Preferred Residential Securities 06-1 PLC
(formerly Sackdale PLC)

Report and Financial Statements

30 November 2006

Registered No 05595906

Registered No 05595906

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

Secretary
Clifford Chance Secretaries (CCA) Limited

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

Bankers
Barclays Bank PLC
54 Lombard Street
London EC3V 9EX

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

Registered Office
Tower 42, Level 11
25 Old Broad Street
London EC2N 1HQ

Directors' report

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

Principal activities

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

Business review

The Company was incorporated as Sackdale PLC on 18 October 2005 The Company changed its name to Preferred Residential Securities 06-1 PLC on 21 December 2005 and commenced its activities on 21 February 2006 On 21 February 2006 the Company purchased £431,359,017 of mortgages from Preferred Mortgages Limited Further consideration may be payable to Preferred Mortgages Limited dependent on the future performance of the mortgages To facilitate the purchase, the Company issued a series of mortgage-backed loans on 21 February 2006 These loan notes are listed on the Irish Stock Exchange

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

At the period end the mortgage balance after FRS 26 adjustments was £384,329,374 At the December 2006 Interest Payment Date following the period end, the Company held the following mortgage loans excluding any FRS 26 adjustments

	Principal Balance £000	*Number of loans*
First mortgages	380,471	4,628
Second mortgages	–	–
Total	380,471	4,628

These mortgages provide security against loan notes in issue totalling £380,432 522 as at the December 2006 Interest Payment Date The directors consider the mortgage loans to be adequate collateral against the loan notes in issue

At the period end the mortgage loans generated a weighted average margin over funding costs of 2 26% The weighted average cost of funds at the period end was 5 71% The directors consider there to be adequate arrangements in place to hedge against future movements in cost of funds

The mortgage loans exhibited the following quarterly arrears profile

	Q2	*Q3*	*Q4*
	%	*%*	*%*
Delinquencies days – (excluding repossessions)			
Current	88 76	85 00	79 04
> 30 <= 60	5 00	5 73	8 26
> 60 <= 90	2 45	3 27	3 56
> 90 <= 120	2 05	2 23	2 69
> 120	1 74	3 77	6 45
Total	100 00	100 00	100 00

The directors consider the level of arrears to be within expectations

Directors' report

Going concern

The loss for the period of £655,062 includes a fair value loss on derivative positions of £846,790 The directors are satisfied that the fair value loss incurred on these derivative positions will be offset by gains on hedged items, not themselves held at fair value, that will be realised throughout the life of the Company Consequently, the directors believe that the Company is a going concern and accordingly have prepared the financial statements on this basis

Dividend

The Directors do not recommend the payment of a dividend for the period

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 period-end

Directors

The present members of the Board are listed on page 1

Wilmington Trust SP Services (London) Limited, M H Filer and R G Baker were appointed as directors on 20 December 2005 A Levy and D J Pudge were appointed directors on 18 October 2005 and resigned on 20 December 2005 Clifford Chance Secretaries Limited were appointed as secretary to the Company on 18 October 2005 and resigned on 20 December 2005 Clifford Chance Secretaries (CCA) Limited were appointed as secretary to the Company on 20 December 2005

Principal risks and uncertainties

Financial instrument risks

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

The Company also enters into derivative transactions where necessary (principally interest rate and currency swaps) to manage its exposure to interest rate and foreign currency risk

It is, and has been throughout the period 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 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 purchased by the Company in the period were required to adhere to specific lending criteria The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors

Directors' report

Principal risks and uncertainties (continued)

Interest rate risk

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

Foreign exchange risk

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

Liquidity risk

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

Disclosure of information to the auditors

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

Auditors

Ernst & Young LLP were appointed as auditors on 20 December 2005

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

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

Director Robin Baker

Date 20/12/2007.

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

ERNST & YOUNG

Independent auditors' report

to the members of Preferred Residential Securities 06-1 PLC

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

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

EY ERNST & YOUNG

Independent auditors' report

to the members of Preferred Residential Securities 06-1 PLC (continued)

Opinion

In our opinion

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

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
Date 21 12 07

Profit and loss account

for the period ended 30 November 2006

	Notes	*Period ended 30 November 2006* £
Interest receivable and similar income	2	24,403,792
Interest payable and similar charges	3	(25,343,051)
Net interest receivable		(939,259)
Other operating income	4	617,318
Total operating income		(321,941)
Operating income		359,913
Net fair value loss on derivatives		(846,790)
Loss on ordinary activities before taxation	5	(808,818)
Tax on loss on ordinary activities	6	153,756
Loss on ordinary activities after taxation	14	(655,062)

The loss for the period was derived from continuing operations

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

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

Balance sheet
as at 30 November 2006

	Notes	*2006* £
Current assets		
Debtors		
Amounts falling due after one year	9	393,225,318
Amounts falling due within one year	10	6,446,973
Cash at bank and in hand		35 099,463
		434,771,754
Creditors: amounts falling due within one year	11	(19,630,933)
Net current assets		415,140,821
Creditors amounts falling due after one year	12	(415,783,382)
Net assets		(642,561)
Capital and reserves		
Called up share capital	13	12,501
Profit and loss account	14	(655,062)
Shareholders' funds	15	(642,561)

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

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

Robin Baker

Director

Date 20/12/2007

Notes to the financial statements

at 30 November 2006

1. Accounting policies

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

Basis of preparation

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

Income recognition

Interest income on mortgage loan assets is recognised in the profit and loss account on an Effective Interest Rate (EIR) basis The EIR recognises revenue equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan

Mortgage loans

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

Provisions

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

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

Taxation

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

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

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

Deferred consideration

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

Notes to the financial statements

at 30 November 2006

1 Accounting policies (continued)

Derivatives

The Company use derivative financial instruments to hedge its exposure to interest rate and currency risk arising from operational, financing and investment activities The Company does not hold or issue derivative financial instruments for trading purposes However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments

FRS 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet Subsequent to initial recognition, derivatives are remeasured to fair value Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account The fair value of the interest rate and currency swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the balance sheet date

Currency swaps

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

Interest rate caps

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

Issue costs

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

Foreign currencies

Mortgage-backed floating rate notes included in financial liabilities denominated in foreign currencies at the balance sheet date, are reported at the rates of exchange prevailing at the reporting date Any exchange differences arising in the period on the settlement or retranslation of foreign currency liabilities are included in the profit and loss account

Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3 (c) of Financial Reporting Standard No 8, since the Company is 100% owned by Preferred Residential Securities 06-1 Parent Limited and is consolidated under Financial Reporting Standard No 5 into the consolidated financial statements of Preferred Holdings Limited, which are publicly available

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

Cash flow statement

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

Turnover

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

Notes to the financial statements

at 30 November 2006

2. Interest receivable and similar income

	Period ended 30 November 2006 £
On mortgage loans	23,746,958
Other interest	656,834
	24,403,792

3 Interest payable and similar charges

	Period ended 30 November 2006 £
Detachable 'A' coupon interest	2,645,922
Subordinated loan interest	520,224
Mortgage backed loan notes	17,055,565
Amortisation of capitalised issue costs	5,121,340
	25,343,051

4 Other operating income

	Period ended 30 November 2006 £
Redemption administration fees	149,664
Sundry fee income	467,654
	617,318

5. Loss on ordinary activities before taxation

This is stated after charging/(crediting)

	Period ended 30 November 2006 £
Auditors' remuneration - audit services	8,500
Provision for mortgage losses	1,084,861
Deferred consideration	(2,463,501)

Notes to the financial statements

at 30 November 2006

6. Tax on loss on ordinary activities

(a) Analysis of tax charge in the period

	Period ended 30 November 2006
	£
Current tax	
UK corporation tax charge/(credit) on profits of the period	4,777
Adjustments in respect of prior periods	–
Total current tax	4,777
Deferred tax	
Current year charge/(credit)	(158,533)
Total tax charge/(credit) for the period	(153,756)

(b) Factors affecting the tax charge in the period

The current tax assessed of £3,109 on the loss on ordinary activities for the period is higher than the small companies' rate of corporation tax in the UK of 19% The differences are explained below

	Period ended 30 November 2006
	£
Loss on ordinary activities before tax	(808,818)
Loss on ordinary activities multiplied by the rate of corporation tax of 19%	(153,675)
Effects of	
Timing differences	158,533
Marginal relief	(81)
Adjustment in respect of prior period	–
	4,777

7. Information regarding directors and employees

The Company has no employees The directors received no remuneration from the Company during the period

Notes to the financial statements

at 30 November 2006

8. Mortgage loans – net balances

	Mortgages £	*Mortgage loss provision* £	*Total* £
At incorporation	–	–	–
Net movement in the period	384,329,374	(1,084,861)	383,244,513
At 30 November 2006	384,329,374	(1,084,861)	383,244,513

Net mortgage loans of £383 244 513 are held as security against the loan notes referred to in note 12

9. Debtors: amounts falling due after one year

	2006 £
Mortgage loans net balances (note 8)	379,615,318
Amount due from related parties	13,610,000
	393 225,318

10. Debtors· amounts falling due within one year

	2006 £
Mortgage loans net balances (note 8)	3,629,195
Prepayments and accrued income	206,793
Other debtors	2,452,452
Provision for deferred tax	158,533
	6 446,973

Notes to the financial statements

at 30 November 2006

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

	2006
	£
Deferred consideration	724,370
Subordinated loan	11,703.039
Other creditors	1,967,891
Accruals and deferred income	5,230,856
Corporation tax	4 777
	19,630,933

On 23 February 2006, Preferred Mortgages Limited made available to the Company a subordinated loan ("the loan") comprising of five tranches The first tranche of the loan ("Tranche A") was £2,475,000 and was used to meet the costs and expenses arising in respect of the issue of the Notes The second tranche of the loan ("Tranche B") was £2,376 000 and was used in funding the reserve fund initially The third tranche ("Tranche C") was £nil The fourth tranche ("Tranche D") was £10,000 and was used for funding the non-verified interest shortfall The fifth tranche ("Tranche E") was £6,539,332 and was used for funding the discounted margin reserve ledger Interest on the loan is charged at a rate of LIBOR plus 4% per annum

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

	2006
	£
USD denominated mortgage backed loan notes due 2028 – Class A1b	51 088,895
GBP denominated mortgage backed loan notes due 2028 – Class A1c	45,518,624
EUR denominated mortgage backed loan notes due 2043 – Class A2a	47 135,271
USD denominated mortgage backed loan notes due 2043 – Class A2b	10,253,604
GBP denominated mortgage backed loan notes due 2043 – Class A2c	167,093,550
EUR denominated mortgage backed loan notes due 2043 – Class B1a	3.703,628
GBP denominated mortgage backed loan notes due 2043 – Class B1c	26,000,000
EUR denominated mortgage backed loan notes due 2043 – Class C1a	11 447 579
GBP denominated mortgage backed loan notes due 2043 – Class C1c	6.500,000
EUR denominated mortgage backed loan notes due 2043 – Class D1a	10,168,144
GBP denominated mortgage backed loan notes due 2043 – Class D1c	10,000,000
EUR denominated mortgage backed loan notes due 2043 – Class DTc	1 863,648
GBP denominated mortgage backed loan notes due 2043 – Class E1c	8,120,000
EUR denominated mortgage backed loan notes due 2043 – Class ETc	4,540,000
GBP denominated mortgage backed loan notes due 2043 – Class FTc	4,466,832
	407,899,775
Less Issue costs	(1,764,612)
Derivative financial instruments	9,648.219
	415,783,382

Notes to the financial statements

at 30 November 2006

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

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

Class A1b	DOLLAR LIBOR + 0 055%
Class A1c	LIBOR + 0 07%
Class A2a	EURIBOR + 0 19%
Class A2b	DOLLAR LIBOR + 0 19%
Class A2c	LIBOR + 0 19%
Class B1a	EURIBOR + 0 28%
Class B1c	LIBOR + 0 30%
Class C1a	EURIBOR + 0 51%
Class C1c	LIBOR + 0 53%
Class D1a	EURIBOR + 0 95%
Class D1c	LIBOR + 1 00%
Class DTc	LIBOR + 1 00%
Class E1c	LIBOR + 3 75%
Class ETc	LIBOR + 3 50%
Class FTc	LIBOR + 6 50%

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

$$D\% \quad \times \quad \frac{A}{A2c}$$

Where

D% means, on each of the first to fourth Interest Determination Dates, the rate of 1% on each of the 5th to 6th Interest determination dates, the rate of 2% on the 7th Interest determination date, the rate of 2 1%, on each of the 8th to 11th Interest determination dates, the rate of 2 2%, on the 12th Interest determination dates, the rate of 2 3%, and 0% at all other times

A means the aggregate Sterling Equivalent Principal Amount Outstanding in respect of the A notes and

A2c means the aggregate Principal Amount Outstanding in respect of the A2c notes

The mortgage backed floating rate notes due 2043 are secured over a portfolio of mortgage loan secured by first and second charges over residential properties in the United Kingdom

The mortgages were purchased from Preferred Mortgages Limited The mortgages are administered by Preferred Mortgages Limited on behalf of Preferred Residential Securities 06-1 PLC

Notes to the financial statements

at 30 November 2006

13. Called up share capital

	2006
	£
Authorised	
Ordinary shares of £1 each	50,000
Allotted and called up	
Ordinary shares of £1	
2 shares 100% called and fully paid	2
49,998 shares 25% called and fully paid	12,499
	12,501

Share capital of £2 was issued on incorporation on 18 October 2005 Share capital of £49,998 was issued on 20 December 2005

14. Profit and loss account

	Period ended 30 November 2006
	£
Retained profit brought forward	–
Loss for the period	(655,062)
Retained profit carried forward	(655,062)

15. Reconciliation of movement in shareholders' funds

	2006
	£
Issue of ordinary share capital	12 499
Retained loss for the period	(655,062)
Net increase in shareholders' funds	(642,563)
Shareholders' funds at incorporation	2
Closing shareholders' funds	(642,561)

Notes to the financial statements

at 30 November 2006

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

	Total	*Total variable rate*	*Total fixed rate*	*Weighted average interest rate*	*Weighted average time for which rate is fixed years*
	£	£	£	%	
2006					
Interest rate profile	428,299,934	428,299,934	–	–	–

(b) Interest rate risk profile of financial assets

	Total	*Total variable rate*	*Total fixed rate*	*Weighted average interest rate*	*Weighted average time for which rate is fixed years*
	£	£	£	%	
2006					
Interest rate profile	419,428,837	419,373,492	55,345	6 09	0 75

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

USD denominated mortgage backed loan notes due 2028 - Class A1b (Notional USD 125,000,000)
GBP denominated mortgage backed loan notes due 2028 - Class A1c (Notional GBP 57,100,000)
EUR denominated mortgage backed loan notes due 2043 - Class A2a (Notional EUR 70,000,000)
USD denominated mortgage backed loan notes due 2043 - Class A2b (Notional USD 20,000,000)
GBP denominated mortgage backed loan notes due 2043 with detachable coupons due 2009 - Class A2c (Notional GBP 167,100,000)
EUR denominated mortgage backed loan notes due 2043 - Class B1a (Notional EUR 5,500,000)
GBP denominated mortgage backed loan notes due 2043 - Class B1c (Notional GBP 26,000,000)
EUR denominated mortgage backed loan notes due 2043 - Class C1a (Notional EUR 17,000,000)
GBP denominated mortgage backed loan notes due 2043 - Class C1c (Notional GBP 6,500,000)
EUR denominated mortgage backed loan notes due 2043 - Class D1a (Notional EUR 15,100,000)
GBP denominated mortgage backed loan notes due 2043 - Class D1c (Notional GBP 10,000,000)
GBP denominated mortgage backed loan notes due 2043 - Class DTc (Notional GBP 4,750,000)
GBP denominated mortgage backed loan notes due 2043 - Class E1c (Notional GBP 8,120,000)
GBP denominated mortgage backed loan notes due 2043 - Class ETc (Notional GBP 4,540,000)
GBP denominated mortgage backed loan notes due 2043 - Class FTc (Notional GBP 4,320,000)

A series of currency swaps has been entered into, in order to manage the Company's currency rate exposure in relation to non-sterling denominated loan notes

Notes to the financial statements

at 30 November 2006

16. Derivatives and other financial instruments (continued)

(d) Fair value disclosures

	Book value 30 November 2006	*Fair value 30 November 2006*
	£	£
On balance sheet		
Mortgage loans	384,329,374	384,329,374
Cash and deposits	35,099,463	35,099,463
Mortgage backed loan notes	416,596,895	416,596,895
Start up loan	11,703,039	11,703,039

The detachable A coupon notes have no value on the balance sheet but a notional value of £7,497,719 was ascribed to these notes of issue

The Company has used foreign currency swaps to hedge against any currency exposure rates At 30 November 2006 the notional value of swaps held was £133,797 096 and the recognised negative fair value was £(9,651,185)

The Company uses interest rate caps in certain circumstances to hedge against movements in interest rates At 30 November 2006, the notional value of the caps held was £38,880,000 and the recognised positive fair value was £2,966

17 Deferred taxation

	Period ended 30 November 2006
	£
Asset at start of period	–
Deferred tax credit in the profit and loss account (note 6)	158,533
	158,533

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

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

As of 1 April 2007 the UK corporation tax rate increased to 20% The impact of the rate change on the deferred tax asset/(liability) expected to reverse is greater than one year would be an increase of £8.344

	2006	*2005*
	£	£
Effect of FRS 26 adjustment for EIR	(2,357)	–
Effect of FRS 26 adjustment for Derivatives	160,890	–
Total deferred tax asset recognised at 19%	158,533	–
Total deferred tax asset recognised at 20%	166,877	–
Difference	8,344	–

Notes to the financial statements

at 30 November 2006

18 Parent undertaking and control

The Company is controlled by its parent undertaking, Preferred Residential Securities 06-1 Parent Limited, which is registered and operates in the United Kingdom

The entire issued share capital of Preferred Residential Securities 06-1 Parent Limited is held by a Trustee under the terms of a trust primarily for the benefit of the creditors of the Company or, if none, for the benefit of the holders of notes issued by the Company, and ultimately for charitable purposes

The largest group in which the results of the Company are consolidated is that headed by Lehman Brothers Holdings Inc , incorporated in the United States of America The smallest group in which they are consolidated is that headed by Preferred Residential Securities 06-1 Parent Limited, registered in England and Wales The consolidated accounts of these groups are available from 6 Broadgate, London EC2M 2QS