Preferred Residential Securities 8 PLC

Report and Financial Statements

30 November 2008

Registered No: 05109183

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COMPANIES HOUSE

Registered No: 05109183

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

Secretary
Wilmington Trust SP Services (London) Limited
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6 Broad Street Place
London EC2M 7JH

Auditors
Ernst & Young LLP
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London SE1 2AF

Bankers
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54 Lombard Street
London EC3V 9EX

Solicitors
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10 Upper Bank Street
London E14 5JJ

Registered Office
c/o Wilmington Trust SP Services (London) Limited
Fifth Floor
6 Broad Street Place
London EC2M 7JH

Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2008.

Principal activities

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

Business review

On 13 August 2004, 15 November 2004 and 17 January 2005, the Company purchased £212,883,693, £124,457,105 and £122,283,627 of mortgages respectively from Preferred Mortgages Limited. Further consideration may be payable to Preferred Mortgages Limited dependent on future performance of the mortgages. The acquisition of these mortgage assets has been accounted for as a loan to originator as detailed in Note 1 of the financial statements. To facilitate the purchase, the Company issued a series of mortgage-backed loans on 13 August 2004. These loan notes are listed on the London Stock Exchange.

The profit and loss account for the year ended 30 November 2008 is set out on page 10. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out below.

The current economic environment is difficult and the Company has reported an operating loss for the year. 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.

Furthermore, on 3 October 2008, the interest rate cap counterparty, Lehman Brothers Special Financing Inc filed for Chapter 11 bankruptcy. This has had an impact on the results of the company for the year, and its ability to manage its significant risks and uncertainties, and the cash available to pay interest, and repay capital, owing to Mortgage Backed Loan Note Holders.

The caps were in default at year end. Future amounts due to the Company under the caps will not be paid. It is anticipated that the Company is likely to continue to make losses as a result of not having caps in place to manage its interest rate risk, however it is not possible to quantify the amount of these losses.

The directors have concluded that the Company will continue as a going concern and set out the basis for this conclusion in the Going Concern section of this report.

As required by Financial Reporting Standard No. 26, the result for the year includes a fair value gain on derivative financial instruments of £4,897,305 (2007: £1,719,614) and an unrealised exchange loss on restatement of loan liabilities of £5,248,910 (2007: £1,617,120).

Directors' report

Business review (continued)

At the year end the loan to originator balance after the Effective Interest Rate Adjustment, was £81,378,894 (2007: £134,335,285). At December 2008 Interest Payment Date the originator held the following mortgage loans underlying the loan to originator, excluding the Effective Interest Rate Adjustment:

	Principal balance £000	*Number of loans*
First Mortgages	81,904	1,271
Total	81,904	1,271

These mortgages provide security against loan notes in issue totalling £81,855,521 as at the December 2008 Interest Payment date.

The mortgage loans generated a weighted average margin over funding costs of 3.63% during the year, before considering the adjustments for Financial Reporting Standard No. 26. The weighted average cost of funds for the year was 6.03%.

The mortgage loans exhibited the following quarterly arrears profile:

	Q1	*Q2*	*Q3*	*Q4*
	%	*%*	*%*	*%*
Delinquencies days – (excluding repossessions)				
Current	65.13	65.96	66.88	66.57
>30<=60	10.94	8.99	7.92	9.28
>60<=90	6.71	6.91	6.41	6.15
>90<=120	4.89	3.93	6.01	3.51
>120	12.33	14.21	12.78	14.49
Total	100.00	100.00	100.00	100.00

At the March 2009 Interest Payment Date following year end, the mortgage assets underlying the loan to originator balance, was £77,486,810, 21.71% 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 expected cash flows of the loan to originator.

The performance of the mortgage loans during the year to 30 November 2008 enabled deferred consideration of £2,382,500 (2007: £nil) to be paid to the current holder of the rights to the residual cash flows of the securitisation.

Directors' report

Going concern

As described in the Business Review, the Company has reported an operating loss for the year.

The Company is also in a net liability position as at 30 November 2008 due to the impairment of the mortgage loans underlying the loan to originator. Should this impairment, not reverse in forthcoming periods the Company may be unable to meet capital repayments and interest due to the holders of the loan notes as and when they fall due.

It is the intention of the Directors of the Company to continue operations until such a time as the amount due from mortgage loans underlying the loan to originator have been fully realised. Ultimately, due to the non-recourse nature of the mortgage backed 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 16 discloses the fair values of the mortgage assets underlying the loan to originator, and non recourse loan notes. The directors noted that as at 30 November 2008 the respective fair values of the mortgage assets underlying the loan to originator, 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 sub prime mortgage sector and the decline in market demand for mortgage backed securities.

As no liquid market exists for either the mortgage loans underlying the loan to originator or non recourse 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 prepayment rates, arrears levels, house price movements, level of repossessions, losses and discount rates based on the most recent available information.

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 underlying the loan to originator or non recourse loan notes.

Dividend

The directors do not recommend the payment of a dividend for the year (2007: £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.

Directors' report

Directors

The directors who held office during the year 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)

Clifford Chance Secretaries (CCA) Limited resigned as Company Secretary on 27 January 2009, and Wilmington Trust SP Services (London) was appointed as Secretary to the Company on 27 January 2009.

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Company comprise mortgages assets, underlying the loan to originator, 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 caps 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, currency 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 underlying the loan to originator 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. The mortgage portfolio is recognised as a collateralised non-recourse loan to the originator as explained in note 1.

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. However, as stated on page 2, the interest rate cap counterparty has filed for Chapter 11 bankruptcy, and has defaulted on the cap. The cap agreement has not been replaced. The directors believe under current circumstances that it is not viable to replace the cap and until such time, the Company will continue with an unhedged interest rate risk exposure.

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 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 underlying the loan to originator 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.

Directors' report

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 company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

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

Responsibility statements under the Disclosure and Transparency Rules

The directors confirm that, to the best of each person's knowledge:

- the financial statements in this report, which have been prepared in accordance with UK GAAP and the Companies Act 1985, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face.

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

Director:

Date: 14 AUGOST 2009

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 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). 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that 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 2008 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

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 2008 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 14 Aug 2009

Profit and loss account

for the year ended 30 November 2008

	Notes	2008 £000	2007 £000
Interest receivable and similar income	2	9,772	22,795
Interest payable and similar charges	3	(7,096)	(18,874)
Net interest receivable		2,676	3,921
Net fair value gain on derivatives		4,897	1,719
Other operating income	4	384	871
Unrealised exchange loss on restatement of loan liabilities		(5,249)	(1,617)
Total operating income		2,708	4,894
Operating expenses		(4,552)	(6,023)
Loss on ordinary activities before taxation	5	(1,844)	(1,129)
Tax on loss on ordinary activities	6	401	228
Loss on ordinary activities after taxation	14	(1,443)	(901)

The loss for the year was derived from continuing operations.

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

Balance sheet

at 30 November 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Loan to originator	8	81,379	134,335
Current assets			
Debtors:			
Amounts falling due after one year	9	4,650	–
Amounts falling due within one year	10	973	1,137
Cash at bank and in hand		13,122	53,148
		18,745	54,285
Creditors: amounts falling due within one year	11	(10,566)	(12,575)
Net current assets		8,179	41,710
Creditors: amounts falling due after one year	12	(92,027)	(177,071)
Net liabilities		(2,469)	(1,026)
Capital and reserves			
Called up share capital	13	13	13
Profit and loss account	14	(2,482)	(1,039)
Shareholders' deficit	15	(2,469)	(1,026)

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:

Director

Date 14 AUGUST 2009

Notes to the financial statements

at 30 November 2008

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

Income recognition

Interest income on mortgage loan assets underlying the loan to originator 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.

Loan to originator

Where a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset for financial reporting purposes, as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the mortgage portfolio transferred to the Company, derecognition is considered to be inappropriate for the portfolio seller's or originators' (Preferred Mortgages Limited) own financial statements as the originator has retained significant risks, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. The Company's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised non-recourse loan to the originator.

The loan to originator is classified within "loans and receivables", the initial measurement is at fair value with subsequent measurement being amortised cost using the effective interest rate method. The effective interest on the loan to the originator is calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio less the residual interest due to the current holder of the rights to the residual cash flow of the securitisation.

The Company 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 loan to originator balance 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 that are pledged as collateral for the loan deteriorated significantly and is calculated in accordance with the provision policy below.

Provisions

Specific provisions for losses on loans and advances to customers which underlie the loan to originator 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).

Notes to the financial statements

at 30 November 2008

1. Accounting policies (continued)

Taxation

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

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

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

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Preferred Mortgages Limited. The payment of these amounts is conditional on the performance of the mortgages underlying the loan to originator.

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.

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. Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in its balance sheet.

Derivatives

The Company uses 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 Standard No. 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet. Subsequent to initial recognition, derivatives are remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. The fair value of the interest rate caps and currency swaps is the estimated amount that the Company would receive or pay to terminate them at the Balance sheet date.

Interest rate caps

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

Currency swaps

A series of currency swaps were 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.

Notes to the financial statements

at 30 November 2008

1. Accounting policies (continued)

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 year 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 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.

Mortgage-backed loan notes

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

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

Related party transactions

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

Financial Instrument Disclosure

The Company has taken advantage of the exemption conferred by paragraph 2(d) of Financial Reporting Standard No. 29, not to disclose Financial Instrument disclosures since the Company is 100% owned by Preferred Residential Securities 8 Parent Limited and is included in its consolidated financial statements which complies with these disclosure requirements and are publicly available.

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 published consolidated financial statements.

Turnover

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

Notes to the financial statements

at 30 November 2008

2. Interest receivable and similar income

	2008	*2007*
	£000	*£000*
On loan to originator	8,691	21,205
Other interest	1,081	1,590
	9,772	22,795

3. Interest payable and similar charges

	2008	*2007*
	£000	*£000*
Mortgage backed loan notes	7,076	13,886
Detachable 'A' coupon interest	–	4,141
Other interest	20	253
Amortisation of capitalised issue costs	–	594
	7,096	18,874

4. Other operating income

	2008	*2007*
	£000	*£000*
Redemption fees	134	405
Sundry fee income	250	466
	384	871

5. Loss on ordinary activities before taxation

This is stated after charging:

	2008	*2007*
	£000	*£000*
Auditors' remuneration – For audit services	13	10
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	(211)	(405)
Deferred consideration	2,807	450
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgages	797	1,360

Notes to the financial statements

at 30 November 2008

6. Tax on loss on ordinary activities

(a) Analysis of tax charge in the year

	2008 *£000*	*2007* *£000*
Current tax:		
UK corporation tax on loss in the year	2	4
Total current tax (note 6(b))	2	4
Deferred tax:		
Origination and reversal of timing differences	(389)	(229)
Effect of rate change on opening liability	(14)	(3)
Total deferred tax credit (note 17)	(403)	(232)
Tax on loss on ordinary activities	(401)	(228)

(b) Factors affecting the tax credit in the year

The tax assessed for the year is lower than the small companies' rate of corporation tax in the UK of 21% (2007: 20%). The factors affecting the tax charge are explained below:

	2008 *£000*	*2007* *£000*
Loss on ordinary activities before tax	(1,844)	(1,129)
Loss on ordinary activities multiplied by the standard rate of corporation tax of 21% (2007: 20%)	(387)	(226)
Effects of:		
Other short-term timing differences	389	230
Current tax charge for the year (note 6(a))	2	4

7. Information regarding directors and employees

The Company has no employees (2007: none). The directors received no remuneration from the Company during the year (2007: £nil).

Notes to the financial statements

at 30 November 2008

8. Loan to originator – net balances

	2008 *£000*	*2007* *£000*
At 1 December 2007	134,335	261,631
Principal repayments and mortgage redemptions	(51,070)	(126,341)
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	211	405
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgage loans	(2,097)	(1,360)
At 30 November 2008	81,379	134,335

The Company purchased a portfolio of mortgage loans from Preferred Mortgages Limited. However, as the principal economic risk and rewards associated with these mortgage loans remain with Preferred Mortgages Limited, these loans are not deemed for accounting purposes to have been transferred to the Company. Accordingly, the Company accounts for the transaction as a loan to Preferred Mortgages Limited, as the originator of the loans. The repayment of the loan to originator is linked to the repayment of the loan notes referred to in note 12.

The loan to Preferred Mortgages Limited is denominated in Sterling and bears interest at a variable rate. It is secured on the beneficial interest in a portfolio of residential mortgage loans.

The current mortgage loans in the pool have loan periods of between 5 to 372 months remaining with current interest rates ranging from 6.00% to 13.75% per annum.

The mortgage loans are held as security against the loan notes referred to in note 12.

9. Debtors: amounts falling due after one year

	2008 *£000*	*2007* *£000*
Derivative financial instruments	4,650	–

The above mark to market gain is net of a credit valuation adjustment of £593,884 in respect of counterparty default risk (2007: £nil).

10. Debtors: amounts falling due within one year

	2008 *£000*	*2007* *£000*
Amounts owed by group undertakings	159	320
Deferred taxation (note 17)	684	281
Prepayments and accrued income	130	536
	973	1,137

Notes to the financial statements

at 30 November 2008

11. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Amounts owed to group undertakings	2,272	2,233
Corporation tax	2	10
Other creditors	98	933
Accruals and deferred income	1,188	2,816
Deferred consideration	7,006	6,583
	10,566	12,575

12. Creditors: amounts falling due after one year

	2008 £000	2007 £000
GBP denominated mortgage backed loan notes due 2042 – Class A1a1	29,631	61,022
GBP denominated mortgage backed loan notes due 2042 – Class A1a2	16,370	33,714
USD denominated mortgage backed loan notes due 2042 – Class A1b	10,643	16,395
EUR denominated mortgage backed loan notes due 2042 – Class A1c	13,529	24,077
GBP denominated mortgage backed loan notes due 2042 – Class B1a	6,684	12,538
EUR denominated mortgage backed loan notes due 2042 – Class B1c	2,538	4,114
GBP denominated mortgage backed loan notes due 2042 – Class C1a	2,131	3,999
EUR denominated mortgage backed loan notes due 2042 – Class C1c	1,493	2,420
GBP denominated mortgage backed loan notes due 2042 – Class D1a	5,853	10,979
EUR denominated mortgage backed loan notes due 2042 – Class D1c	1,493	2,420
GBP denominated mortgage backed loan notes due 2042 – Class E	1,662	3,117
	92,027	174,795
Derivative financial instruments	–	247
Subordinated loan	–	2,029
	92,027	177,071

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

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

The mortgages underlying the loan to originator are administered by Capstone Mortgage Services Limited on behalf of Preferred Residential Securities 8 plc.

The loan notes are repaid as the underlying portfolio redeems. The terms and conditions of the loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage loans. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. Note holders have no recourse to Preferred Residential Securities 8 plc in any form.

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 underlying the loan to originator. 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.

Notes to the financial statements

at 30 November 2008

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

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

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

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

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;

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.

13. Called up share capital

	2008	*2007*
	£000	*£000*
Authorised		
Ordinary shares of £1 each	50	50
Allotted and called up		
2 shares 100% called and fully paid	–	–
49,998 shares 25% called and fully paid	13	13
	13	13

Share capital of £2 was issued on incorporation on 10 January 2005. Share capital of £12,500 was issued on 2 March 2005.

Notes to the financial statements

at 30 November 2008

14. Profit and loss account

	2008 *£000*	*2007* *£000*
Retained loss brought forward	(1,039)	(138)
Loss for the year	(1,443)	(901)
Retained loss carried forward	(2,482)	(1,039)

15. Reconciliation of movement in shareholders' funds

	2008 *£000*	*2007* *£000*
Opening shareholders' deficit	(1,026)	(125)
Loss for the year	(1,443)	(901)
Closing shareholders' deficit	(2,469)	(1,026)

16. Derivatives and other financial instruments

As explained on page 5 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*
2008					
Interest rate profile	92,027	92,027	–	–	–
2007					
Interest rate profile	177,071	177,071	–	–	–

(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*
2008					
Interest rate profile	99,151	99,151	–	–	–
2007					
Interest rate profile	187,483	187,483	–	–	–

Notes to the financial statements

at 30 November 2008

16. Derivatives and other financial instruments (continued)

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

The company also has certain financial instruments included within debtors (note 10) and creditors (note 11) 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 Offer 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)

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

(d) Fair value of financial instruments

	Book value 2008 £000	*Fair value 2008 £000*	*Book value 2007 £000*	*Fair value 2007 £000*
On balance sheet:				
Loan to originator	81,379	75,546	134,335	130,242
Cash and deposits	13,122	13,122	53,148	53,148
Mortgage backed loan notes due 2042	(92,027)	(79,440)	(174,795)	(170,901)
Subordinated loan	–	–	(2,029)	(2,029)
Derivative financial instruments	4,650	4,650	(247)	(247)

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

As no liquid market exists for either the mortgage loans underlying the loan to originator or non recourse 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.

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

Notes to the financial statements

at 30 November 2008

16. Derivatives and other financial instruments (continued)

The Company used interest rate caps in certain circumstances to hedge against movements in interest rates. Following the default of the interest rate cap counterparty, at 30 November 2008, the notional value of these caps was £nil (2007: £135,470,000) and the recognised positive fair value was £nil (2007: £1).

The Company uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks. At 30 November 2008, the notional value of the swaps held was £86,684,495 (2007: £174,700,809) and the recognised positive fair value of the swaps was £5,244,391 (2007: negative £246,798).

17. Deferred taxation

	2008	*2007*
	£000	*£000*
Asset at start of year	281	49
Deferred tax credit during the year (note 6)	403	232
Asset at the end of the year	684	281

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No. 26 adjustments.

Deferred taxation has been recognised at 21% (2007: 20%) being the UK small companies' corporation tax rate at the balance sheet date.

	2008	*2007*
	£000	*£000*
Effect of Financial Reporting Standard No. 26 adjustment for EIR	539	213
Effect of Financial Reporting Standard No. 26 adjustment for Derivatives	(977)	68
Effect of Financial Reporting Standard No. 26 adjustment for FX hedge	1,122	–
Total deferred tax asset recognised at 20%	–	281
Total deferred tax asset recognised at 21%	684	295

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 a declaration of trust for charitable purposes.

The smallest group in which the results of the Company are consolidated is that headed by Preferred Residential Securities 8 Parent Limited, registered in England and Wales. At the largest group level, the Company's results get consolidated on a Linked Presentation basis in Preferred Mortgages Limited. The financial statements of these groups are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.