

Registered number: 05595906

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Directors' report and financial statements
for the year ended 30 November 2011

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PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Company Information

Directors	M H Filer J Schroeder Wilmington Trust SP Services (London) Limited
Company secretary	Wilmington Trust SP Services (London) Limited
Company number	05595906
Registered office	c/o Wilmington Trust SP Services (London) Limited Third Floor, 1 King's Arms Yard London EC2R 7AF
Auditors	Ernst & Young LLP 1 More London Place London SE1 2AF
Note trustee	BNYM Corporate Trustee Services Limited One Canada Square London E14 5AL

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Contents

	Page
Directors' report	1 - 5
Statement of directors' responsibilities	6
Independent auditors' report	7 - 8
Profit and loss account	9
Balance sheet	10
Notes to the financial statements	11 - 24

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Directors' report for the year ended 30 November 2011

The directors present their report and the audited financial statements for the year ended 30 November 2011

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

On 23 February 2006 the Company purchased £431,359,000 of mortgages 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 loan notes on 23 February 2006. These loan notes are listed on the Insh 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 2011 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 and to recognise the remeasurement adjustment of amortised cost of the loan notes. 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.

Nevertheless 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.

On 22 September 2009 the Company filed claims of US\$654,000 against the interest rate cap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement. The directors do not currently think that it is possible to quantify amounts that may eventually be recovered under these claims and therefore nothing has been recognised in the financial statements.

As required by Financial Reporting Standard No. 26, the result for the year includes a fair value loss on derivative financial instruments of £325,000 (2010 – £4,380,000 loss) and an unrealised exchange loss on restatement of foreign currency liabilities of £433,000 (2010 – £4,869,000 gain).

At the year end the loan to originator balance after the Effective Interest Rate Adjustment, was £117,968,000 (2010 – £128,508,000). At the December 2011 Interest Payment Date the originator held the following mortgage loans underlying the loan to originator, excluding the Effective Interest Rate Adjustment.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Directors' report for the year ended 30 November 2011

Business review (continued)	Principal balance £000	Number of loans
First Mortgages	112,138	1,314
Second Mortgages	744	70
	<u>112,882</u>	<u>1,384</u>

These mortgages provide security against loan notes in issue totalling £86,430,000, €46,168,000 and US\$4,508,000 as at the December 2011 Interest Payment date

The mortgage loans exhibited the following quarterly arrears profile

Delinquencies days – (excluding repossessions)	Q1 %	Q2 %	Q3 %	Q4 %
Current	67.47	67.30	67.38	67.42
>30≤60	6.07	6.26	4.60	6.75
>60≤90	4.42	5.08	4.99	3.26
>90≤120	3.41	3.98	5.28	4.35
>120	18.63	17.38	17.75	18.22
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

At the March 2012 Interest Payment Date following year end, the mortgage assets underlying the loan to originator balance, was £110,260,000, 22.88% 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 flow of the loan to originator

The performance of the mortgage loans during the year to 30 November 2011 enabled deferred consideration of £Nil (2010 – £Nil) to be paid to the current holder of the rights to the residual cash flows of the securitisation

Future developments

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. The Company is also in a net asset position as at 30 November 2011 due to the remeasurement adjustment of amortised cost of the loan notes

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 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

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Directors' report for the year ended 30 November 2011

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 2011 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 reposessions, losses and discount rates based on the most recent available information.

Results and dividends

The profit for the year, after taxation, amounted to £369,000 (2010 - £12,189,000).

The directors do not recommend the payment of a dividend for the year (2010 – £Nil).

Company's policy for 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 (2010 - nil days).

Directors

The directors who served during the year were:

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

Principal risks and uncertainties

(a) 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 entered into derivative transactions where necessary (principally interest rate and currency swaps) to manage its interest rate risk and currency risk.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

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

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Directors' report for the year ended 30 November 2011

Principal risks and uncertainties (continued)

(b) 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.

(c) 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.

(d) 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.

(e) 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 06-1 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 06-1 plc to comply with the relevant regulatory obligations.

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

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Directors' report
for the year ended 30 November 2011**

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006

This report was approved by the board and signed on its behalf



Director

Mark Filer

Date 25 MAY 2012

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Statement of directors' responsibilities for the year ended 30 November 2011

The directors are responsible for preparing the Directors' 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,
- 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 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.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Independent auditors' report to the shareholders of Preferred Residential Securities 06-1 PLC

We have audited the financial statements of Preferred Residential Securities 06-1 PLC for the year ended 30 November 2011, which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 18, set out on pages 9 to 24. 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 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

As explained more fully in the Statement of directors' responsibilities, 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 and express an opinion on 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 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 Directors' report 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 2011 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.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Independent auditors' report to the shareholders of Preferred Residential Securities 06-1 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 25 MAY 2012

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Profit and loss account
for the year ended 30 November 2011**

	Note	2011 £000	2010 £000
Interest receivable and similar income	2	4,434	2,824
Interest payable and similar charges	3	(3,533)	(3,378)
Net interest (payable)		901	(554)
Operating expenses		(1,932)	(1,276)
Other operating income	4	417	464
		(614)	(1,366)
Remeasurement adjustment of amortised cost of loan notes		1,652	16,105
Net fair value loss on derivatives		(325)	(4,380)
Unrealised exchange (loss)/gain on loan liabilities		(433)	4,869
Profit on ordinary activities before taxation	5	280	15,228
Tax on profit on ordinary activities	6	89	(3,039)
Profit for the financial year after taxation	14	369	12,189

All amounts relate to continuing operations

There were no recognised gains and losses for 2011 or 2010 other than those included in the Profit and loss account

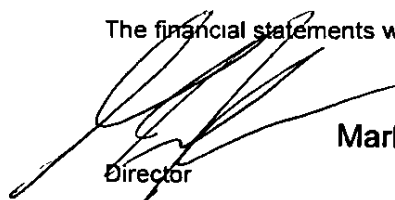
The notes on pages 11 to 24 form part of these financial statements

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC
Registered number 05595906

Balance sheet
as at 30 November 2011

	Note	£000	2011 £000	£000	2010 £000
Fixed assets					
Loan to originator	8		117,968		128,508
Current assets					
Debtors amounts falling due after more than one year	10	7,232		7,557	
Debtors amounts falling due within one year	10	344		137	
Cash at bank		33,230		34,164	
		<u>40,806</u>		<u>41,858</u>	
Creditors amounts falling due within one year	11	<u>(28,594)</u>		<u>(28,559)</u>	
Net current assets			<u>12,212</u>		<u>13,299</u>
Total assets less current liabilities			<u>130,180</u>		<u>141,807</u>
Creditors: amounts falling due after more than one year	12		<u>(124,509)</u>		<u>(136,416)</u>
Provisions for liabilities					
Deferred tax	17		<u>(4,619)</u>		<u>(4,708)</u>
Net assets			<u>1,052</u>		<u>683</u>
Capital and reserves					
Issued share capital	13		13		13
Profit and loss account	14		1,039		670
Shareholders' funds	15		<u>1,052</u>		<u>683</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by


Mark Filer
Director

Date 25 MAY 2012

The notes on pages 11 to 24 form part of these financial statements

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

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

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards 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.

1.2 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.

1.3 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.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

1. Accounting policies (continued)

Loan to originator (continued)

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).

1.4 Premium paid on mortgage assets underlying the loan to originator

Gross cash receipts received by the Company on the issue of revenue backed notes (Class ETc and FTc Notes mentioned in note 12) are paid to Preferred Mortgages Limited as a premium on acquisition of the mortgage assets underlying the loan to originator. This premium is capitalised by the Company and amortised in line with the repayment of the revenue backed notes. The amortised balance is added to the loan to originator with the costs amortised in the year included in interest payable.

1.5 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.

1.6 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 a maximum annual profit in an amount equal to 0.01 per cent of the aggregate balances of the loans in the mortgage pool before any Financial Reporting Standard No. 26 adjustments which include exchange gains or losses on revaluation of foreign currency liabilities, Effective Interest Rate adjustments, remeasurement adjustments to loan note liabilities and gains or losses on derivatives. 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, unless the Company has cumulative adjusted losses from prior years. Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the balance sheet.

On a quarterly basis surplus income received from the mortgage assets is paid to the current holder of the rights to the residual cash flows and recorded as deferred consideration in the profit and loss account.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

1. Accounting policies (continued)

1.7 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 swaps caps and currency swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date.

1.8 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.

1.9 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.

1.10 Foreign currencies

Monetary assets and monetary 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 assets or liabilities are included in the profit and loss account.

1.11 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.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

1. Accounting policies (continued)

1.12 Loan notes

Loan notes are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the 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.

1.13 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 06-1 Parent Limited and is included in its consolidated financial statements which are publicly available.

1.14 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 06-1 Parent Limited and is included in its consolidated financial statements which complies with these disclosure requirements and are publicly available.

1.15 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.

1.16 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.

2. Interest receivable and similar income

	2011 £000	2010 £000
On loan to originator	4,231	2,599
Other interest	203	225
	<u>4,434</u>	<u>2,824</u>

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Notes to the financial statements
for the year ended 30 November 2011**

3. Interest payable and similar charges

	2011	2010
	£000	£000
Loan notes	2,256	2,203
Other interest	311	269
Amortisation of capitalised issue costs	158	158
Subordinated loan interest	808	748
	3,533	3,378

4. Other operating income

	2011	2010
	£000	£000
Redemption fees	31	43
Sundry fee income	386	421
	417	464

5. Profit on ordinary activities before taxation

The operating profit is stated after charging/(crediting)

	2011	2010
	£000	£000
Auditors' remuneration	15	14
Other fees to auditors – taxation services	9	9
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	734	(463)
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgages	620	1,142

Auditors' remuneration of £5,600 (2010 – £5,100) and taxation services of £900 (2010 – £900) for the parent company, Preferred Residential Securities 06-1 Parent Limited was borne by the Company

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Notes to the financial statements
for the year ended 30 November 2011**

6. Taxation

	2011 £000	2010 £000
Analysis of tax charge in the year		
Current tax (see note below)		
UK corporation tax charge on profit for the year	-	-
Deferred tax		
Origination and reversal of timing differences	61	3,039
Effect of decreased tax rate on opening liability	(150)	-
Total deferred tax (see note 17)	<u>(89)</u>	<u>3,039</u>
Tax on profit on ordinary activities	<u>(89)</u>	<u>3,039</u>

Factors affecting tax charge for the year

The tax rate assessed for the year is higher than (2010 - lower than) the standard rate of corporation tax in the UK of 20% (2010 - 21%). The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	<u>280</u>	<u>15,228</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2010 - 21%)	56	3,198
Effects of		
Utilisation of tax losses	-	(159)
Short term timing difference leading to an increase (decrease) in taxation	(137)	(3,039)
Unrelieved tax losses carried forward	80	-
Other differences leading to an increase (decrease) in the tax charge	1	-
Current tax charge for the year (see note above)	<u>-</u>	<u>-</u>

In the Budget 2012 on 21 March 2012, there were no further changes announced to the small companies corporation tax rate, which had been reduced to 20% from 1 April 2011, as substantially enacted on 29 March 2011

7. Information regarding directors and employees

The company has no employees other than the directors, who did not receive any remuneration (2010 - £NIL)

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Notes to the financial statements
for the year ended 30 November 2011**

8. Loan to originator - net balances

	2011 £000	2010 £000
At 1 December	128,508	143,801
Movement in unamortised premium on acquisition of mortgage loans underlying the loan to originator (Note 9)	-	-
Principal repayments, mortgage redemptions and other movements	(9,186)	(14,614)
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	(734)	463
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgages	(620)	(1,142)
At 30 November	117,968	128,508

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 12 to 350 months remaining with current interest rates ranging from 2.64% to 8.89% per annum.

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

9. Premium on mortgages underlying the loan to originator

	2011 £000	2010 £000
At 1 December	5,220	5,220
Amortisation in the year	-	-
At 30 November	5,220	5,220

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Notes to the financial statements
for the year ended 30 November 2011**

10. Debtors

	2011 £000	2010 £000
Due after more than one year		
Derivative financial instruments	7,232	7,557
	<hr/>	<hr/>
Due within one year		
Other debtors	308	113
Prepayments and accrued income	36	24
	<hr/>	<hr/>
	344	137
	<hr/>	<hr/>

The derivative financial instruments are shown net of a credit valuation adjustment of £1,689,000 in respect of counterparty default risk (2010 – £870,000)

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

	2011 £000	2010 £000
Amounts owed to group undertakings	3	88
Other creditors	27,666	27,651
Accruals and deferred income	925	820
	<hr/>	<hr/>
	28,594	28,559
	<hr/>	<hr/>

Other creditors include £27,648,000 (2010 – £27,648,000) 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 £27,648,000 (2010 – £27,648,000) is included in Cash at bank and in hand.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Notes to the financial statements
for the year ended 30 November 2011**

12. Creditors: amounts falling due after one year

	2011	2010
	£000	£000
EUR Denominated Mortgage backed loan notes due 2043 - Class A2a	14,039	15,960
USD Denominated Mortgage backed loan notes due 2043 - Class A2b	2,986	3,506
GBP Denominated Mortgage backed loan notes due 2043 - Class A2c	39,161	45,598
EUR Denominated Mortgage backed loan notes due 2043 - Class B1a	3,804	3,796
GBP Denominated Mortgage backed loan notes due 2043 - Class B1c	21,016	21,481
EUR Denominated Mortgage backed loan notes due 2043 - Class C1a	11,759	11,735
GBP Denominated Mortgage backed loan notes due 2043 - Class C1c	5,254	5,370
EUR Denominated Mortgage backed loan notes due 2043 - Class D1a	10,445	10,423
GBP Denominated Mortgage backed loan notes due 2043 - Class D1c	8,083	8,262
GBP Denominated Mortgage backed loan notes due 2043 - Class E1c	6,563	6,709
GBP Denominated Revenue backed loan notes due 2043 - Class ETc	807	2,799
GBP Denominated Revenue backed loan notes due 2043 - Class FTc	7,422	6,906
	131,339	142,545
Subordinated loan	17,101	16,308
Less Issue costs	(317)	(475)
Less Remeasurement adjustment to amortised cost	(23,614)	(21,962)
	124,509	136,416

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

The mortgage backed floating rate notes due 2043 are secured over a portfolio of mortgage loans secured by first and second 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 06-1 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 mortgages underlying the loan to originator. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments.

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 2043.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

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

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 mortgages underlying the loan to originator, 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 the Class E Notes.

The revenue backed loan notes are repayable out of interest receipts from the mortgages underlying the loan to originator, with the Class E Notes ranking in priority to the Class F Notes.

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

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 E1c	LIBOR + 3.75%
Class ETc	LIBOR + 3.50%
Class FTc	LIBOR + 6.50%

On 23 February 2006, Preferred Mortgages Limited made available to the Company a subordinated loan. The loan is repayable on or before March 2028 using the amounts available in accordance with the priority of payments as set out in the Note Terms and Conditions. Interest is payable at a rate of 4% above the London Interbank Offered Rate for three month sterling deposits.

13. Issued share capital

	2011 £	2010 £
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>
Allotted, called up and partly paid		
49,998 Ordinary shares of £1 each	<u>12,500</u>	<u>12,500</u>

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

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

**Notes to the financial statements
for the year ended 30 November 2011**

14. Profit and loss account

	£000
At 1 December 2010	670
Profit for the year	369
	<hr/>
At 30 November 2011	1,039
	<hr/>

15. Reconciliation of movement in shareholders' funds

	2011 £000	2010 £000
Opening shareholders' funds/(deficit)	683	(11,506)
Profit for the year	369	12,189
	<hr/>	<hr/>
Closing shareholders' funds	1,052	683
	<hr/>	<hr/>

16. Derivatives and other financial instruments

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

(a) Interest rate risk

	2011 £000	2010 £000
Financial assets	158,430	170,229
Financial liabilities	(152,474)	(164,539)
	<hr/>	<hr/>

All financial assets and liabilities are subject to variable interest rates.

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 loan notes, are set with reference to the London Interbank Offered Rate. The rates of interest payable on the loan notes are set as detailed in note 12.

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

16. Derivatives and other financial instruments (continued)

(b) Foreign currency risk

With the exception of the Loan Notes, all financial instruments are denominated in Sterling. The 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 - 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 revenue 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 revenue backed loan notes due 2043 - Class ETc (Notional GBP 4,540,000)
 GBP denominated revenue backed loan notes due 2043 - Class FTc (Notional GBP 4,320,000)

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.

(c) Fair value of financial instruments

	Book Value 2011 £000	Fair Value 2011 £000	Book Value 2010 £000	Fair Value 2010 £000
Financial assets				
Loan to originator	117,968	86,166	128,508	88,199
Cash and deposits	33,230	33,230	34,164	34,164
Derivative financial instruments	7,232	7,232	7,557	7,557
	<u>158,430</u>	<u>126,628</u>	<u>170,229</u>	<u>129,920</u>
Financial liabilities				
Loan notes	(124,826)	(87,354)	(136,891)	(89,695)
Subordinated loan	-	-	-	-
Liquidity facility provider creditor	(27,648)	(27,648)	(27,648)	(27,648)
	<u>(152,474)</u>	<u>(115,002)</u>	<u>(164,539)</u>	<u>(117,343)</u>

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

16. Derivatives and other financial instruments (continued)

(c) 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 Company used interest rate caps in order to manage the Company's interest rate risk in relation to fixed rate mortgage loans underlying the loan to originator. All these loans have moved to a variable interest rate and the interest rate caps have therefore expired and as at 30 November 2011, the notional value of these caps was £Nil (2010 – £Nil) and the recognised positive fair value was £Nil (2010 – £Nil).

The Company uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks. At 30 November 2011, the notional value of the swaps held was £34,838,000 (2010 – £37,591,000) and the recognised positive fair value of the Euro swaps and US dollar swap was £7,003,000 and £229,000 respectively (2010 – £7,234,000 and £323,000).

On 22 September 2009 the Company filed claims of US\$654,000 against the interest rate cap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement. The directors do not currently think that it is possible to quantify amounts that may eventually be recovered under these claims and therefore nothing has been recognised in the financial statements.

17. Deferred taxation

	2011 £000	2010 £000
At end of year	4,619	4,708

The provision for deferred taxation is made up as follows

	2011 £000	2010 £000
Effect of EIR adjustment	102	153
Effect of adjustment for Derivatives	1,447	1,587
Effect of adjustment for FX revaluation	(1,653)	(1,644)
Remeasurement adjustment of amortised cost of Loan Notes	4,723	4,612
	4,619	4,708

PREFERRED RESIDENTIAL SECURITIES 06-1 PLC

Notes to the financial statements for the year ended 30 November 2011

17. Deferred taxation (continued)

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No 26 adjustments. Losses of £17,453,000 (2010 – £17,060,000) resulting in a deferred tax asset of £3,491,000 (2010 – £3,583,000) have not been recognised. The deferred tax asset has not been recognised due to uncertainty surrounding the Company's future profitability.

Deferred taxation has been recognised at 20% (2010 – 21%) being the UK small companies' corporation tax rate at the balance sheet date.

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 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 06-1 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, Mandy, Cardiff CF14 3UZ.