

# **Preferred Residential Securities 8 PLC**

## **Report and Financial Statements**

30 November 2010

Registered No 05109183

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## Preferred Residential Securities 8 PLC

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### **Directors**

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

### **Secretary**

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

### **Auditors**

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

### **Note Trustee**

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

### **Registered Office**

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 2010

### 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 mortgage servicing, cash bond administration and accounting services are provided by Acenden Limited (formerly Capstone Mortgage Services Limited), an external party.

The results for the year ended 30 November 2010 are set out on page 9. The Company's business activities, together with the factors likely to affect its future development, financial performance and financial position are set out below.

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

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 loss on derivative financial instruments of £1,592,787 (2009 – £346,360 gain) and an unrealised exchange gain on restatement of loan liabilities of £1,743,907 (2009 – £42,507 loss).

At the year end the loan to originator balance after the Effective Interest Rate Adjustment, was £58,251,398 (2009 – £67,123,790). At the December 2010 Interest Payment Date the originator held the following mortgage loans underlying the loan to originator, excluding the Effective Interest Rate Adjustment.

	<i>Principal balance £000</i>	<i>Number of loans</i>
First Mortgages	57,924	931
Total	<u>57,924</u>	<u>931</u>

These mortgages provide security against loan notes in issue totalling £57,921,735 as at the December 2010 Interest Payment date.

The mortgage loans generated a weighted average margin over funding costs of 3.60% during the year, before considering the adjustments for Financial Reporting Standard No. 26. The weighted average cost of funds for the year was 0.67%.

## Directors' report

### Business review (continued)

The mortgage loans exhibited the following quarterly arrears profile

	Q1 %	Q2 %	Q3 %	Q4 %
<b><i>Delinquencies days – (excluding repossessions)</i></b>				
Current	61.90	59.40	60.24	63.96
>30<=60	7.98	8.47	7.25	6.51
>60<=90	5.86	6.28	5.31	5.70
>90<=120	3.95	2.19	4.43	3.25
>120	20.31	23.66	22.77	20.58
Total	100.00	100.00	100.00	100.00

At the March 2011 Interest Payment Date following year end, the mortgage assets underlying the loan to originator balance, was £56,053,956, 24.99% 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 2010 enabled deferred consideration of £1,010,065 (2009 – £1,524,340) to be paid to the current holder of the rights to the residual cash flows of the securitisation

### Future development

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

### Going concern

As described in the Business review, the Company has reported an operating profit for the year

However the company is in a net liability position as at 30 November 2010 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 loan notes. The directors noted that as at 30 November 2010 the respective fair values of the mortgage assets underlying the loan to originator, and loan notes are less than the carrying values recorded in the balance sheet

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

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

## Directors' report

### Dividend

The directors do not recommend the payment of a dividend for the year (2009 – £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 (2009 – nil days)

### Directors

The directors who held office during the year were as follows

M H Filer

Wilmington Trust SP Services (London) Limited

J Schroeder

### Principal risks and uncertainties

#### Financial instrument risk

The financial instruments held by the Company comprise mortgage assets, underlying the loan to originator, borrowings, cash and various other items (such as other debtors, other 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, foreign exchange 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. In addition there is credit risk associated with the ability of the swap counterparty to meet its obligations under the swap agreement. This is recognised by showing the derivative financial instruments in the balance sheet net of a credit valuation adjustment.

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

#### 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 has used derivative financial instruments to mitigate any foreign exchange risk.

## Directors' report

### Principal risks and uncertainties (continued)

#### 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.

#### Corporate governance

The Directors are responsible for internal control in Preferred Residential Securities 8 plc and for reviewing the effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. The procedures enable Preferred Residential Securities 8 plc to comply with the relevant regulatory obligations.

#### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the 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

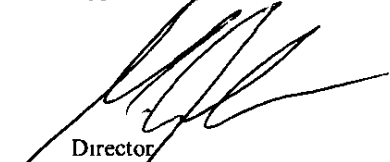
A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

#### 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 2006, give a true and fair view of the assets, liabilities, financial position and profit 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 27 MAY 2011

Mark Filer

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

# **Independent auditors' report**

## **to the members of Preferred Residential Securities 8 PLC**

We have audited the financial statements of Preferred Residential Securities 8 PLC for the year ended 30 November 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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



## Independent auditors' report

to the members of Preferred Residential Securities 8 PLC

### Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



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

Date 27 MAY 2011

## Profit and loss account

for the year ended 30 November 2010

	Notes	2010 £000	2009 £000
Interest receivable and similar income	2	3,397	6,885
Interest payable and similar charges	3	(1,072)	(2,188)
<b>Net interest receivable</b>		<u>2,325</u>	<u>4,697</u>
Net fair value (loss)/gain on derivatives		(1,593)	346
Other operating income	4	297	410
Unrealised exchange gain/(loss) on loan liabilities		1,744	(43)
Operating expenses		(2,207)	(2,869)
<b>Profit on ordinary activities before taxation</b>	5	<u>566</u>	<u>2,541</u>
Tax on profit on ordinary activities	6	(119)	(534)
<b>Profit on ordinary activities after taxation</b>	14	<u><u>447</u></u>	<u><u>2,007</u></u>

The profit for the year was derived from continuing operations

There were no recognised gains or losses other than the profit for the year, accordingly no statement of recognised gains and losses is given

The notes on pages 11 to 22 form part of these financial statements

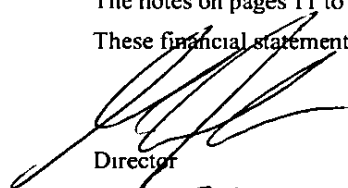
## Balance sheet

at 30 November 2010

	Notes	2010 £000	2009 £000
<b>Fixed assets</b>			
Loan to originator	8	58,251	67,124
<b>Current assets</b>			
Debtors			
Amounts falling due after one year	9	3,404	4,997
Amounts falling due within one year	10	84	271
Cash at bank and in hand		40,143	41,153
		<u>43,631</u>	<u>46,421</u>
<b>Creditors</b> amounts falling due within one year	11	(38,763)	(38,608)
<b>Net current assets</b>		<u>4,868</u>	<u>7,813</u>
<b>Creditors</b> amounts falling due after one year	12	(63,134)	(75,399)
<b>Net liabilities</b>		<u>(15)</u>	<u>(462)</u>
<b>Capital and reserves</b>			
Issued share capital	13	13	13
Profit and loss account	14	(28)	(475)
<b>Shareholders deficit</b>	15	<u>(15)</u>	<u>(462)</u>

The notes on pages 11 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



Mark Filer

Director

Date 27 MAY 2011

## Notes to the financial statements

at 30 November 2010

### 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 originator's (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 at 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 flows 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 using the methodology below.

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 2010

### 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 were designed to 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 were designed to match the expected profile of the run-off of the non-sterling denominated Loan Notes

## Notes to the financial statements

at 30 November 2010

### 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 instruments disclosure*

The Company has taken advantage of the exemption conferred by paragraph 2(d) of Financial Reporting Standard No. 29, not to disclose financial instruments 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.

#### *Statement of cash flows*

Under Financial Reporting Standard No. 1 (Revised), the Company is exempt from the requirement to prepare a statement of cash flows on the grounds that a parent undertaking includes the Company in its publicly available 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 2010

### 2. Interest receivable and similar income

	2010	2009
	£000	£000
On loan to originator	3,130	6,552
Other interest	267	333
	<u>3,397</u>	<u>6,885</u>

### 3. Interest payable and similar charges

	2010	2009
	£000	£000
Mortgage backed loan notes	770	1,879
Other interest	302	309
	<u>1,072</u>	<u>2,188</u>

### 4. Other operating income

	2010	2009
	£000	£000
Redemption fees	22	39
Sundry fee income	275	371
	<u>297</u>	<u>410</u>

### 5. Profit on ordinary activities before taxation

This is stated after charging/(crediting)

	2010	2009
	£000	£000
Auditors' remuneration – for audit services	14	13
Other fees to auditors – taxation services	9	8
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	(480)	450
Deferred consideration	1,186	(383)
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgages	1,161	2,307
	<u>1,161</u>	<u>2,307</u>

Auditors' remuneration of £5,100 (2009 – £4,759) and taxation services of £900 (2009 – £1,763) for the parent company, Preferred Residential Securities 8 Parent Limited was borne by the Company

## Notes to the financial statements

at 30 November 2010

### 6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2010 £000	2009 £000
Current tax		
UK corporation tax on profit in the year	1	—
Total current tax (note 6(b))	1	—
Deferred tax		
Origination and reversal of timing differences	118	534
Effect of rate change on opening liability	—	—
Total deferred tax charge (note 17)	118	534
Tax on profit on ordinary activities	119	534

(b) Factors affecting the tax charge in the year

The tax rate assessed for the year is equal to the small companies' rate of corporation tax in the UK of 21% (2009 – 21%). The factors affecting the tax charge are explained below

	2010 £000	2009 £000
Profit on ordinary activities before tax	566	2,541
Profit on ordinary activities multiplied by the standard rate of corporation tax of 21% (2009 – 21%)	119	534
Effects of Other short-term timing differences	(118)	(534)
Current tax charge for the year (note 6(a))	1	—

### 7. Information regarding directors and employees

The Company has no employees (2009 – none). The directors received no remuneration from the Company during the year (2009 – £Nil).



## Notes to the financial statements

at 30 November 2010

### 8. Loan to originator – net balances

	2010 £000	2009 £000
At 1 December	67,124	81,379
Principal repayments and mortgage redemptions	(8,192)	(11,498)
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	480	(450)
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgage loans	(1,161)	(2,307)
At 30 November	58,251	67,124

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 3 to 347 months remaining with current interest rates ranging from 2.48% to 8.73% 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

	2010 £000	2009 £000
Derivative financial instruments	3,404	4,997

The above mark to market gain is net of a credit valuation adjustment of £391,727 in respect of counterparty default risk (2009 – £400,483).

### 10. Debtors: amounts falling due within one year

	2010 £000	2009 £000
Deferred taxation (note 17)	32	150
Prepayments and accrued income	31	16
Other debtors	21	105
	84	271

## Notes to the financial statements

at 30 November 2010

### 11. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Amounts owed to group undertakings	2,118	2,118
Corporation tax	1	–
Other creditors	31,065	31,080
Accruals and deferred income	304	311
Deferred consideration	5,275	5,099
	<u>38,763</u>	<u>38,608</u>

Other creditors include £31,050,000 (2009 – £31,050,000) owing to the liquidity facility provider. This arises from the drawdown of the facility due to the increased counterparty default risk of the provider. The cash drawing of £31,050,000 (2009 – £31,050,000) is included in Cash at bank and in hand.

### 12. Creditors: amounts falling due after one year

	2010 £000	2009 £000
GBP denominated mortgage backed loan notes due 2042 – Class A1a1	17,400	22,132
GBP denominated mortgage backed loan notes due 2042 – Class A1a2	9,613	12,228
USD denominated mortgage backed loan notes due 2042 – Class A1b	6,175	7,445
EUR denominated mortgage backed loan notes due 2042 – Class A1c	8,032	11,163
GBP denominated mortgage backed loan notes due 2042 – Class B1a	6,684	6,684
EUR denominated mortgage backed loan notes due 2042 – Class B1c	2,566	2,803
GBP denominated mortgage backed loan notes due 2042 – Class C1a	2,131	2,131
EUR denominated mortgage backed loan notes due 2042 – Class C1c	1,509	1,649
GBP denominated mortgage backed loan notes due 2042 – Class D1a	5,853	5,853
EUR denominated mortgage backed loan notes due 2042 – Class D1c	1,509	1,649
GBP denominated mortgage backed loan notes due 2042 – Class E	1,662	1,662
	<u>63,134</u>	<u>75,399</u>

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 Acenden 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.

## Notes to the financial statements

at 30 November 2010

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

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.

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

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

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

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,

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.

## Notes to the financial statements

at 30 November 2010

### 13. Issued share capital

	2010	2009
	£000	£000
<i>Allotted and called up</i>		
2 shares 100% called and fully paid	—	—
49,998 shares 25% called and fully paid	13	13
	<u>13</u>	<u>13</u>

Share capital of £2 was issued on incorporation on 10 January 2005. 49,998 shares were issued on 2 March 2005.

### 14. Profit and loss account

	2010	2009
	£000	£000
Retained loss brought forward	(475)	(2,482)
Profit for the year	447	2,007
Retained loss carried forward	<u>(28)</u>	<u>(475)</u>

### 15. Reconciliation of movement in shareholders' funds

	2010	2009
	£000	£000
Opening shareholders' deficit	(462)	(2,469)
Profit for the year	447	2,007
Closing shareholders' deficit	<u>(15)</u>	<u>(462)</u>

### 16. Derivatives and other financial instruments

As explained on page 4 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	Total	Weighted	Weighted
	Total	Variable	fixed	average
	£000	rate	rate	time for
		£000	£000	which rate
				is fixed
				Years
<i>2010</i>				
Interest rate profile	94,184	94,184	—	—
<i>2009</i>				
Interest rate profile	106,449	106,449	—	—

## Notes to the financial statements

at 30 November 2010

### 16. Derivatives and other financial instruments (continued)

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

	<i>Total</i>	<i>Total</i>	<i>Total</i>	<i>Weighted</i>	<i>Weighted</i>
	<i>rate</i>	<i>Variable</i>	<i>fixed</i>	<i>average</i>	<i>average</i>
	<i>£000</i>	<i>rate</i>	<i>rate</i>	<i>interest</i>	<i>time for</i>
		<i>£000</i>	<i>£000</i>	<i>rate</i>	<i>which rate</i>
				<i>%</i>	<i>is fixed</i>
					<i>Years</i>
<b>2010</b>					
Interest rate profile	101,798	101,798	–	–	–
<b>2009</b>					
Interest rate profile	113,274	113,274	–	–	–

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 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 A1c (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 D1c (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

	<i>Book</i>	<i>Fair</i>	<i>Book</i>	<i>Fair</i>
	<i>value</i>	<i>value</i>	<i>value</i>	<i>value</i>
	<i>2010</i>	<i>2010</i>	<i>2009</i>	<i>2009</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On balance sheet				
Loan to originator	58,251	50,684	67,124	60,232
Cash and deposits	40,143	40,143	41,153	41,153
Mortgage backed loan notes due 2042	(63,134)	(51,736)	(75,399)	(62,826)
Liquidity facility provider creditor	(31,050)	(31,050)	(31,050)	(31,050)
Derivative financial instruments	3,404	3,404	4,997	4,997

## Notes to the financial statements

at 30 November 2010

### 16. Derivatives and other financial instruments (continued)

#### (d) Fair value of financial instruments (continued)

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 loan notes

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

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.

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 as at 30 November 2010, the notional value of these caps was £Nil (2009 – £Nil) and the recognised positive fair value was £Nil (2009 – £Nil). These caps would otherwise have expired on 10 March 2009.

The Company uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks. At 30 November 2010, the notional value of the swaps held was £16,150,028 (2009 – £19,324,274) and the recognised positive fair value of the swaps was £3,404,080 (2009 – £4,996,867 positive).

### 17. Deferred taxation

	2010 £000	2009 £000
Asset at start of year	150	684
Deferred tax charge during the year (note 6)	(118)	(534)
Asset at the end of the year	32	150

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% (2009 – 21%) being the UK small companies' corporation tax rate at the balance sheet date.

	2010 £000	2009 £000
Effect of Financial Reporting Standard No. 26 adjustment for EIR	(17)	69
Effect of Financial Reporting Standard No. 26 adjustment for Derivatives	(715)	(1,050)
Effect of Financial Reporting Standard No. 26 adjustment for FX hedge	764	1,131
Total deferred tax asset recognised at 21%	32	150

In the Budget 2011 on 25 March 2011 the small companies' corporation tax rate was reduced to 20% as from 1 April 2011. This was enacted on 29 March 2011 following the House of Commons approval of the Budget resolution.

The directors estimate that the effect of these changes will be to decrease the Company's deferred tax asset by £1,574 as a result of the reversal of timing differences in the following years.

## Notes to the financial statements

at 30 November 2010

### 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 are 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.