Preferred Residential Securities 8 PLC

Report and Financial Statements

30 November 2007

Registered No 05109183

Registered No 05109183

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

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

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

Bankers
Barclays Bank PLC
54 Lombard Street
London EC3V 9EX

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

Registered Office
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 2007

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 2007 is set out on page 9 Both the level of business during the year and the financial position of the Company at the year end were satisfactory

As required by Financial Reporting Standards No 26, the result for the year includes a fair value gain/(loss) on derivative financial instruments of £1,719,614 (2006 (£5,473,227))

At the year end the mortgage balance after Financial Reporting Standards No 26 adjustments was £135,870,844 (2006 £263,571,631) At the December 2007 Interest Payment Date following the year end, the Company held the following mortgage loans, excluding any Financial Reporting Standards No 26 adjustments

	Principal Balance £000	*Number of loans*
First mortgages	130,996	2,091
Total	130,996	2,091

These mortgages provide security against loan notes in issue totalling £130,756,387 (2006 £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 3 61% The weighted average cost of funds at the year end was 5 74% 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 79	73 82	71 19	69 08
> 30 < = 60	7 67	8 14	9 36	8 90
> 60 <=-90	5 52	4 43	5 30	6 54
> 90 <= 120	3 84	4 46	4 11	3 94
> 120	9 18	9 15	10 04	11 54
Total	100 00	100 00	100 00	100 00

Directors' report

Business review (continued)

At the March 2008 Interest Payment Date following year end, the Company held £105,495,701 of mortgages loans, 17 22% of the balance was greater than 9 months in arrears At the June 2008 Interest Payment Date, the Company held £93,201,480 of mortgage loans, 18 14% was greater than 9 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

Going concern

The loss for the year of £900,846 and the net liability position of £1,026,454 is as a result of net Financial Reporting Standards No 26 adjustments totalling £1,149,129 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

Fair value

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

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

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

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

Dividend

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

Policy and practice on payment of creditors

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

Directors

The directors who held office during the year, and subsequent to year end, were as follows

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

Directors' report

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

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/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Directors' report

Auditors

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

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

Sunil Masson
Authorised Signatory
Wilmington Trust SP Services (London) Limited

Director

Date 25/07/2008

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

ERNST & YOUNG

Independent auditors' report

to the members of Preferred Residential Securities 8 PLC

We have audited the Company's financial statements for the year ended 30 November 2007 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

Ernst & Young

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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP.

Ernst & Young LLP
Registered Auditor
London
Date 25 July 2008.

Profit and loss account

for the year ended 30 November 2007

	Notes	*2007* *£000*	*2006* *£000*
Interest receivable and similar income	2	22,795	34,085
Interest payable and similar charges	3	(18,874)	(25,970)
Net interest receivable		3,921	8,115
Unrealised exchange (loss)/gain on restatement of loan liabilities		(1,617)	6,417
Net fair value gain/(loss) on derivatives		1,719	(5,473)
Other operating income	4	871	1,190
Total operating income		4,894	10,249
Operating expenses		(6,023)	(8,767)
(Loss)/profit on ordinary activities before taxation	5	(1,129)	1,482
Tax on (loss)/profit on ordinary activities	6	228	(281)
(Loss)/profit on ordinary activities after taxation	14	(901)	1,201

The loss for the year was derived from continuing operations

The notes on pages 12 to 22 form part of these financial statements

Statement of total recognised gains and losses
for the year ended 30 November 2007

	2007	*2006*
	£000	*£000*
(Loss)/profit for the year	(901)	1,201
Prior year adjustment	324	–
Total gains and losses recognised since last financial statements	(577)	1,201

The notes on pages 12 to 22 form part of these financial statements

Balance sheet

as at 30 November 2007

	Notes	2007 £000	2006 £000 Restated
Current assets			
Debtors			
Amounts falling due after one year	9	132,547	259,108
Amounts falling due within one year	10	2,925	4,241
Cash at bank and in hand		53,148	39,065
		188,620	302,414
Creditors amounts falling due within one year	11	(12,575)	(13,293)
Net current assets		176,045	289,121
Creditors: amounts falling due after one year	12	(177,071)	(289,246)
Net liabilities		(1,026)	(125)
Capital and reserves			
Called up share capital	13	13	13
Profit and loss account	14	(1,039)	(138)
Shareholders' deficit	15	(1,026)	(125)

The notes on pages 12 to 22 form part of these financial statements

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

Sunil Masson
Authorised Signatory
Wilmington Trust SP Services (London) Limited

Director

Date 25/04/2008

Notes to the financial statements

at 30 November 2007

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention The financial statements have been prepared on a going concern basis Certain balances in the 2006 comparatives have been reclassified to be consistent with the current year presentation

Income recognition

Interest income on mortgage loan assets is recognised in the profit and loss account on an Effective Interest Rate (EIR) basis The EIR 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 made recovery doubtful

Provisions

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

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

Prior year adjustment

The prior year adjustment is required to be made to recognise the correct treatment of deferred tax relating to Financial Reporting Standards No 26 adjustments as at 1 December 2005 of the Company The adjustment increases retained profits by £323,686 and decrease the deferred tax liability by £323,686

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

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Deferred consideration

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

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

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

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

Financial Reporting Standards 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 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

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Related party transactions (continued)

The Company has taken advantage of the exemption conferred by paragraph 3 (d) of Financial Reporting Standard No 8 not to disclose transactions with related parties since the Company is 100% owned by Preferred Resident Securities 8 Parent Limited and is included in its consolidated financial statements which are publicly available

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

Cash flow statement

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

Turnover

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

2 Interest receivable and similar income

	2007	*2006*
	£000	*£000*
On mortgage loans	21,205	33,003
Other interest	1,590	1,082
	22,795	34,085

3 Interest payable and similar charges

	2007	*2006*
	£000	*£000*
Detachable 'A' coupon interest	4,141	7,672
Subordinated loan interest	252	400
Mortgage backed loan notes	13,886	17,007
Amortisation of capitalised issue costs	594	891
Other interest payable	1	–
	18,874	25,970

4. Other operating income

	2007	*2006*
	£000	*£000*
Redemption administration fees	405	371
Sundry fee income	466	819
	871	1,190

Notes to the financial statements

at 30 November 2007

5 (Loss)/profit on ordinary activities before taxation

This is stated after charging/(crediting)

	2007	*2006*
	£000	*£000*
Auditors' remuneration - audit services	10	9
Provision for mortgage losses	(404)	(312)
Deferred consideration	450	6,399
Bad debts incurred on mortgage loans	1,360	1,498

6 Tax on (loss)/profit on ordinary activities

(a) Analysis of tax charge in the year

	2007	*2006*
	£000	*£000*
Current tax:		
UK Corporation tax		
Current year tax charge	4	6
Total current tax (note 6(b))	4	6
Deferred tax		
Origination and reversal of timing differences	(229)	275
Effect of rate change on opening liability	(3)	–
Total deferred tax (credit)/charge (note 17)	(232)	275
Tax (credit)/charge on profit on ordinary activities	(228)	281

(b) Factors affecting the tax charge in the year

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

	2007	*2006*
	£000	*£000*
(Loss)/profit on ordinary activities before tax	(1,129)	1,482
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax of 20% (2006 19%)	(226)	281
Effects of		
Overprovision in prior years	–	–
Small companies rate relief	–	–
Timing differences	230	(275)
Total current tax (note 6(a))	4	6

7. Information regarding directors and employees

The Company has no employees (2006 none) The directors received no remuneration from the Company during the year (2006 nil)

Notes to the financial statements

at 30 November 2007

8 Mortgage loans – net balances

	Mortgages £000	Mortgage loss provision £000	Total £000
At start of year	263,572	(1,940)	261,632
Net movement in the year	(127,701)	404	(127,297)
At 30 November 2007	135,871	(1,536)	134,335

Net mortgage loans of £134,335,285 (2006 £261,631,211) are held as security against the loan notes referred to in note 12

The current mortgage loans in the pool have loan periods of between 3 to 385 months remaining with current interest rates ranging from 5 99% to 13 5% per annum

9 Debtors: amounts falling due after one year

	2007 £000	2006 £000
Mortgage loans net balances (note 8)	132,547	259,108

10 Debtors: amounts falling due within one year

	2007 £000	2006 £000 Restated
Mortgage loans net balances (note 8)	1,788	2,524
Prepayments and accrued income	536	264
Amounts owed by group undertakings	320	1,405
Deferred taxation (note 17)	281	48
	2,925	4,241

11 Creditors: amounts falling due within one year

	2007 £000	2006 £000 Restated
Accruals and deferred income	2,816	3,458
Corporation tax	10	13
Other creditors	933	3,407
Deferred consideration	6,583	6,133
Amounts owed to group undertakings	2,233	282
	12,575	13,293

Notes to the financial statements

at 30 November 2007

12. Creditors: amounts falling due after one year

	2007	*2006*
	£000	*£000*
GBP denominated mortgage backed loan notes due 2042 – Class A1a1	61,022	102,523
GBP denominated mortgage backed loan notes due 2042 – Class A1a2	33,714	56,642
USD denominated mortgage backed loan notes due 2042 – Class A1b	16,395	29,041
EUR denominated mortgage backed loan notes due 2042 – Class A1c	24,077	38,142
GBP denominated mortgage backed loan notes due 2042 – Class B1a	12,538	18,500
EUR denominated mortgage backed loan notes due 2042 – Class B1c	4,114	5,724
GBP denominated mortgage backed loan notes due 2042 – Class C1a	3,999	5,900
EUR denominated mortgage backed loan notes due 2042 – Class C1c	2,420	3,367
GBP denominated mortgage backed loan notes due 2042 – Class D1a	10,979	16,200
EUR denominated mortgage backed loan notes due 2042 – Class D1c	2,420	3,367
GBP denominated mortgage backed loan notes due 2042 – Class E	3,117	4,600
	174,795	284,006
Less issue costs	–	(589)
Derivative financial instruments	247	1,966
Subordinated loan	2,029	3,863
	177,071	289,246

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 2007

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 Capstone Mortgage Services Limited on behalf of Preferred Residential Securities 8 PLC

On 13 August 2004, Preferred Mortgages Limited made available to the Company a subordinated loan The loan is repayable 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 4% above the London Interbank Offered Rate for three month sterling deposits

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 mortgages 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

13. Called up share capital

	2007	*2006*
	£	*£*
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

	2007	*2006*
	£000	*£000*
		Restated
Retained loss brought forward	(138)	(1,663)
(Loss)/profit for the year	(901)	1 201
Retained loss carried forward	(1,039)	(462)
Opening adjustment for		
Deferred taxation on Financial Reporting Standard No 26 adoption	-	324
Retained loss carried forward (adjusted)	(1,039)	(138)

Notes to the financial statements

at 30 November 2007

15 Reconciliation of movement in shareholders' funds

	2007 *£000*	*2006* *£000* *Restated*
(Loss)/profit for the year	(901)	1,201
Net increase in shareholders' funds/deficit	(901)	1,201
Opening shareholders' funds	(125)	(1,650)
Closing shareholders' deficit	(1,026)	(449)
Opening adjustment for Deferred taxation on Financial Reporting Standard No 26 adoption	–	324
Closing shareholders' deficit (adjusted)	(1,026)	(125)

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 as at 30 November

	Total *£000*	*Total variable rate* *£000*	*Total fixed rate* *£000*	*Weighted average interest rate* *%*	*Weighted average time for which rate is fixed* *years*
2007					
Interest rate profile	177,072	177,072	–	–	–
2006					
Interest rate profile	289,835	289,835	–	–	–

Notes to the financial statements

at 30 November 2007

16. Derivatives and other financial instruments (continued)

(b) Interest rate risk profile of financial assets as at 30 November

	Total £000	*Total variable rate £000*	*Total fixed rate £000*	*Weighted average interest rate %*	*Weighted average time for which rate is fixed years*
2007					
Interest rate profile	189,019	189,019	–	–	–
2006					
Interest rate profile	302,637	302,473	164	7 99	0 75

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

The rates of interest receivable and payable on variable rate financial instruments, 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

(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 2007

16. Derivatives and other financial instruments (continued)

(d) Fair value disclosures

	Book value 2007 £000	*Fair value 2007 £000*	*Book value 2006 £000*	*Fair value 2006 £000*
On balance sheet				
Mortgage loans	135,871	130,242	263,572	263,572
Cash and deposits	53,148	53,148	39,065	39,065
Mortgage backed loan notes due 2042	(174,795)	(170,901)	(284,006)	(284,006)
Start up loan	(2,030)	(2,030)	(3,863)	(3,863)
Derivative financial instruments	(247)	(247)	(1,966)	(1,966)

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

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

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

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

The Company uses interest rate caps in certain circumstances to hedge against movements in interest rates At 30 November 2007 the notional value of the caps held was £135,470,000 (2006 £135,470,000) and the positive fair value was £1 (2006 £2,262)

The Company has used foreign currency swaps to hedge against currency exposure rates At 30 November 2007 the notional value of swaps held was £174,700,809 (2006 £nil) and the negative fair value was £246,798 (2006 £1,968,674 positive)

17. Deferred tax

	2007 £000	*2006 £000 Restated*
Asset at start of year	49	–
Deferred tax credit/(charge) during the year (note 6)	232	(275)
Asset/(liability) at the end of the year as reported	281	(275)
Opening balance adjustment for		
Deferred taxation on Financial Reporting Standard No 26 adoption	-	324
Asset at the end of year (adjusted)	281	49

Full provision has been made for deferred tax liabilities (arising)/assets as a result of Financial Reporting Standards No 26 adjustments

Notes to the financial statements

at 30 November 2007

17 Deferred tax (continued)

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

As of 1 April 2008 the UK corporation tax rate increased to 21% The impact of the rate change on the deferred tax asset/(liability) expected to reverse is greater than one year would be an increase of £14,036

	2007	*2006*
	£000	*£000*
Effect of Financial Reporting Standards No 26 adjustment for EIR	213	(96)
Effect of Financial Reporting Standards No 26 adjustment for Derivatives	68	(179)
Total deferred tax liability recognised at 19%	-	(275)
Total deferred tax liability recognised at 20%	281	(290)
Total deferred tax liability recognised at 21%	295	-
Difference	14	(14)

18. Parent undertaking and control

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

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