
EUROSAIL-UK 2007-6NC PLC

Annual report and financial statements
for the year ended 30 November 2013

THURSDAY



L360VL60
LD6 17/04/2014 #134
COMPANIES HOUSE

EUROSAIL-UK 2007-6NC PLC

Company Information

Directors	M H Filer Wilmington Trust SP Services (London) Limited J Traynor S Masson (resigned 7 January 2013) M Clarke (appointed 7 January 2013)
Company secretary	Wilmington Trust SP Services (London) Limited
Registered number	06391795
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

EUROSAIL-UK 2007-6NC PLC

Contents

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

EUROSAIL-UK 2007-6NC PLC

Strategic report for the year ended 30 November 2013

Introduction

On 27 November 2007 the Company purchased £365,000,000 of mortgages from Southern Pacific Mortgage Limited and Preferred Mortgages Limited. Further 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 2007. These loan notes are listed on the Irish Stock Exchange.

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 2013 are set out on page 10. 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 include the recognition of a remeasurement adjustment of the amortised cost of loan notes and the unrealised exchange gain on restatement of loan liabilities. 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 the Director's report.

On 22 September 2009 the Company filed claims of US\$194,002,184 against the Swap Counterparty arising from the Swap Agreement with Lehman Brothers Special Financing Inc (LBSF) 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. On 29 November 2010 a Settlement Agreement was signed and the value of the swap claim was agreed at US\$145,000,000. Up to the year ended 30 November 2013 the Company had received distributions totalling US\$57,716,000 leaving an amount outstanding of US\$87,284,000.

After the year end the Company sold its rights to the claims and entered into a loan note restructuring agreement whereby the Euro denominated loan notes would be converted to Sterling and the cash from the swap claim, after allowing for restructuring costs, would be distributed to the loan note holders. This is explained in detail in Note 18 to the financial statements.

The results for the year include the following adjustments as required by Financial Reporting Standard No.26.

	2013 £000	2012 £000
Unrealised exchange (loss)/gain	(7,881)	16,676
EIR adjustment	(1,167)	(1,325)
Remeasurement adjustment of amortised cost of loan notes	<u>(3,522)</u>	<u>(16,756)</u>
	<u>(12,570)</u>	<u>(1,405)</u>

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 £219,659,000 (2012 – £230,502,000).

EUROSAIL-UK 2007-6NC PLC

Strategic report (continued)

Business review (continued)

At the December 2013 Interest Payment Date the originators held the following mortgage loans underlying the loans to originators, excluding the Effective Interest Rate Adjustment:

	Principal balance £000	Number of loans
First mortgages	<u>223,268</u>	<u>2,162</u>

These mortgages provide security against loan notes in issue totalling €343,038,000 as at the December 2013 Interest Payment date.

Delinquencies days – (excluding repossessions)	Q1	Q2	Q3	Q4
	%	%	%	%
Current	66.29	66.54	66.82	67.81
>30<=60	6.48	6.22	6.48	5.06
>60<=90	5.16	5.03	4.76	4.89
>90<=120	5.23	4.83	3.46	3.67
>120	16.84	17.38	18.48	18.57
Total	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

The mortgage loans exhibited the following quarterly arrears profile:

At the March 2014 Interest Payment Date following the year end, the mortgage assets underlying the loans to originators balance, was £219,351,000, 22.13% 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 provisions recorded as at the year end.

The performance of the mortgage loans during the year ended 30 November 2013 enabled deferred consideration of £2,679,000 (2012 – £683,000) to be paid to the current holder of the rights to the residual cash flows of the securitisation.

Principal risks and uncertainties

(a) Financial instrument risk

The financial instruments held by the Company comprise mortgage assets underlying the loans to originators, 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.

Strategic report (continued)

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 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 a collateralised non-recourse loan to the originators as explained in note 1.

(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. However, the foreign currency swap counterparty has filed for Chapter 11 bankruptcy, and has defaulted on the swaps. It is the intention of the Company to use the cash received from the SWAP settlement to purchase a replacement foreign currency swap.

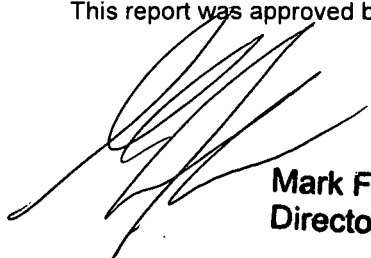
(e) Liquidity risk

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

This report was approved by the board on

16 APR 2014

and signed on its behalf.



Mark Filer
Director

EUROSAIL-UK 2007-6NC PLC

Directors' report for the year ended 30 November 2013

The directors present their report and the audited financial statements for the year ended 30 November 2013.

Results and dividends

The profit for the year, after taxation, amounted to £18,569,000 (2012 - £28,383,000).

The directors do not recommend the payment of a dividend for the year (2012 – £Nil).

Directors

The directors who served during the year were:

M H Filer
Wilmington Trust SP Services (London) Limited
J Traynor
S Masson (resigned 7 January 2013)
M Clarke (appointed 7 January 2013)

Future development

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

Going concern

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

The Company is also in a net asset position as at 30 November 2013 following the accrual of £20,089,000 for the sale of the rights to the swap claim after the year end.

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 loans to originators 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. Additionally, the Company has performed as expected during the year and is expected to do the same over the next 12 months. 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.

EUROSAIL-UK 2007-6NC PLC

Directors' report for the year ended 30 November 2013

Fair value

Note 17 discloses the fair values of the mortgage assets, underlying the loans to originators, and loan notes. The directors noted that as at 30 November 2013 the respective fair values of the mortgage assets underlying the loans to originators, 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 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 prepayment rates, arrears levels, house price movements, level of reposessions, losses and discount rates based on the most recent available information.

Corporate governance

The Directors are responsible for internal control in Eurosail-UK 2007-6NC 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 Eurosail-UK 2007-6NC 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.

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.

EUROSAIL-UK 2007-6NC PLC

**Directors' report
for the year ended 30 November 2013**

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:

16 APR 2014

**Directors' responsibilities statement
for the year ended 30 November 2013**

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 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 accounting 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.

EUROSAIL-UK 2007-6NC PLC

Independent auditors' report to the members of Eurosail-UK 2007-6NC plc

We have audited the financial statements of Eurosail-UK 2007-6NC plc for the year ended 30 November 2013, which comprise the Profit and Loss Account, the Balance Sheet and related notes 1 to 19 set out on pages 10 to 27. 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 7, 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 Annual 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 the 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 2013 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 Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

EUROSAIL-UK 2007-6NC PLC

Independent auditors' report to the members of Eurosail-UK 2007-6NC 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: 16 APRIL 2014

EUROSAIL-UK 2007-6NC PLC

**Profit and loss account
for the year ended 30 November 2013**

	Note	2013 £000	2012 £000
Interest receivable and similar income	2	8,805	10,273
Interest payable and similar charges	3	(3,690)	(5,728)
Net interest receivable		5,115	4,545
Operating expenses		(6,312)	(1,424)
Other operating income	4	30	31
Operating (loss)/profit		(1,167)	3,152
Remeasurement adjustment of amortised cost of loan notes		(3,522)	(16,756)
Other income	5	31,140	25,312
Unrealised exchange (loss)/gain on loan liability		(7,881)	16,676
Profit on ordinary activities before taxation	6	18,570	28,384
Tax on profit on ordinary activities	7	(1)	(1)
Profit for the financial year after taxation		18,569	28,383

All amounts relate to continuing operations.

There were no recognised gains and losses for 2013 or 2012 other than those included in the Profit and loss account.

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

EUROSAIL-UK 2007-6NC PLC
Registered number: 06391795

Balance sheet
as at 30 November 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Loans to originators - net	9		219,659		230,502
Current assets					
Debtors: amounts falling due within one year	11	20,195		307	
Cash at bank and in hand		49,446		40,466	
		<u>69,641</u>		<u>40,773</u>	
Creditors: amounts falling due within one year	12	<u>(4,638)</u>		<u>(1,349)</u>	
Net current assets			<u>65,003</u>		<u>39,424</u>
Total assets less current liabilities			<u>284,662</u>		<u>269,926</u>
Creditors: amounts falling due after more than one year	13		<u>(276,444)</u>		<u>(280,277)</u>
Net assets/(liabilities)			<u><u>8,218</u></u>		<u><u>(10,351)</u></u>
Capital and reserves					
Called up share capital	14		13		13
Profit and loss account	15		<u>8,205</u>		<u>(10,364)</u>
Shareholders' funds/(deficit)	16		<u><u>8,218</u></u>		<u><u>(10,351)</u></u>

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


Director

Mark Filer

Date:

16 APR 2014

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

**Notes to the financial statements
for the year ended 30 November 2013**

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 of financial statements

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention except for derivative financial instruments which are carried at fair value through 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 loans to originators 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.

Distributions from LBSF and LBHI relating to the foreign currency swap claim are recognised as other income, in the profit and loss account, as the cash is received.

1.3 Loans to originators

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 portfolios transferred to the Company, derecognition is considered to be inappropriate for the portfolio sellers' or originators' (Southern Pacific Mortgage Limited and Preferred Mortgages Limited) own financial statements as the originators have 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 collateralised non-recourse loans to the originators.

The loans to originators are 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 loans to the originators are 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 loans to the originators balance would be recognised where there is a risk that the income on the loan will be significantly higher. 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.

**Notes to the financial statements
for the year ended 30 November 2013**

1. Accounting policies (continued)

Loans to originators (continued)

Specific provisions for losses on loans and advances to customers which underlie the loans to originators 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 loans to originators

A premium is recognised where mortgage assets which underlie the loans to originators 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 loans to originators 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 originators on acquisition of the mortgage assets underlying the loans to originators to cover start up costs are amortised over the expected life of the mortgage assets. The amortised balance is deducted from the loans to originators 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 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.

**Notes to the financial statements
for the year ended 30 November 2013**

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 of £3,800 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 £3,800 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 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 derivative financial instruments is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date.

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.

EUROSAIL-UK 2007-6NC PLC

Notes to the financial statements for the year ended 30 November 2013

1. Accounting policies (continued)

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.

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 loan notes amortised cost carrying value 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 wholly owned by Eurosail-UK 2007-6NC 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 wholly owned by Eurosail-UK 2007-6NC 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 trading activities are wholly within the UK and within a single market sector and therefore no segmental analysis has been presented.

EUROSAIL-UK 2007-6NC PLC

**Notes to the financial statements
for the year ended 30 November 2013**

2. Interest receivable and similar income

	2013	2012
	£000	£000
On loans to originators	7,273	8,687
Other interest	23	77
Amortisation of discount on purchase of mortgage assets underlying the loans to originators	1,509	1,509
	<u>8,805</u>	<u>10,273</u>

3. Interest payable and similar charges

	2013	2012
	£000	£000
Loan notes	3,634	5,671
Amortisation of capitalised issue costs	55	56
Amortisation of premium paid to mortgage loan originator	1	1
	<u>3,690</u>	<u>5,728</u>

4. Other operating income

	2013	2012
	£000	£000
Redemption fees	<u>30</u>	<u>31</u>

5. Other income

Other income represents the distributions relating to the foreign currency swap claim from LBSF and LBHI, as set out in note 17(b), and the expected proceeds from the sale of the swap claim as set out in note 18.

EUROSAIL-UK 2007-6NC PLC

Notes to the financial statements for the year ended 30 November 2013

6. Profit on ordinary activities before taxation

The operating profit is stated after charging/(crediting):

	2013 £000	2012 £000
Auditors' remuneration - audit services	17	16
Other fees to auditors – taxation services	10	10
Deferred Consideration	6,024	683
Adjustment to the expected cash flows of the loans to originators arising from the impairment of the underlying mortgages	(1,378)	(1,588)
Adjustment to the expected cash flows of the loans to originators arising from bad debts incurred on the underlying mortgages	687	1,324
	<u>687</u>	<u>1,324</u>

Auditors other services includes £10,000 for corporation tax compliance work (2012 – £10,000).

Auditors' remuneration - audit services of £6,100 (2012 – £5,900) and other fees to auditors - corporation tax compliance services of £1,000 (2012 – £1,000) for the parent company, Eurosail-UK 2007-6NC Parent Limited was borne by the Company.

7. Taxation

	2013 £000	2012 £000
UK corporation tax charge on profit for the year	1	1
	<u>1</u>	<u>1</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2012 - *lower than*) the standard rate of corporation tax in the UK of 20% (2012 - 20%). The differences are explained below:

	2013 £000	2012 £000
Profit on ordinary activities before tax	18,570	28,384
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2012 - 20%)	3,714	5,677
Effects of:		
Application of Statutory Instrument No. 3296 The Taxation of Securitisation Companies Regulations 2006	(3,714)	(5,677)
Tax for the year at the small companies rate of corporation tax of 20% (2012 - 20%) on the actual retained profit for the year	1	1
Current tax charge for the year (see note above)	<u>1</u>	<u>1</u>

The company is taxed in accordance with Statutory Instrument No 3296 The Taxation of Securitisation Companies Regulations 2006 which requires that tax is charged on the 'profits retained by the issuer'. The actual retained profit for the year amounted to £3,800 (2012 - £3,800)

EUROSAIL-UK 2007-6NC PLC

**Notes to the financial statements
for the year ended 30 November 2013**

8. Information regarding directors and employees

The company has no employees other than the directors, who did not receive any remuneration (2012 - £NIL).

9. Loans to originators - net balances

	2013 £000	2012 £000
At 1 December	230,502	246,237
Movement in unamortised discount on acquisition of mortgage loans underlying the loans to originators	1,509	1,509
Movement in unamortised premium on mortgages underlying the loans to originators (Note 10)	(1)	(1)
Principal repayments, mortgage redemptions and other movements	(13,042)	(17,507)
Adjustment to the expected cash flows of the loans to originators arising from the impairment of the underlying mortgages	1,378	1,588
Adjustment to the expected cash flows of the loans to originators arising from bad debts incurred on the underlying mortgages	(687)	(1,324)
At 30 November	<u>219,659</u>	<u>230,502</u>

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 13.

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 346 months remaining with current interest rates ranging from 1.16% to 6.77% per annum.

The mortgage loans are held as security against the loan notes referred to in note 13.

10. Premium on mortgages underlying the loans to originators

	2013 £000	2012 £000
At 1 December	8	9
Amortisation in the year	(1)	(1)
At 30 November	<u>7</u>	<u>8</u>

EUROSAIL-UK 2007-6NC PLC

**Notes to the financial statements
for the year ended 30 November 2013**

11. Debtors

	2013	2012
	£000	£000
Prepayments and accrued income	5	39
Swap claim receivable	20,089	-
Other debtors	101	268
	<u>20,195</u>	<u>307</u>

Amounts have been restated in the prior year from group undertakings to other debtors.

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

	2013	2012
	£000	£000
Accruals and deferred income	1,235	1,295
Amounts owed to group undertakings	17	17
Other creditors	3,385	36
Corporation tax	1	1
	<u>4,638</u>	<u>1,349</u>

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

	2013	2012
	£000	£000
EUR Denominated Mortgage backed loan notes due 2045 - Class A1a	-	10,061
EUR Denominated Mortgage backed loan notes due 2045 - Class A2a	88,278	90,160
EUR Denominated Mortgage backed loan notes due 2045 - Class A3a	141,552	138,340
EUR Denominated Mortgage backed loan notes due 2045 - Class B1a	25,176	24,605
EUR Denominated Mortgage backed loan notes due 2045 - Class C1a	17,988	17,579
EUR Denominated Mortgage backed loan notes due 2045 - Class D1a	15,024	14,683
	<u>288,018</u>	<u>295,428</u>
Less: Remeasurement adjustment to amortised cost	(11,242)	(14,764)
	<u>276,776</u>	<u>280,664</u>
Loan notes	276,776	280,664
Less: Issue costs	(332)	(387)
	<u>276,444</u>	<u>280,277</u>

EUROSAIL-UK 2007-6NC PLC

Notes to the financial statements for the year ended 30 November 2013

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

All loan notes fall due after five years.

The mortgage backed floating rate notes due 2045 are secured over the portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom.

The mortgages underlying the loans to originators are administered by Acenden Limited on behalf of Eurosail-UK 2007-6NC 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.

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 loans to originators. 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 September 2045.

The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. The 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 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 A1a	EURIBOR + 0.70%
Class A2a	EURIBOR + 0.70%
Class A3a	EURIBOR + 0.70%
Class B1a	EURIBOR + 1.35%
Class C1a	EURIBOR + 2.00%
Class D1a	EURIBOR + 3.60%

EUROSAIL-UK 2007-6NC PLC

**Notes to the financial statements
for the year ended 30 November 2013**

14. Issued share capital

	2013	2012
	£	£
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 fully paid shares of £1 each	<u>12,500</u>	<u>12,500</u>

Share capital of £2 was issued on incorporation on 8 October 2007. 49,998 shares were issued on 19 October 2007.

15. Profit and loss account

	£000
At 1 December 2012	(10,364)
Profit for the financial year	18,569
	<u>8,205</u>
At 30 November 2013	

16. Reconciliation of movement in shareholders' funds

	2013	2012
	£000	£000
Opening shareholders' deficit	(10,351)	(38,734)
Profit for the financial year	<u>18,569</u>	<u>28,383</u>
Closing shareholders' funds/(deficit)	<u>8,218</u>	<u>(10,351)</u>

EUROSAIL-UK 2007-6NC PLC

**Notes to the financial statements
for the year ended 30 November 2013**

17. Derivatives and other financial instruments

As explained on page 2 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

	2013 £000	2012 £000
Financial assets	<u>269,105</u>	<u>270,968</u>
Financial liabilities	<u>(276,776)</u>	<u>(280,664)</u>

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

The Company also has certain financial instruments included within debtors (note 11) and creditors (note 12) 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 13.

The Company used interest rate swaps in certain circumstances to hedge against interest rate fluctuations when mortgage loans have fixed interest rates while the loan notes have variable rates. Following the default of the swap counterparty, as at 30 November 2013, the notional value of the swaps held was £Nil (2012 – £Nil) and the recognised positive fair value was £Nil (2012 – £Nil). These swaps would otherwise have expired at the end of the mortgage loans fixed rate period which occurred before the year end.

(b) Foreign currency risk

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

	2013 Euro £000	2013 Sterling £000	2013 US Dollar £000	2013 Total £000
Mortgage backed loan notes due 2045	(288,018)	-	-	(288,018)
Loan note interest	(767)	-	-	(767)
Financial liabilities	<u>(288,785)</u>	<u>-</u>	<u>-</u>	<u>(288,785)</u>
Cash at bank	-	14,146	35,300	49,446
Financial assets	<u>-</u>	<u>14,146</u>	<u>35,300</u>	<u>49,446</u>

EUROSAIL-UK 2007-6NC PLC

**Notes to the financial statements
for the year ended 30 November 2013**

17. Derivatives and other financial instruments (continued)

(b) Foreign currency risk (continued)

	2012 Euro £000	2012 Sterling £000	2012 US Dollar £000	2012 Total £000
Mortgage backed loan notes due 2045	(295,428)	-	-	(295,428)
Loan note interest	(800)	-	-	(800)
Financial liabilities	<u>(296,228)</u>	<u>-</u>	<u>-</u>	<u>(296,228)</u>
Cash at bank	-	15,348	25,118	40,466
Financial assets	<u>-</u>	<u>15,348</u>	<u>25,118</u>	<u>40,466</u>

The Company used foreign currency swaps in certain circumstances to hedge against any currency exposure risks. Following the default of the swap counterparty, as at 30 November 2013, the notional value of the swaps held was £Nil (2012 – £Nil) and the recognised fair value of the Euro swaps was £Nil (2012 – £Nil).

On 5 March 2010 the Company filed claims of US\$194,002,000 against the swap counterparty arising from the Swap Agreement with Lehman Brothers Special Financing Inc (LBSF) 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. On 29 November 2010 a Settlement Agreement was signed and the value of the swap claim was agreed at US\$145,000,000. Up to the year ended 30 November 2013 the Company had received distributions totalling US\$57,716,000 leaving an amount outstanding of US\$87,284,000. The rights to the remaining swap claim were sold after the year end for US\$20,089,212 as explained in note 18.

EUROSAIL-UK 2007-6NC PLC

**Notes to the financial statements
for the year ended 30 November 2013**

17. Derivatives and other financial instruments (continued)

(c) Fair value of financial instruments

	Book Value	Fair Value	<i>Book Value</i>	<i>Fair Value</i>
	2013	2013	<i>2012</i>	<i>2012</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Financial assets				
Loans to originators	219,659	132,953	230,502	139,439
Cash and deposits	49,446	49,446	40,466	40,466
	<u>269,105</u>	<u>182,399</u>	<u>270,968</u>	<u>179,905</u>
Financial liabilities				
Loan notes	<u>(276,776)</u>	<u>(132,301)</u>	<u>(280,664)</u>	<u>(139,697)</u>

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

The fair value of receivables and payables other than those mentioned above approximate to carrying value as they have short term maturity.

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

EUROSAIL-UK 2007-6NC PLC

Notes to the financial statements for the year ended 30 November 2013

18. Post balance sheet events

On 28 November 2007 the Company entered into Swap Agreements with Lehman Brothers Special Financing Inc. ("LBSF") and also a swap guarantee Lehman Brothers Holdings, Inc ("LBHI") as part of the transaction structure.

However, between 15 September 2008 and 3 October 2008 these Lehman Brothers entities filed for Chapter 11 bankruptcy protection in the United States of America, which constituted a default under those agreements.

On 22 September 2009 and as a result of these defaults, the Company filed swap termination claims of US\$194,002,184 against LBSF and LBHI. Subsequently, these swap termination claims were contractually agreed between the Company, LBSF, and LBHI at a total claim amount of US\$145,000,000 ("the Claims").

The Company received cash distributions in respect of the Claims amounting to US\$57,716,461 from the LBSF and LBHI estates. Following Extraordinary Resolutions of the Noteholders dated 10 February 2014 and consent of the Trustee, the remaining outstanding Claims were auctioned by AgFe LLP on behalf of the Company and ultimately sold realising sales proceeds of US\$32,875,995 on 10 February 2014.

On 26 February 2014, the Company, acting with the consent of the Trustee and pursuant to Extraordinary Resolutions of the Instrument holders, entered into an agreement for the conversion into sterling of the total US\$ cash received in relation to the Claims. As a result of the conversion, the net amount in sterling of all amounts received in respect of the Claims was £54,447,490 which was transferred to the GIC Account.

The transaction documents require the Company (upon receipt of written instructions from the Trustee to do so), to apply the Realised Termination Amounts towards payment to suitably rated replacement swap counterparties in consideration for such swap counterparties entering into suitable replacement hedging agreements with the Issuer

However pursuant to the Extraordinary Resolutions of the Instrumentholders dated 10 February 2014 (the "**First Stage Restructuring Resolutions**"), the Instrumentholders have, amongst other things, authorised, empowered, directed and requested the Issuer and, where applicable, the Trustee to authorise the Issuer to:

- (i) make certain amendments to the Original Transaction Documents, including the removal of the Replacement Swap Obligations;
- (ii) convert the Realised Termination Amounts from US dollars to Sterling and distribute the Converted Realised Termination Amounts;
- (iii) amend the currency of the Notes from Euro to Sterling; and
- (iv) make certain amendments to the terms and conditions of the Instruments, each as more particularly set out in the First Stage Restructuring Resolutions, the Supplemental Deed of Charge (First Stage Restructuring), the Amended and Restated Trust Deed and the "**First Stage Restructuring Proposals**".

Under the first amendment and restructuring agreement dated 26 February 2014 (the "**First Amendment and Restructuring Agreement**") the currency of the Notes was amended from Euro to Sterling at the Euro/GBP exchange rate on 26 February 2014 (the "**Note Currency Amendments**").

Simultaneous with the Note Currency Amendments, the Pool Factor applicable to the A2a Notes was replaced with the new A2a Note Pool Factor, which resulted in a principal amount outstanding of the A2a Notes being amended to £84,122,977.

Simultaneous with the Note Currency Amendments, the Pool Factor applicable to the A3a Notes was replaced with the new A3a Note Pool Factor, which resulted in a principal amount outstanding of the A3a Notes being amended to £140,081,869.

**Notes to the financial statements
for the year ended 30 November 2013**

18. Post balance sheet events (continued)

Simultaneous with the Note Currency Amendments, the Pool Factor applicable to the B1a Notes was replaced with the new B1a Note Pool Factor. In addition to the New Pool Factor a write down of £2,525,882 was applied which resulted in a principal amount outstanding of the B1a Notes being amended to £22,388,696.

Simultaneous with the Note Currency Amendments, the Pool Factor applicable to the C1a Notes was replaced with the new C1a Note Pool Factor. In addition to the New Pool Factor a write down of £1,804,678 was applied which resulted in a principal amount outstanding of the C1a Notes being amended to £15,996,144.

Simultaneous with the Note Currency Amendments, the Pool Factor applicable to the D1a Notes was replaced with the new D1a Note Pool Factor. In addition to the New Pool Factor a write down of £1,507,368 was applied which resulted in a principal amount outstanding of the D1a Notes being amended to £13,360,877.

All the pool factor replacements, redenomination and write downs above were deemed to have been effective for all purposes (including, without limitation, the calculation of interest), as of the Interest Payment Date falling on 13 December 2013.

In addition, the Relevant Margin of the B1a Notes was amended to 1.60 per cent per annum with effect from the Interest Payment Date falling on 13 December 2013, the Relevant Margin of the C1a Notes was amended to 2.25 per cent per annum with effect from the Interest Payment Date falling on 13 December 2013 and the Relevant Margin of the D1a Notes was amended to 3.85 per cent per annum with effect from the Interest Payment Date falling on 13 December 2013.

On the Interest Payment Date falling due on 13 March 2014 the cash received in relation to the Claims was utilised to pay:

- (1) £1,500,000 in relation to restructuring costs
- (2) £44,782,883, *pari passu* and *pro rata*, to the A3a Note holders, for the partial redemption of the A3a Notes;
- (3) £3,417,888 *pari passu* and *pro rata*, to the B1a Note holders, for the partial redemption of the B1a Notes;
- (4) £2,441,992, *pari passu* and *pro rata*, to the C1a Note holders, for the partial redemption of the C1a Notes;
- (5) £2,039,689, *pari passu* and *pro rata*, to the D1a Note holders, for the partial redemption of the D1a Notes;
- (6) £1,786,393 into the Reserve Ledger (a reduction from £9,307,500)
- (7) £1,786,145 into a new Liquidity Reserve Ledger
- (8) £6,000,000 to the Residual Certificate holders, as a distribution on the Residual Certificates.

The First Amendment and Restructuring Agreement also varied the terms of the Notes and the transaction documents to make them limited-recourse rather than being full recourse such that any claims against the Company by any of its secured creditors is limited to its assets. In addition, the secured creditors agreed not to take any corporate action, other steps or legal proceedings to open insolvency proceedings in respect of the Company.

EUROSAIL-UK 2007-6NC PLC

Notes to the financial statements for the year ended 30 November 2013

19. Parent undertaking and control

The Company is controlled by its parent undertaking, Eurosail-UK 2007-6NC Parent Limited, which is registered and operates in the United Kingdom.

The entire issued share capital of Eurosail-UK 2007-6NC 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 Eurosail-UK 2007-6NC Parent Limited, registered in England and Wales. At the largest group level, the Company's results are consolidated on a Linked Presentation basis in Southern Pacific Mortgage Limited. The financial statements of these groups are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.