

EUROSAIL 2006-4NP PLC

Report and Financial Statements

30 November 2015

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EUROSAIL 2006-4NP PLC

Company Information

Directors	M H Filer Wilmington Trust SP Services (London) Limited J Traynor
Company Secretary	Wilmington Trust SP Services (London) Limited
Registered number	05924773
Auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf, London E14 5EY
Registered office	c/o Wilmington Trust SP Services (London) Limited Third Floor, 1 King's Arms Yard London EC2R 7AF
Note-Trustee	BNYM Corporate Trustee Services Limited One Canada Square London E14 5AL

EUROSAIL 2006-4NP PLC

Contents

	Page
Strategic report	1-3
Directors' report	4-5
Directors' responsibilities statement	6
Independent auditor's report	7-8
Profit and loss account	9
Balance sheet	10
Cash flow statement	11
Notes to the financial statements	12-27

EUROSAIL 2006-4NP PLC

Strategic Report for the year ended 30 November 2015

Introduction and principal activities

On 27 November 2006 Eurosail 2006-4NP plc ("the Company") purchased £744,999,000 mortgages from Southern Pacific Mortgage Limited and Preferred Mortgages Limited. Further consideration in the form of deferred consideration may be payable to Southern Pacific Mortgage Limited and Preferred Mortgages Limited dependent on future performance of the mortgages. The acquisition of these mortgage assets has been accounted for as loans to originators as detailed in note 1 of the financial statements. To facilitate the purchase, the Company issued a series of loan notes on 27 November 2006. These loan notes are listed on the Irish Stock Exchange.

As a consequence of the transfer of the mortgages not qualifying for derecognition, the mortgages have been accounted for as receivables by the originators.

The mortgage servicing, cash bond administration and accounting services are provided by Acenden Limited an external party.

Business Review

The results for the year ended 30 November 2015 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 economic environment has improved which led to a fall in the number of repossessions and in the number of mortgages in arrears.

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 the Director's report.

The Company incurred a charge of £3,909,000 (2014 - £6,031,000) relating to deferred consideration. Deferred consideration payable as the end of the year was £5,093,000 (2014 : £3,041,000).

There were no other significant movements in the Profit and Loss account that are not detailed elsewhere in these financial statements.

At the year end the loans to originators balance after the Effective Interest Rate adjustment, specific provisions and unamortised discounts and premiums on acquisition, was £224,296,000 (2014 - £246,038,000). At the December 2015 Interest Payment Date the originators held the following percentage of mortgage loans underlying the loans to originators, excluding the Effective Interest Rate adjustment:

	2015		2014	
	Principal Balance	Number of Loans	Principal Balance	Number of Loans
First Charge Mortgages	100%	2,580	100%	2,726
	<u>100%</u>	<u>2,580</u>	<u>100%</u>	<u>2,726</u>

These mortgages provide security against loan notes in issue totalling £115,274,000 and €166,755,000 (2014 - £129,544,000 and €176,133,000) as at the September 2015 Interest Payment date excluding accrued interest.

EUROSAIL 2006-4NP PLC

Strategic Report for the year ended 30 November 2015 (continued)

Business Review (continued)

The key performance indicator for the Company is the following quarterly arrears profile:

	Mar-15	Jun-15	Sep-15	Dec-15
	%	%	%	%
Delinquencies days				
Current	82.00	83.15	82.75	84.21
>30<=60	3.52	2.99	3.60	2.79
>60<=90	2.54	2.25	2.37	2.14
>90<=120	1.77	1.73	1.34	1.57
>120	10.17	9.88	9.94	9.29
Total	100.00	100.00	100.00	100.00

Provision balance as at the end of the year was £759,000 (2014: £1,607,000). The decrease in provision is attributable to the general increase in house prices. At the March 2016 Interest Payment Date following the year end, the mortgage assets underlying the loans to originators balance, was £216,470,000, 12.24% of the balance was greater than 3 months in arrears.

Interest accrued for the year in relation to impaired financial assets is 3.46% (2014: 3.29%) of the principal balance.

The directors consider the level of arrears to be within expectations considering the improvement in market conditions.

A monthly accrual is made in the Profit and Loss Account for deferred consideration that will ultimately become payable. Under the terms of the waterfall of payments any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. The performance of the mortgage loans during the year to 30 November 2015 enabled a deferred consideration of £1,857,000 (2014 – £2,989,000) to be paid to the current holder of the rights to the residual cash flows of the securitisation. Deferred consideration payable as the end of the year was £5,093,000 (2014 : £3,041,000).

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 and other creditors) 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.

(a) 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 loans to originators 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 collateralised non recourse loans to the originators 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 has been mitigated by the payment of cash collateral to the Company.

Strategic Report for the year ended 30 November 2015 (continued)

(b) 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. As a consequence of the interest rate swap counterparty defaulting on the swap, the interest rate exposure remains unhedged.

(c) 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.

(d) Liquidity risk

The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets underlying the loans to originators 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.

Future business developments and strategy

The Directors expect the business will continue in its principal activities described above for the foreseeable future and will ensure that customers continue to be serviced on a business as usual basis.

The business is subject to a number of risks under the principal risks and uncertainties section, which could adversely affect the business in future years and the Directors will continue to monitor and manage those risks.

This report was approved by the Board on 29 June 2016 and signed on its behalf.



Mignon Clarke
for and on behalf of Wilmington Trust SP Services (London) Limited
Director

Date: 29 June 2016

Directors' report for the year ended 30 November 2015

The directors present their report and the audited financial statements for the year ended 30 November 2015.

Principal activities

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

Results and dividends

The loss for the year, after taxation, amounted to £293,000 (2014 - loss £1,412,000).

The directors do not recommend the payment of a dividend for the year (2014 – £Nil).

As a result of incorrectly preparing consolidated accounts at the holding company level, exemptions under FRS 1, FRS 8 and FRS 29 were incorrectly applied in the prior year and so the company did not prepare a cash flow statement, disclose related parties or disclose financial instruments. In the current year, consolidated accounts at the holding company level have not been prepared and so the exemptions have not been applied. As such, a cash flow statement (page 11), related parties disclosures (note 21) and financial instruments disclosures (credit risk and liquidity risk) (note 16) have been included in these financial statements.

In the current year, the fair value methodology has been reassessed; for comparative purposes, prior year fair values have been restated (note 16). The restatement did not impact previously reported amounts in the balance sheet or profit and loss account.

Amounts in the balance sheet as at 30 November 2014 have been restated to reflect the split of current and non-current balances of loans to originator. The restatement did not impact previously reported profit before

Directors

The directors who served during the year and up to the date of the approval of the financial statements are:

M H Filer

Wilmington Trust SP Services (London) Limited

J Traynor

None of the above directors have any interests in the shares of the Company. There are no directors' interests requiring disclosure under Companies Act 2006.

Future developments

The directors of the Company do not envisage any change to the principle activities of the Company as described in the Strategic Report in the future.

Going concern

The Company has reported an operating loss for the year and is in a net asset position as at 30 November 2015.

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. Forecasts indicate that the Company will have adequate cash to enable it to meet its obligations within the next 12 months from the date of the approval of these financial statements. Additionally, the Company has performed as expected during the year and is expected to do the same over the next 12 months from the date of the approval of these financial statements. 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.

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 2015 the respective fair values of the mortgage assets underlying the loan to originator, and loan notes are higher and lower, respectively, than the carrying values recorded in the balance sheet.

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

Corporate governance

The Directors are responsible for internal control in Eurosail 2006-4NP plc and for reviewing its 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 Eurosail 2006-4NP plc to comply with the relevant regulatory obligations.

EUROSAIL 2006-4NP PLC

Directors' report for the year ended 30 November 2015 (continued)

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.

Disclosure 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 the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Events occurring after balance sheet date

On 23 June 2016, the UK voted to leave the European Union. The impact of this unprecedented decision is currently unknown as the UK government is yet to agree the terms and conditions upon which the UK will leave the European Union. Until such time as formal terms are agreed, there is a high degree of uncertainty and consequently market volatility is expected. The impact of this volatility and uncertainty on the company is yet to be determined. To date, there have been no matters that warrant adjustment to the financial results as at 30 November 2015 and for the year then ended.

There are no other significant events occurring after the balance sheet date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 30 November 2015 and for the year then ended.

Directors' indemnity and Directors' and Officers' liability insurance

Wilmington Trust SP Services (London) Limited has made qualifying third party indemnity provisions for the benefit of M H Filer, J Traynor, and Wilmington Trust SP Services (London) Limited. These indemnity provisions remain in force at the date of this report.

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.

Employees

The Company does not have any employees (2014: Nil). Administration of the mortgage assets is carried out by Acenden Limited, a third party.

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

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



Mignon Clarke

for and on behalf of Wilmington Trust SP Services (London) Limited
Director

Date: 29 June 2016

EUROSAIL 2006-4NP PLC

Directors' responsibilities statement for the year ended 30 November 2015

The Directors are responsible for preparing the Strategic Report, 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 judgements 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 auditor's report to the member of Eurosail 2006-4NP plc

We have audited the financial statements of Eurosail 2006-4NP plc for the year ended 30 November 2015, which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and related notes 1 to 25. 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 member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 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 Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing this audit. 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 2015 and of its loss 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the member of Eurosail 2006-4NP 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 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.



Michael-John Albert (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date: 30 June 2016

EUROSAIL 2006-4NP PLC

Profit & Loss Account for the year ended 30 November 2015

		2015	2014
	Notes	£'000	£'000
Interest receivable and similar income	2	6,894	7,437
Interest payable and similar charges	3	(2,198)	(2,882)
Net interest receivable		<u>4,696</u>	<u>4,555</u>
Operating expenses		(5,157)	(6,544)
Other operating income	4	<u>11</u>	<u>17</u>
		(450)	(1,972)
Net fair value loss on derivatives		(15,978)	(5,941)
Unrealised exchange gain on retranslation of loan liabilities		<u>16,086</u>	<u>6,143</u>
Loss on ordinary activities before taxation	5	(342)	(1,770)
Tax on loss on ordinary activities	6	49	358
Loss on ordinary activities after taxation		<u><u>(293)</u></u>	<u><u>(1,412)</u></u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2015 or 2014 other than those included in the Profit and Loss Account.

The notes on pages 12 to 27 form an integral part of these financial statements.

EUROSAIL 2006-4NP PLC

Balance Sheet as at 30 November 2015

	Notes	2015 £'000	2015 £'000	restated 2014 £'000	restated 2014 £'000
Non-current assets					
Debtors: amounts falling due after more than one year	10		219,100		240,525
Current assets					
Debtors: amounts falling due within one year	10	5,334		5,676	
Derivative financial instruments		6,887		22,848	
Cash at bank		17,373		75,000	
		<u>29,594</u>		<u>103,524</u>	
Creditors: amounts falling due within one year	11	(14,748)		(72,429)	
Net current assets			<u>14,846</u>		<u>31,095</u>
Total assets less current liabilities			233,946		271,620
Creditors: amounts falling due after more than one year	12		(232,042)		(269,373)
Deferred tax	17		(393)		(443)
Net assets			<u>1,511</u>		<u>1,804</u>
Capital and reserves					
Issued share capital	13		13		13
Profit and loss account	14		1,498		1,791
Shareholder's funds	15		<u>1,511</u>		<u>1,804</u>

These financial statements were approved and authorised by the board on 29 June 2016 and were signed on its behalf by:



Mignon Clarke
for and on behalf of Wilmington Trust SP Services (London) Limited
Director
Date: 29 June 2016

The notes on pages 12 to 27 form an integral part of these financial statements.

EUROSAIL 2006-4NP PLC

Cash Flow Statement for the year ended 30 November 2015

	Notes	2015 £'000	<i>restated</i> 2014 £'000
Net cash flow from operating activities	18	(60,231)	(11,822)
Returns on investment and servicing of finance	19	1,886	4,959
Capital expenditure and financial investment	19	21,947	22,614
Cash flow before financing		(36,398)	15,751
Financing	19	(21,229)	(25,494)
Decrease in cash in the year	20	<u>(57,627)</u>	<u>(9,743)</u>
Cash at bank and in hand as at 30 November 2014		75,000	84,743
Cash at bank and in hand as at 30 November 2015		<u>17,373</u>	<u>75,000</u>

The notes on pages 12 to 27 form an integral part of these financial statements.

Notes to the financial statements for the year ended 30 November 2015

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.

As a result of incorrectly preparing consolidated accounts at the holding company level, exemptions under FRS 1, FRS 8 and FRS 29 were incorrectly applied in the prior year and so the company did not prepare a cash flow statement, disclose related parties or disclose financial instruments. In the current year, consolidated accounts at the holding company level have not been prepared and so the exemptions have not been applied. As such, a cash flow statement (page 11), related parties disclosures (note 22) and financial instruments disclosures (credit risk and liquidity risk) (note 16) have been included in these financial statements.

In the current year, the fair value methodology has been reassessed; for comparative purposes, prior year fair values have been restated (note 16). The restatement did not impact previously reported amounts in the balance sheet or profit and loss account.

Amounts in the balance sheet as at 30 November 2014 have been restated to reflect the split of current and non-current balances of loans to originator. The restatement did not impact previously reported profit before tax or profit after tax in the prior year.

1.2 Interest recognition

Interest income on mortgage loan assets underlying the loan to originators is recognised in the profit and loss account on an Effective Interest Rate (EIR) basis.

Interest expense on loan notes has been recognised in the profit and loss account on an Effective Interest Rate (EIR) basis.

The EIR recognises revenue and expenses as appropriate, at a rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan or loan note.

1.3 Loan to originators

Initial recognition

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 (Southern Pacific Mortgage Limited and 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.

Subsequent measurement

The loan to originators is classified within "debtors", 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.

Notes to the financial statements for the year ended 30 November 2015

1 ACCOUNTING POLICIES (continued)

1.3 Loan to originators (continued)

Impairment

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 originators' 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).

1.4 Premiums paid on mortgage assets underlying the loans to originators

Gross cash receipts received by the Company on the issue of revenue backed notes (see note 12) were paid to Southern Pacific Mortgage Limited and Preferred Mortgages Limited as a premium on acquisition of the mortgage assets underlying the loans to originators. This premium was capitalised by the Company and amortised in line with the repayment of the revenue backed notes. The amortised balance is added to the loans to originators with the costs amortised in the year included in interest payable.

A premium is recognised where mortgage assets which underlie the loan to originator are acquired at amounts in excess of their carrying values. This premium was capitalised by the Company and amortised over the expected repayment period of the mortgage assets. The amortised balance is added to the loan to originator balance with the costs amortised in the year included in interest payable.

1.5 Discount on purchase of mortgage assets underlying the loans to originators

Cash received from the originator on acquisition of the mortgage assets underlying the loan to originator to cover start up costs are amortised over the expected life of the mortgage assets. The amortised balance is deducted from the loan to originator with the income for the year included in interest receivable.

1.6 Taxation

The charge or credit for taxation is based on the profit or loss 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 exception of deferred tax assets which 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.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015

1. ACCOUNTING POLICIES (continued)

1.7 Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Southern Pacific Mortgage Limited and Preferred Mortgages Limited. The payment of these amounts is conditional on the performance of the mortgages underlying the loans to originators.

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 exchange gains or losses on revaluation of foreign currency liabilities and any Financial Reporting Standard No. 26 adjustments which may include 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.

1.8 Derivatives

The Company uses derivative financial instruments to economically 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. The Company has not applied hedge accounting to any derivative 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 derivative financial instruments is the estimated amount that the Company would receive or pay to terminate them at the balance sheet date.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment. The Company only accounts for credit valuation adjustment when it does not hold collateral or the collateral does not cover the whole of the credit risk.

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, as accounted for under 1.8 above. 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. Transactions during the year are translated using the prevailing exchange rate at the transaction 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.

1.12 Loan notes

The mortgage backed loan notes were initially recognised at fair value, which was their par value at the date of issue. The mortgage backed loan notes are subsequently measured at amortised cost taking into account repayments at Interest Payment Dates where applicable.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

1. ACCOUNTING POLICIES (continued)

1.13 Segmental analysis

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

1.14 Statement of cashflows

As a result of incorrectly preparing consolidated accounts at the holding company level, exemptions under FRS 1, FRS 8 and FRS 29 were incorrectly applied in the prior year and so the company did not prepare a cash flow statement, disclose related parties or disclose financial instruments. In the current year, consolidated accounts at the holding company level have not been prepared and so the exemptions have not been applied. As such, a cash flow statement (page 11), related parties disclosures (note 22) and financial instruments disclosures (credit risk and liquidity risk) (note 16) have been included in these financial statements. Refer to Note 1.1.

1.15 Financial instruments disclosure

In the previous year the Company took advantage of the exemption conferred by paragraph 2(d) of Financial Reporting Standard No.29 not to disclose financial instruments on the grounds that a parent company included the results of the Company. During the current year this exemption did not apply and as such the Financial Instruments Disclosures have been made in note 16 of these financial statements. Refer to Note 1.1.

The disclosures on credit risk (note 16(a)) and liquidity (note 16(b)) risk have been included in these financial statements as a result of the exemption not applying.

1.16 Related party transactions

In the previous year the Company took advantage of the exemption conferred by paragraph 3(c) of Financial Reporting Standard No.8 not to disclose related parties on the grounds that a parent company included the results of the Company. During the current year this exemption did not apply and as such the related party disclosures have been made in note 22 of these financial statements. Refer to Note 1.1.

2. Interest receivable and similar income

	Year ended 30 November 2015 £'000	Year ended 30 November 2014 £'000
On loans to originator	6,195	6,506
Other interest	55	74
Amortisation of discount on purchase of mortgage assets underlying the loan to originator	644	858
	<u>6,894</u>	<u>7,438</u>

In the current year, the estimated weighted average life of the mortgage assets is 3 years (2014: 3 years). The EIR adjustment on mortgage assets was an expense of £491,000 (2014 - £706,000).

Interest accrued for the year in relation to impaired financial assets is 3.46% (2014: 3.29%) of the principal balance.

3. Interest payable and similar charges

	Year ended 30 November 2015 £'000	Year ended 30 November 2014 £'000
On loan notes	1,534	1,971
Other interest	526	726
Amortisation of capitalised issue costs	101	136
Amortisation of premium paid on mortgage assets underlying the loans to originators	37	49
	<u>2,198</u>	<u>2,882</u>

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

4. Other operating income

	Year ended 30 November 2015 £'000	Year ended 30 November 2014 £'000
Redemption fees	<u>11</u>	<u>17</u>

5. Loss on ordinary activities before taxation

	Year ended 30 November 2015 £'000	Year ended 30 November 2014 £'000
The operating loss on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration - audit services (audit of the Company's financial statements)	16	24
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	(848)	(1,279)
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgages	759	790
Deferred consideration	<u>3,909</u>	<u>6,031</u>

Auditors' remuneration - audit services of £5,037 (2014 - £6,500) for the parent company, Eurosail-UK 2006- 4NC Parent Limited, were borne by the Company. There were no non-audit services provided to the Company.

6. Taxation

	Year ended 30 November 2015 £'000	Year ended 30 November 2014 £'000
Current tax charge for the year	1	5
Deferred tax (see note 17)		
Origination and reversal of timing differences	(50)	(363)
Tax on loss on ordinary activities	<u>(49)</u>	<u>(358)</u>

Factors affecting taxation

The tax assessed for the year is higher than (2014 - higher than) the standard rate of corporation tax in the UK of 20% (2014 - 20%).

The Finance Act (No. 2) 2015, substantively enacted on 26 October 2015 and enacted on 18 November 2015, included a decrease in corporation tax rates to 19% from 1 April 2017 and 18% from 1 April 2020. On 16 March 2016, the Chancellor of the Exchequer announced a further reduction to the corporation tax rate to 17% effective from 1 April 2020; this change has not yet been substantively enacted.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

6. Taxation (continued)

	Year ended 30 November 2015 £'000	Year ended 30 November 2014 £'000
Loss on ordinary activities before tax	(342)	(1,770)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2014 - 20%)	(68)	(354)
Effects of:		
Current year losses not recognised / (utilisation of tax losses)	-	(4)
Short term timing differences leading to an increase in taxation	50	363
Other adjustments	19	-
Current tax charge for the year	1	5

7. Information regarding directors and employees

The Company has no employees other than the directors, who did not receive any remuneration (2014 - £Nil).

8. Loan to originators - net of impairment

	2015 £'000	2014 £'000
At 1 December	246,038	268,060
Movement in unamortised premium on acquisition of mortgage loans underlying the loan to originator (Note 9)	(37)	(49)
Movement in unamortised discount on acquisition of mortgage loans underlying the loans to originators (Note 9)	644	858
Principal repayments, mortgage redemptions and other movements	(22,438)	(23,320)
Adjustment to the expected cash flows of the loan to originator arising from the impairment of the underlying mortgages	848	1,279
Adjustment to the expected cash flows of the loan to originator arising from bad debts incurred on the underlying mortgages	(759)	(790)
At 30 November	224,296	246,038

	Mortgage assets £'000	Impairments to expected cash flows £'000	Mortgage assets, net of impairments £'000
At 1 December 2013	270,946	(2,886)	268,060
Movement in the year	(23,301)	1,279	(22,022)
At 30 November 2014	247,645	(1,607)	246,038
Movement in the year	(22,590)	848	(21,742)
At 30 November 2015	225,055	(759)	224,296

Notes to the financial statements for the year ended 30 November 2015 (continued)

8. Loan to originator - net of impairment (continued)

The Company purchased portfolios of mortgage loans from Southern Pacific Mortgage Limited and Preferred Mortgages Limited. However, as the principal economic risk and rewards associated with these mortgage loans remain with Southern Pacific Mortgage Limited and 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 loans to Southern Pacific Mortgage Limited and Preferred Mortgages Limited, as the originators of the loans. The repayment of the loans to originators is linked to the repayment of the loan notes referred to in note 12.

The book value of the mortgage assets is measured at amortised cost using the EIR method, with a provision made for impairment. The amortised cost and impairment models used to estimate future cash flows in the impairment calculation are sensitive to certain key assumptions, including the constant prepayment rate ("CPR"), the expected future house price index ("HPI"), the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred.

The loans to Southern Pacific Mortgage Limited and Preferred Mortgages Limited are denominated in Sterling and bear interest at a variable rate. They are secured on the beneficial interest in the portfolio of residential mortgage loans.

The current mortgage loans in the pool have loan periods of between 1 to 310 (2014 - 1 to 322) months remaining with current interest rates ranging from 0.55% to 4.59% (2014 - 0.59% to 4.59%) per annum.

9. Premium/discount on mortgages underlying the loans to originators

	2015 £'000	2014 £'000
Premium on acquisition of mortgages		
At 1 December	146	195
Amortisation in the year	(37)	(49)
At 30 November	<u>109</u>	<u>146</u>
	2015 £'000	2014 £'000
Discount on acquisition of mortgages		
At 1 December	(2,575)	(3,433)
Amortisation in the year	644	858
At 30 November	<u>(1,931)</u>	<u>(2,575)</u>

10. Debtors

	2015 £'000	restated 2014 £'000
Due within one year		
Prepayments and accrued income	3	19
Amounts owed by group undertakings	7	-
Other debtors	128	144
Loans to originators net of impairment (note 8)	<u>5,196</u>	<u>5,513</u>
	<u>5,334</u>	<u>5,676</u>
	2015 £'000	2014 £'000
Due after more than one year		
Loans to originators net of impairment (note 8)	<u>219,100</u>	<u>240,525</u>
	<u>219,100</u>	<u>240,525</u>

The split between mortgages due in less than and more than 1 year has been shown for the first time in these financial statements and as such the comparatives have been restated to reflect this.

Amounts due from group companies are interest free and repayable on demand. Loans to originators net of impairment represent the portion of the mortgage book contractually receivable over the next 12 months.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

11. Creditors : amounts falling due within one year

	2015	2014
	£'000	£'000
Deferred consideration	5,093	3,041
Amounts owed to group undertakings	59	59
Corporation tax	1	5
Other creditors	8,569	65,476
Accruals and deferred income	1,026	3,848
	<u>14,748</u>	<u>72,429</u>

Other creditors include £Nil (2014 – £40,975,000) owing to the liquidity facility provider and cash collateral of £8,481,000 (2014 – £24,409,000) owing to the foreign currency swap counterparty. This arises from the drawdown of the facility due to the increased counterparty default risk of the provider and the payment of collateral by the swap counterparty, under the currency swap agreement, following the downgrade in their credit rating. The cash drawings of £Nil (2014 – £40,975,000) and cash collateral of £8,481,000 (2014 – £24,409,000) are included in Cash at bank and in hand.

Amounts due to group companies are interest free and repayable on demand.

12. Creditors : amounts falling due after more than one year

	2015	2014
	£'000	£'000
EUR Denominated Mortgage backed loan notes due 2044 - Class A3a	39,429	52,177
GBP Denominated Mortgage backed loan notes due 2044 - Class A3c	85,523	99,805
EUR Denominated Mortgage backed loan notes due 2044 - Class M1a	20,465	23,204
GBP Denominated Mortgage backed loan notes due 2044 - Class M1c	10,288	10,288
EUR Denominated Mortgage backed loan notes due 2044 - Class B1a	37,679	42,727
EUR Denominated Mortgage backed loan notes due 2044 - Class C1a	12,038	13,651
GBP Denominated Mortgage backed loan notes due 2044 - Class C1c	6,858	6,859
EUR Denominated Mortgage backed loan notes due 2044 - Class D1a	7,463	8,464
GBP Denominated Mortgage backed loan notes due 2044 - Class D1c	6,859	6,858
GBP Denominated Mortgage backed loan notes due 2044 - Class E1c	5,744	5,744
Loan notes	<u>232,346</u>	<u>269,777</u>
Less unamortised issue costs	<u>(304)</u>	<u>(404)</u>
	<u>232,042</u>	<u>269,373</u>

The mortgage backed floating rate notes due 2044 are secured over the portfolio of mortgage loans secured by first and second charges over residential properties in the United Kingdom.

The mortgages underlying the loans to originators are administered by Acenden Limited on behalf of Eurosail 2006-4NP 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 loans to originators.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

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

Whilst 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 mortgage assets, the mortgage backed floating rate notes are classified and presented as amounts falling due after one year in accordance with the contractual maturity dates due to the uncertainty in the expected principal repayments or recoveries of the mortgages. If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the Interest Payment Date falling in 2044.

The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. The mortgage backed loan notes are repayable out of capital receipts from the mortgages underlying the loans to originators, 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 Note.

The revenue backed loan notes are repayable out of interest receipts from the mortgages underlying the loans to originators, with the Class B Notes ranking in priority to the Class C Notes. Class A, B, C and Class D rank in priority to Class E1c Notes.

The loan notes issued by the Company are full recourse obligations of the Company. However they 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.

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

Class A3a	EURIBOR + 0.16%
Class A3c	Sterling LIBOR + 0.16%
Class M1a	EURIBOR + 0.23%
Class M1c	Sterling LIBOR + 0.24%
Class B1a	EURIBOR + 0.27%
Class C1a	EURIBOR + 0.44%
Class C1c	Sterling LIBOR + 0.44%
Class D1a	EURIBOR + 0.77%
Class D1c	Sterling LIBOR + 0.80%
Class ETc	Sterling LIBOR + 3.00%

13. Issued share capital

	2015	2014
	£	£
Allotted, called up and fully paid :		
2 Ordinary 100% called and fully paid shares of £1 each	<u>2</u>	<u>2</u>
Allotted, called up and partly paid:		
49,998 Ordinary 25% called and paid shares of £1 each	<u>12,500</u>	<u>12,500</u>

Share capital of £2 was issued on incorporation on 5 September 2006. 49,998 shares, were issued on 21 September 2006.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

14. Profit and loss account	2015	2014
	£'000	£'000
At 1 December 2014	1,791	3,203
Loss for the year	(293)	(1,412)
At 30 November 2015	<u>1,498</u>	<u>1,791</u>
15. Reconciliation of movement in shareholders' funds	2015	2014
	£'000	£'000
Opening shareholder's funds	1,804	3,216
Loss for the year	(293)	(1,412)
Closing shareholder's funds	<u>1,511</u>	<u>1,804</u>

16. Derivatives and other financial instruments

Nature and extent of risks arising from financial instruments

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, foreign exchange risk and liquidity risk. Financial instruments used by the the Company for risk management purposes include derivative instruments. Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes. The principal derivative instruments used by the Company in managing its risks are foreign currency swaps. The maturity profile of the derivative instruments reflects the nature of exposures arising from underlying business activities. All of the Company's derivatives activities are contracted with financial institutions.

During the year, the Company recognised a gain of £108,000 (2014 – £202,000) due to the movements in the fair value of derivatives and exchange rate movements on the loan notes.

The main risks arising from the Company's financial instruments and management of these risks 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 loans to originators 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 collateralised non recourse loans to the originators 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 has been mitigated by the payment of cash collateral to the Company.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as set out in table (a).

Liquidity risk

The Company's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets underlying the loans to originators 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.

Foreign currency 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.

Notes to the financial statements for the year ended 30 November 2015 (continued)

16. Derivatives and other financial instruments (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 has used derivative financial instruments to mitigate any residual interest rate risk. As a consequence of the interest rate swap counterparty defaulting on the swap, the interest rate exposure remains unhedged.

(a) Credit risk

The level of arrears in the mortgage portfolio has largely stabilised, which the Directors consider consistent with the improvement in the market conditions experienced in the past few years in the UK mortgage market. Low re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes have continued with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the Directors acknowledge that the easing of market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance. With this in mind, the Directors continue to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November was:

	2015	2014
	£'000	£'000
Loans to originators	224,296	246,038
Cash at bank and in hand	17,373	75,000
Derivative financial instruments	6,887	22,848
	<u>248,556</u>	<u>343,886</u>

Collateral as mentioned in Note 11 is held against the derivative financial instruments.

(b) Liquidity risk

The contractual undiscounted cash flows associated with financial liabilities were as follows:

	Less than 1 year	1-2 years	2-3 years	3-4 years	4+ years	Total
As at 30 November 2015	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities						
Loan notes	12,118	6,943	6,791	212,467	-	238,319

restated

	Less than 1 year	1-2 years	2-3 years	3-4 years	4+ years	Total
As at 30 November 2014	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities						
Loan notes	10,806	7,356	7,207	251,013	-	276,382

There is no contractual obligation to pay down the loan notes other than as set out in note 12.

The undiscounted cash flows have been estimated by applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans underlying the loans to originators and using the weighted average interest rate prevailing at the balance sheet date. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

16. Derivatives and other financial instruments (continued)

(c) Foreign currency risk

With the exception of the Loan Notes and loan note interest, as shown below, all financial instruments are denominated in Sterling.

	2015	2014
	Euro	Euro
	£'000	£'000
Mortgage backed loan notes due 2044	(117,074)	(140,224)
Loan note interest	(101)	(116)
Financial liabilities	<u>(117,175)</u>	<u>(140,340)</u>

The Company uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks. At 30 November 2015, the Euro denominated mortgage backed loan notes amounted to EUR 166,755,000 (2014 - EUR 176,133,000); the notional value of the foreign currency swaps held was EUR 166,755,000 (2014 - EUR 176,133,000) and the recognised positive fair value was £6,887,000 (2014 - £22,848,000). The Company is therefore not materially exposed to foreign exchange risk as the currency swap notional matches the notional of the Euro denominated mortgage backed loan notes.

All Euro denominated mortgage backed loan notes due 2045 are economically hedged by the foreign currency swaps described above. The maturity profile of the foreign currency swaps is consistent with the mortgage backed loan notes.

(d) Interest rate risk

Interest rate risk profile of financial assets as at 30 November

	Total	Total	Total	Weighted	W. ave
	variable	fixed	fixed	average	time for
	rate	rate	rate	interest	which rate
	£'000	£'000	£'000	rate*	is fixed
				%	Years
2015					
Mortgage assets	225,055	225,055	-	2.11	-
Cash in call account	17,373	-	17,373	0.17	0.25
Derivative financial instruments	6,887	6,887	-	-	-
2014					
Mortgage assets	247,645	247,645	-	2.10	-
Cash in call account	75,000	-	75,000	0.13	0.25
Derivative financial instruments	22,848	22,848	-	-	-

Interest rate risk profile of financial liabilities as at 30 November

	Total	Weighted
	variable	average
	rate	interest
	£'000	rate*
		%
2015		
Mortgage backed loan notes	232,346	0.90
2014		
Mortgage backed loan notes	269,777	0.86
Liquidity facility provider creditor	40,975	0.13

On 22 September 2009 the Company filed claims of US\$1,637,000 against the interest rate swap 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.

Interest payable on the mortgage backed loan notes and interest receivable on mortgage assets are both based on LIBOR. Whilst certain mortgage backed loan notes are denominated in foreign currency and incur interest based on EURIBOR (EUR notes), the Company has entered into currency swap agreements which allows the Company to settle its note liability obligations with reference to LIBOR. The Company thus has limited exposure to interest rate risk.

The interest rate risk profile of the mortgage backed loan notes in issue can be found in note 12 and in the principal risks and uncertainties section of the Strategic Report.

* This is the weighted average spread above LIBOR.

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

16. Derivatives and other financial instruments (continued)

(e) Fair values

				<i>restated</i>		
	2015	2015	2015	2014	2014	2014
	Book		1% increase	Book	Fair	1% increase
As at 30 November	value	Fair value	in value	value	value	in value
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets						
Loan to originators	224,296	226,233	2,262	246,038	247,572	2,476
Cash and deposits	17,373	17,373	-	75,000	75,000	-
Derivative financial instruments	6,887	6,887	69	22,848	22,848	228
	248,556	250,493	2,331	343,886	345,420	2,704
Financial liabilities						
Loan notes due 2044	(232,346)	(229,274)	(2,293)	(269,373)	(248,740)	(2,487)
Liquidity facility provider creditor	-	-	-	(40,975)	(40,975)	-
Swap collateral creditor	(8,481)	(8,481)	-	(24,409)	(24,409)	-
	(240,827)	(237,755)	(2,293)	(334,757)	(314,124)	(2,487)

In the current year, the fair value methodology has been reassessed; for comparative purposes, prior year fair values have been restated.

FRS 29 "Financial Instruments: Disclosures", requires that an entity classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in the measurement.

The directors have considered the fair values of the Company's main financial instruments, which are mortgage loan receivables underlying the loans to originators, loan notes, derivative financial instruments and cash.

As no liquid market exists for either the mortgage loans underlying the loans to originators 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 and discount rates based on the most recent available information.

For the valuation of derivative financial instruments, counterparty valuations are used and consequently the Company deems all its derivative financial instruments to be Level 2 per FRS 29.

(f) Interest income and expense on financial instruments that are not at fair value through profit and loss

	2015	2014
	£'000	£'000
Interest receivable on loans to originators	6,195	6,506
Interest expense on loan notes	(1,534)	(1,972)
Total	4,661	4,534

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

17. Deferred taxation

	2015	2014
	£'000	£'000
Opening deferred tax balance	(443)	(806)
Deferred tax credit	50	363
Closing deferred tax balance at the end of the year	<u>(393)</u>	<u>(443)</u>

For UK corporation tax purposes, the Company is subject to tax in accordance with the interim regime for securitisation companies. Full provision has been made for deferred tax liabilities arising as a result of FRS 26 'Financial Instruments: Recognition and Measurement' adjustments. Accumulated losses of £19,000 (2014: £Nil) resulting in a deferred tax asset of £4,000 (2014: £Nil) have not been recognised. The deferred tax asset has not been recognised due to uncertainty surrounding the Company's future profitability.

The provision for deferred taxation consists of the effect of: EIR adjustment of £213,000 (2014: £311,000), fair value adjustment for derivative financial instruments of £1,377,000 (2014: £4,570,000) and foreign currency revaluation adjustment for the loan notes of (£1,197,000) (2014: (£4,438,000)). Deferred taxation has been recognised at 20% (2014: 20%) being the UK small companies' corporation tax rate at the balance sheet date.

18. Net cash flow from operating activities

	2015	2014
	£'000	£'000
Operating loss	(342)	(1,770)
Interest payable and similar charges	2,198	2,882
Interest receivable and similar income	(6,894)	(7,437)
Effective interest rate adjustment	(491)	(706)
Movement in provision for mortgage losses	(848)	(1,279)
Mortgage losses	759	790
Unrealised exchange gain on retranslation of loan liabilities	(16,086)	(6,143)
Change in other debtors	16,461	7,950
Change in other creditors	<u>(54,988)</u>	<u>(6,109)</u>
	<u>(60,231)</u>	<u>(11,822)</u>

19. Analysis of cash flows for headings netted in cash flow statement

	2015	2014
	£'000	£'000
Returns on investments and servicing of finance		
Interest on mortgage loans	6,686	7,212
Other interest received	70	68
Interest on mortgage backed loan notes	(1,553)	(1,985)
Other interest paid	<u>(3,317)</u>	<u>(336)</u>
Net cash inflow from returns on investments and servicing of finance	<u>1,886</u>	<u>4,959</u>

Capital expenditure and financial investment

Proceeds from loans to originators	<u>21,947</u>	<u>22,614</u>
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Financing

Repayment of mortgage backed loan notes	<u>(21,229)</u>	<u>(25,494)</u>
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EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

20. Reconciliation of net cash flow to movement in net debt

	Year ended 30 November 2015 £'000	<i>restated</i> Year ended 30 November 2014 £'000
Decrease in cash in the year	(57,627)	(9,743)
Repayment of mortgage backed loan notes	21,229	25,494
Deferred consideration payments	1,857	2,989
Change in net debt resulting from cash flows	(34,541)	18,740
Amortisation of capitalised issue costs	(100)	(135)
Other non-cash movements	2,945	(443)
Unrealised exchange gain on retranslation of loan liabilities	16,086	6,143
Movement on collateral accounts	56,903	9,210
Deferred consideration accrued	(3,909)	(6,030)
Movement in net debt	71,925	8,745
Net debt at start of year	(266,802)	(294,288)
Net debt at 30 November 2015	(229,418)	(266,802)

21. Analysis of changes in net debt

	1 December 2014 £'000	Cash flow £'000	Other non- cash changes £'000	30 November 2015 £'000
Cash at bank and in hand	75,000	(57,627)	-	17,373
Debt :				
Mortgage backed loan notes	(269,373)	21,229	16,102	(232,042)
Creditors: Amounts due in less than one year	(69,388)	-	59,732	(9,656)
Deferred consideration	(3,041)	1,857	(3,909)	(5,093)
	(266,802)	(34,541)	71,925	(229,418)

EUROSAIL 2006-4NP PLC

Notes to the financial statements for the year ended 30 November 2015 (continued)

22. Related party transactions

During the year, Eurosail 2006-4 NP plc had the following transactions with related parties:

	Amount charged 2015 £'000	Amount outstanding 2015 £'000	Amount charged 2014 £'000	Amount outstanding 2014 £'000
Preferred Mortgages Limited				
Mortgage related amounts receivable	-	45	-	44
Deferred consideration	(2,001)	(2,949)	(4,842)	(2,442)
Loan to originator	-	154,548	-	169,147
Interest receivable on loan to originator	4,990	-	5,223	-
Southern Pacific Mortgage Limited				
Mortgage related amounts receivable	-	11	-	11
Deferred consideration	(500)	(737)	(1,189)	(600)
Loan to originator	-	37,315	-	41,538
Interest receivable on loan to originator	1,205	-	1,283	-
Wilmington Trust SP Services (London) Limited				
Corporate services fees	(79)	(7)	(21)	-
	<u>3,615</u>	<u>188,226</u>	<u>454</u>	<u>207,698</u>

23. Parent undertaking and control

The entire issued share capital of the Company is held by Eurosail 2006 - 4 NP PLC Parent Limited which is incorporated in the United Kingdom. The share capital of the Eurosail 2006 - 4 NP PLC Parent Limited is in turn held by a Trustee under a declaration of trust for charitable purposes.

The Company's results are consolidated on a linked presentation basis in Preferred Mortgages Limited, a company registered in England & Wales, who retains an interest in the cashflows and profit of the company. The largest and smallest group in which the results of the Company are consolidated is 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, Maundy, Cardiff CF14 3UZ.

The ultimate parent undertaking of Preferred Mortgages Limited is Lehman Brothers Holdings Inc. which is incorporated in the State of Delaware in the United States of America. On 15 September 2008, the ultimate parent company Lehman Brothers Holdings Inc., filed for Chapter 11 bankruptcy protection.

24. Capital Management

The Company's capital consists of share capital contributed by investors. Due to the structural features of the securitisation process, where cash paid out to noteholders cannot exceed cash received, and where the holder of the deferred consideration certificate is entitled to any excess deferred consideration, the amount of share capital is not expected to fluctuate over time. Accordingly, the objective of capital management is to hold constant the amount of share capital, and this objective is achieved by the structural features of the securitisation transaction documented in the offering circular and other legal documentation.

25. Subsequent Events

On 23 June 2016, the UK voted to leave the European Union. The impact of this unprecedented decision is currently unknown as the UK government is yet to agree the terms and conditions upon which the UK will leave the European Union. Until such time as formal terms are agreed, there is a high degree of uncertainty and consequently market volatility is expected.

The impact of this volatility and uncertainty on the company is yet to be determined. To date, there have been no matters that warrant adjustment to the financial results as at 30 November 2015 and for the year then ended.

There are no other significant events occurring after the balance sheet date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 30 November 2015 and for the year then ended.