

16. Derivatives and other financial instruments

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

(a) Interest rate risk profile of financial liabilities

	Total £	*Total variable rate* £	*Total fixed rate* £	*Weighted average interest rate* %	*Weighted average time for which rate is fixed years*
2006					
Interest rate profile	287,869 374	287,869,374	–	–	–
2005					
Interest rate profile	404 343 440	404,343,440	–	–	–

Notes to the financial statements

at 30 November 2006

16. Derivatives and other financial instruments (continued)

(b) Interest rate risk profile of financial assets

	Total £	*Total variable rate* £	*Total fixed rate* £	*Weighted average interest rate* %	*Weighted average time for which rate is fixed years*
2006					
Interest rate profile	302,636 923	302 473,301	163,622	7 99	0 75
2005					
Interest rate profile	416,137 478	401,667 929	14,469,549	7 25	0 59

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

The Company uses interest rate caps in certain circumstances to hedge against movements in interest rates At 30 November 2006 the notional value of the caps held was £135,470,000 and the recognised value was £2,262

(c) Foreign currency risk

With the exception of the mortgage backed loan notes, all financial instruments are denominated in sterling The mortgage backed loan notes were issued in the following tranches

GBP denominated mortgage backed loan notes due 2042 with detachable coupons due 2007 - Class A1a1 (Notional GBP 181,000 000)
GBP denominated mortgage backed loan notes due 2042 with detachable coupons due 2007 - Class A1a2 (Notional GBP 100,000,000)
USD denominated mortgage backed loan notes due 2042 – Class A1b (Notional USD 100,000,000)
EUR denominated mortgage backed loan notes due 2042 – Class A1e (Notional EUR 100,000,000)
GBP denominated mortgage backed loan notes due 2042 – Class B1a (Notional GBP 18,500 000)
EUR denominated mortgage backed loan notes due 2042 – Class B1c (Notional EUR 8,500,000)
GBP denominated mortgage backed loan notes due 2042 – Class C1a (Notional GBP 5,900 000)
EUR denominated mortgage backed loan notes due 2042 – Class C1c (Notional EUR 5,000,000)
GBP denominated mortgage backed loan notes due 2042 – Class D1a (Notional GBP 16,200,000)
EUR denominated mortgage backed loan notes due 2042 – Class D1e (Notional EUR 5,000,000)
GBP denominated mortgage backed loan notes due 2042 – Class E (Notional GBP 4,600,000)

Notes to the financial statements

at 30 November 2006

16 Derivatives and other financial instruments (continued)

(d) Fair value disclosures

	Book value 2006 £	*Fair value 2006* £	*Book value 2005* £	*Fair value 2005* £
On balance sheet				
Mortgage loans	263 571,631	263,571,631	375 762,336	375,762,336
Cash and deposits	39 065,292	39,065 292	40 375,142	40,375,142
Mortgage backed loan notes due 2042	284,005,974	284,005,974	399 385,982	399,385,982
Start up loan	3,863,400	3,863 400	4 957,458	4,957,458

The detachable A coupon notes have no value on the balance sheet but a notional value of £10,865,393 was ascribed to these notes at issue

17. Deferred tax

	2006 £	*2005* £
Asset/(liability) at start of year	–	–
Deferred tax credit/(charge) in the profit and loss account	(275,335)	–
Asset/(liability) at the end of the year	(275,335)	–

Full provision is made for deferred tax assets arising as a result of FRS 26 adjustments

Deferred taxation has been recognised at 19% (2005 19%) being the UK small companies corporation tax rate at the balance sheet date

As of 1 April 2007 the UK corporation tax rate increased to 20% The impact of the rate change on the deferred tax asset/(liability) expected to reverse is greater than one year would be an increase of £14,491

	2006 £	*2005* £
Effect of FRS 26 adjustment for EIR	(95,914)	–
Effect of FRS 26 adjustment for Derivatives	(179,421)	–
Total deferred tax liability recognised at 19%	(275,335)	–
Total deferred tax liability recognised at 20%	(289 826)	–
Difference	(14,491)	–

Notes to the financial statements

at 30 November 2006

18 Parent undertaking and control

The Company is controlled by its parent undertaking, PRS 8 Parent Limited, which is registered and operates in the United Kingdom

The entire issued share capital of PRS 8 Parent Limited is held by a Trustee under the terms of a trust primarily for the benefit of the creditors of the Company or, if none for the benefit of the holders of notes issued by the Company, and ultimately for charitable purposes

The largest group in which the results of the Company are consolidated is that headed by Lehman Brothers Holdings Inc, incorporated in the United States of America The smallest group in which they are consolidated is that headed by Preferred Residential Securities 8 Parent Limited, registered in England and Wales The consolidated accounts of these groups are available from First Floor, No 6 Broadgate, London EC2M 2QS