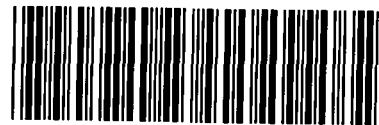


Registered number: 04930716

Southern Pacific Securities 04-1 plc

**Reports and audited financial statements
for the year ended 30 November 2017**

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Southern Pacific Securities 04-1 plc

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Southern Pacific Securities 04-1 plc

Company information

Directors	C A Benford Link Corporate Services Limited (formerly known as Capita Trust Corporate Services Limited) Link Trust Corporate Limited (formerly known as Capita Trust Corporate Limited)
Company secretary	Link Trust Corporate Limited (formerly known as Capita Trust Corporate Limited)
Registered office	6th Floor, 65 Gresham Street London EC2V 7NQ
Independent auditor	KPMG LLP One Snowhill, Snow Hill Queensway Birmingham B4 6GH
Registered number	04930716
Note trustee	Link Corporate Trustees (UK) Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Southern Pacific Securities 04-1 plc

Strategic report for the year ended 30 November 2017

The directors present their strategic report on Southern Pacific Securities 04-1 plc (the "Company") for the year ended 30 November 2017.

Introduction

The Company, a public company limited by shares was incorporated on 14 October 2003 in England, United Kingdom and is registered in England and Wales under the Companies Act 2006. The Company is a special purpose vehicle which acts as an issuer in a residential mortgage backed securitisation transaction. The principal activity of the Company is the investment in mortgage loans secured by first and second charges over properties within the United Kingdom.

On 26 February 2004, the Company purchased £600,000,000 of mortgage assets from Southern Pacific Mortgage Limited. Further consideration in the form of deferred consideration may be payable to Southern Pacific Mortgage Limited dependent on the future performance of the mortgages. The acquisition of these mortgage assets has been accounted for as detailed in note 2.6 of the financial statements. To facilitate the purchase, the Company issued a series of loan notes on 26 February 2004. These loan notes are listed on the London Stock Exchange and are due in 2042.

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 2017 are set out on page 14. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory given the nature of the Company and its limited recourse liability.

At the year end, the mortgage assets balance after the Effective Interest Rate adjustment, specific provisions and unamortised discounts and premiums on acquisition was £19,049,000 (2016: £20,944,000) on 356 mortgages. The estimated weighted average remaining life of the mortgage assets is 5 years (2016: 6 years).

After considering property values, anticipated bad debts and future income associated with the mortgage assets, over and above the principal figure shown above, the directors consider the mortgage assets together with the other related assets of the Company such as cash, to be adequate collateral against the mortgage backed loan notes in issue. The weighted average funding costs are 2.50% above LIBOR and the weighted average interest on mortgage assets is 4.16%.

At year end the Company held the following principal balances of mortgage assets.

	2017 Principal balance £'000	2017 Number of loans	2016 Principal balance £'000	2016 Number of loans
First charge mortgages	16,973	267	18,235	290
Second charge mortgages	1,316	89	1,592	104
	<u>18,290</u>	<u>356</u>	<u>19,827</u>	<u>394</u>

These mortgages provide security against loan notes in issue totalling £18,415,000 (2016: £20,154,000) as at the year end excluding accrued interest.

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 directors' report.

Southern Pacific Securities 04-1 plc

Strategic report for the year ended 30 November 2017

Key performance indicators

The key performance indicator of the Company is the quarterly arrears profile of the mortgage assets:

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Delinquencies days	%	%	%	%	%
Current	73.74	75.40	76.44	75.22	75.95
>30<=60	5.91	4.60	4.27	6.92	2.96
>60<=90	4.50	3.50	3.54	2.24	5.04
>90<=120	2.59	3.64	3.83	4.03	3.86
>120	13.26	12.86	11.92	11.59	12.19
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the year end is £49,000 (2016: £34,000).

A monthly accrual is made in the statement of comprehensive income for deferred consideration that will ultimately become payable. Under the terms of the waterfall 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. Cash flow projections have been prepared to determine the extent to which deferred consideration will be payable. Based on these projections, the directors have determined that £10,205,000 (2016: £10,324,000) consideration was payable at the year end.

Principal risks and uncertainties

Financial instrument risk

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

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, liquidity risk, interest rate risk and operational 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 mortgage assets 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 through an assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary. The mortgage portfolio is recognised as collateralised non-recourse mortgage loans as explained in note 2.

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.

(b) Liquidity risk

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

Southern Pacific Securities 04-1 plc

Strategic report for the year ended 30 November 2017

(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.

(d) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Company operates under a controls and governance framework provided by the servicer of the mortgage assets. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

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.

In a referendum held on 23 June 2016, a majority voted for the United Kingdom (UK) to leave the European Union (EU). After receiving parliamentary approval, the UK Government triggered the commencement of the process to leave the EU on 29 March 2017. Article 50 of the Lisbon Treaty stipulates that a maximum two year period of negotiation will begin to determine the terms of the UK's exit from the EU and set the framework for the UK's new relationship with the EU. Unless some form of transitional arrangement encompassing those associated treaties is agreed or there is unanimous agreement amongst EU member states and the European Commission to extend the negotiation period, the UK's membership of the EU and all associated treaties will cease to apply from 29 March 2019.

The impact of these events is currently unknown as the UK Government is yet to agree the exact terms and conditions upon which the UK will leave the EU. As such, there is a high degree of uncertainty and, consequently, market volatility is possible. The impact of the uncertainty on the Company is not quantifiable at this point in time, as the longer term macroeconomic variables are difficult to predict in this unprecedented environment.

To date, there have been no matters that warrant adjustment to the Company's financial results as at 30 November 2017 and for the year then ended.

This report was approved by the Board on 24 May 2018 and signed on its behalf by:



Link Trust Corporate Limited
Director
Date: 24 May 2018

David John Osborne

Southern Pacific Securities 04-1 plc

Directors' report for the year ended 30 November 2017

The directors present their report together with the audited financial statements of the Company for the year ended 30 November 2017.

Results and dividends

The profit for the year, after taxation, amounted to £88,000 (2016: profit £134,000).

The directors do not recommend the payment of a dividend (2016: nil).

Future developments

An assessment of the Company's future developments is described in the strategic report under the future business developments and strategy section.

Financial instruments

An assessment of the Company's financial instruments is described in the strategic report under the principal risks and uncertainties section.

Directors

The directors who held office during the year and up to the date of the approval of the financial statements, except as noted, are given below:

C A Benford

Link Corporate Services Limited (formerly known as Capita Trust Corporate Services Limited)

Link Trust Corporate Limited (formerly known as Capita Trust Corporate Limited)

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

Company secretary

Link Trust Corporate Limited (formerly known as Capita Trust Corporate Limited) continued to act as company secretary for the year ended 30 November 2017.

Going concern

The Company has reported an operating profit for the current year and is in a net asset position as at 30 November 2017.

It is the intention of the directors of the Company to continue operations until such a time as the amount due from mortgage assets 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.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) once the outstanding mortgage backed loan notes reach 10% of the original issued amount. The threshold has been satisfied. See Note 24 on Post balance sheet events for details of the exercise of the call option that took place in March 2018.

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 these notes and accordingly the financial statements have been prepared on a going concern basis.

Southern Pacific Securities 04-1 plc

Directors' report for the year ended 30 November 2017

Post balance sheet date events

To date, there have been no matters that warrant adjustment to the Company's financial results as at 30 November 2017 and for the year then ended. In March 2018, the issuer exercised the call option within the deal and the mortgage assets were repaid at their Principal balance of £18,004,000, the proceeds of this sale being used to fully repay the mortgage backed loan notes in issue at that date. All other liabilities were also settled and any remaining cash was paid out of the Company as deferred consideration.

Principal risks and uncertainties

The business is subject to a number of risks, described in the strategic report 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.

Fair value

Note 18 discloses the fair values of the mortgage assets and loan notes. The directors noted that as at 30 November 2017 the respective fair values of the mortgage assets underlying the loans to originator and the loan notes are higher than the carrying values recorded in the statement of financial position.

As no liquid market exists for either the mortgage assets 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 have been charged with governance in accordance with the transaction documents describing the structure and operation of the Company. The governance structure of the Company is such that the key policies have been predetermined at the time of the transaction documents issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that 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, whilst enabling them to comply with the regulatory obligations.

Due to the nature of the securities which have been issued on the London Stock Exchange, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the requirements of the provisions of the UK Corporate Governance Code.

Employees

The Company does not have any employees (2016: none).

Issued capital and capital contribution

Details of the share capital are set out in note 19 to the financial statements. The issued share capital consists of £12,502 comprising 50,000 ordinary shares of £1 each with 2 ordinary shares being fully paid and 49,998 ordinary shares being partly paid.

Southern Pacific Securities 04-1 plc

Directors' report for the year ended 30 November 2017

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions for the benefit of the directors, in accordance with section 234 of the Companies Act 2006, were in force during the period under review and remain in force as at the date of approval of the directors' report and financial statements.

Disclosure of information to the auditor

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Auditor

Following an external audit tender in 2017, Ernst & Young LLP was replaced as the auditor of Southern Pacific Securities 04-1 plc by KPMG LLP with effect from the audit for the 2017 financial year. The auditor, KPMG LLP, has indicated its willingness to continue in office and a resolution concerning its re-appointment will be considered at the forthcoming Annual General Meeting.

This report was approved by the Board on 24 May 2018 and signed on its behalf by:



Link Trust Corporate Limited
Director
Date: 24 May 2018

David John Osborne

Southern Pacific Securities 04-1 plc

Statement of directors' responsibilities in respect of the Annual Report, the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Annual Report, 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



Independent auditor's report

to the members of Southern Pacific Securities 04-1 Plc

1. Our opinion is unmodified

We have audited the annual accounts of Southern Pacific Securities 04-1 Plc ("the Company") for the year ended 30 November 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Company as at 30 November 2017 and of the income and expenditure of the Company for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to those charged with governance.

We are appointed as auditor by the Directors on 9 March 2018.

We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Materiality:	£220k
annual accounts as a whole	0.75% of Total Assets

Risks of material misstatement

Recurring risks	Impairment of loans and advances to customers
	Revenue recognition

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in increasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

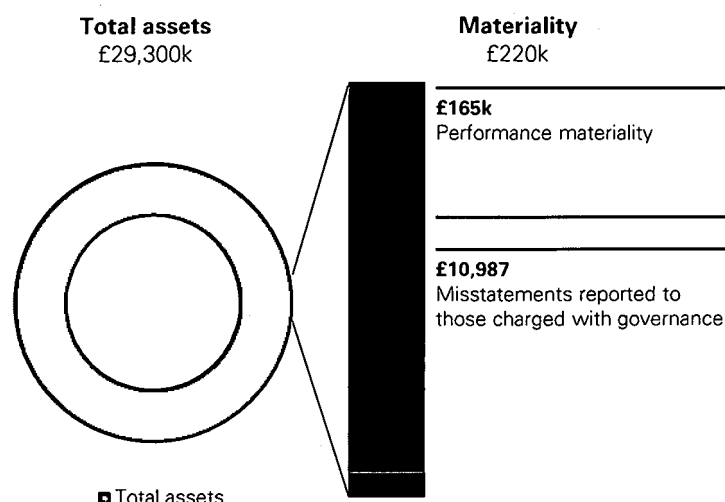
The risk	Our response
<p>Impairment of loans and advances to customers</p> <p>£45k (2016: £60k)</p> <p>Refer to page 22 (accounting policy) and page 29 (financial disclosures)</p>	<p>Subjective estimate:</p> <p>Individual impairment provisions cover loans individually identified as impaired and a collective impairment provision is held for all other loans for those impairments incurred but not yet specifically identified.</p> <p>The Directors judge individual impairments by reference to loans that have suffered significant financial difficulty of the borrower, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, indications that a borrower or issuer will enter bankruptcy, and observable data relating to a group of assets such as adverse changes in payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.</p> <p>The collective impairment provision is derived from a model that uses the Company's historical experience. In particular, judgement is required on the key assumptions of probability of default and loss given default, which the impairment model is most sensitive to movements in.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> — Benchmarking assumptions: We compared the key assumptions used in the impairment provision model underpinning the loss given default and probability of default with externally available data, including those assumptions used by other special purpose vehicles ('SPVs'). — Historical comparison: We assessed the key assumptions used in the model against the Company's historical default experience. — Our sector experience: We challenged the key assumptions used in the impairment provision model of probability of default and loss given default using our knowledge of recent impairment experience in this sector. — Sensitivity analysis: We assessed the impairment provision model for its sensitivity to changes in the key assumptions of probability of default and loss given default by performing stress testing. — Test of detail: We identified a selection of loans by filtering data from loan book arrears reports, which included specific items based on risk characteristics of high exposure and high LTV to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as the security valuation and payment record to challenge the completeness and accuracy of the Company's impairment provision estimate. — Assessing transparency: We assessed the adequacy of the Company's disclosures about the degree of estimation involved in arriving at the provision. <p>Our results:</p> <ul style="list-style-type: none"> — We found the assumptions used in the calculation of the impairment provision in respect of loans and advances to customers to be acceptable.
<p>Data Capture</p> <p>The impairment provision model use a combination of static (e.g. original collateral valuation) and dynamic data (e.g. current balance/interest rates/valuations) in respect of the Society's loans as well as from external sources (e.g. house price index (HPI) tables to drive indexed valuations or ratings agency reports to derive probability of default). Owing to the risk of incorrect data in the underlying system there is a risk that the data used in the provision model are inaccurate.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Control testing: We tested controls over the mortgage system that capture certain static data used in the impairment model (e.g. initial collateral valuation, loan amounts and product interest rates) by observing the operation of these controls over these processes. — Data comparison: We reconciled both a sample of internal data and the data totals used in the model back to the Company's underlying source (e.g. current balance on the mortgage loan system). We also reconciled the external inputs of HPI to external sources. <p>Our results:</p> <ul style="list-style-type: none"> — We found the data used in the calculation of the impairment provision in respect of loans and advances to customers to be acceptable.

Key Audit Matter	The risk	Our response
<p>Revenue Recognition</p> <p>EIR income adjustment £1,445k (2016: £1k) year end EIR Asset £1,912k (2016: £3,357k)</p> <p>Refer to page 19 (accounting policy) and page 27 (financial disclosures)</p>	<p>Subjective Estimate:</p> <p>Using management's cash flow modelling tool, fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans.</p> <p>Management apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. This is the most critical element of judgement, informed by past customer behaviour of when loans are repaid. The expected behavioural life has a direct impact on the level of reversionary income recognised by the entity.</p> <p>EIR modelling is complex and so open to the possibility that the modelling principles are not in accordance with accounting requirements.</p> <p>Data capture:</p> <p>The cash flow modelling tool uses both internal and external data inputs. This includes data specific to that loan as well as macroeconomic data. The macroeconomic data incorporates expectations regarding unemployment rates, HPI and base rates/LIBOR. Owing to the risk of inaccurate data inputs there is a risk that the cash flow models generated are inaccurate.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Methodology implementation: We compared the model's methodology with the requirements of the relevant accounting standard. — Historical comparison: We have assessed the reasonableness of the refreshed cash flow model derived by management which models the expected lives of the loan book. This included assessing the historical accuracy of the key cash flow model assumptions, including conditional prepayment rates ('CPR'). — Test of details: We tested the accuracy of data inputs from the mortgage system into the effective interest rate model, including outstanding balance and contractual maturity. — Control testing: We tested controls over management's assessment of, and subsequent approval of, both the updated cash flow model and the resulting EIR adjustments. — Data comparison: We checked both a sample of the internal/external data and the data totals used in the model back to the entities underlying source (e.g. current balance on the mortgage loan system) and external economic guidance. We also agreed the life profile assumptions in the model to the profiles produced by the cash flow modelling tool, and assessed as outlined above. — Independent performance: We performed a recalculation of the EIR adjustments recognised in the income statement during the year. This included reconciling to the closing balance sheet positions. — Assessing transparency: We assessed the adequacy of the disclosures regarding income recognition. <p>Our results:</p> <ul style="list-style-type: none"> — As a result of our work we found the level of revenue recognition to be acceptable.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the annual accounts as a whole was set at £220k, determined with reference to a benchmark of total assets, of which it represents 0.75%.

We agreed to report to those charged with governance any corrected or uncorrected identified misstatements exceeding £10,987, in addition to other identified misstatements that warranted reporting on qualitative grounds.



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the annual report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- We have not identified material misstatements in the strategic report and the directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Company financial statements are not in agreement with the accounting record and returns; or
- We have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the annual accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

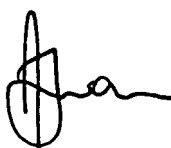
Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the annual report. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual report items.

In addition we considered the impact of laws and regulations in the specific areas of money laundering, sanctions list and financial crime, market abuse regulations and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual report items.

8. The purpose of our audit work and to whom we owe our responsibilities

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



Andrew Walker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

25 May 2018

Southern Pacific Securities 04-1 plc

Statement of comprehensive income for the year ended 30 November 2017

	Note	2017 £'000	2016 £'000
Interest receivable and similar income	4	921	1,130
Interest payable and similar expenses	5	(539)	(636)
Net interest receivable		<u>382</u>	<u>494</u>
Operating expenses		(333)	(402)
Other operating income	6	<u>59</u>	<u>73</u>
Profit before taxation	7	<u>108</u>	<u>165</u>
Tax expense on profit	8	<u>(20)</u>	<u>(31)</u>
Profit and total comprehensive income for the financial year		<u><u>88</u></u>	<u><u>134</u></u>

All amounts relate to continuing operations.

There were no items of other comprehensive income for 2017 or 2016 and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 17 to 36 are an integral part of these financial statements.

Southern Pacific Securities 04-1 plc**Statement of financial position
as at 30 November 2017**

	Note	2017 £'000	2016 £'000
Current assets			
Debtors: amounts falling due after more than one year	11	16,562	18,587
Debtors: amounts falling due within one year	12	2,489	2,365
Cash and cash equivalents	14	10,280	10,145
Total assets		29,331	31,097
Current liabilities			
Creditors: amounts falling due within one year	15	(10,546)	(10,681)
Net current assets		18,785	20,416
Non-current liabilities			
Creditors: amounts falling due after more than one year	16	(18,412)	(20,151)
Deferred tax liabilities	17	(51)	(31)
Net assets		322	234
Capital and reserves			
Called up share capital	19	13	13
Retained earnings		309	221
Total equity		322	234

These financial statements were approved and authorised for issue by the Board on 24 May 2018 and were signed on its behalf by:


Link Trust Corporate Limited

Director

Date: 24 May 2018

David John Osborne

The notes on pages 17 to 36 are an integral part of these financial statements.

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Statement of changes in equity for the year ended 30 November 2017

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance at 1 December 2015	13	87	100
Profit for the financial year	-	134	134
Balance at 30 November 2016	13	221	234
Balance at 1 December 2016	13	221	234
Profit for the financial year	-	88	88
Balance at 30 November 2017	13	309	322

The notes on pages 17 to 36 are an integral part of these financial statements.

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Notes to the financial statements for the year ended 30 November 2017

1 General information

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

The Company is a public limited company and was incorporated and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at Link Trust Corporate Limited (formerly known as Capita Trust Corporate Limited), 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

2 Significant 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:

2.1. Basis of preparation and statement of compliance with FRS 101

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 10(d), 10(f), 16, 38(c)-(d), 40(a)-(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- The Company has taken advantage of the exemptions conferred by FRS 101: 8 (j) & (k) "Related party disclosures", the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures, and transactions with other wholly owned group companies are not disclosed separately.

The preparation of financial statements in conformity with FRS 101 requires the use of certain significant accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

2.1.1 Going concern

It is the intention of the directors to continue operations until such a time as the amount due from the mortgage assets 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.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) once the outstanding mortgage backed loan notes reach 10% of the original issued amount. The threshold has been satisfied. See Note 24 on Post balance sheet events for details of the exercise of the call option that took place in March 2018.

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Notes to the financial statements for the year ended 30 November 2017

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 these notes and accordingly the financial statements have been prepared on a going concern basis.

2.2. Interest recognition

Interest income on mortgage assets, together with the interest expense on the mortgage backed loan notes, is recognised in the statement of comprehensive income on an Effective Interest Rate ("EIR") basis. The EIR basis recognises revenue and expenses equivalent to the rate that effectively discounts estimated future cash flows throughout the expected life to the net carrying value of the mortgage assets or mortgage backed loan notes.

2.3. Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in total equity. In this case the tax is also recognised in other comprehensive income or directly in total equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns in respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on deductible temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.4. Foreign currencies

The financial statements are presented in pounds Sterling (£), which is the functional and presentation currency of the Company. All amounts in these financial statements have been rounded to the nearest thousand, unless otherwise indicated.

Transactions in foreign currency are initially converted to Sterling at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange prevailing at the reporting date. All differences on exchange are taken to the statement of comprehensive income.

2.5. Loan notes

Loan notes are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, the loan notes are measured at amortised cost with any difference between cost and

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Notes to the financial statements for the year ended 30 November 2017

redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an EIR basis.

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans.

2.6. Financial instruments

Initial recognition

The Company recognises financial assets and liabilities when it becomes a party to the terms of the contract.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date on which the Company commits to purchase or sell the asset.

Classification and measurement

Financial assets and liabilities are initially classified as financial assets or liabilities at fair value through profit or loss, loans and receivables and available for sale financial assets.

All financial assets are recognised initially at fair value plus directly attributable costs for those not at fair value through profit and loss.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings payables, net of directly attributable transaction costs.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in finance revenue or finance expense in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. Losses arising from impairment are recognised in the statement of comprehensive income in other operating expenses.

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Notes to the financial statements for the year ended 30 November 2017

Derecognition

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, and retained control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Financial assets

Debtors

Debtors including amounts owed by group undertakings and other debtors, with no stated interest rate and receivable within one year are recorded at transaction price less provisions made for doubtful debts.

Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Mortgage assets

Mortgage assets are classified within debtors. The initial measurement is at fair value plus transaction costs that are directly attributable to the acquisition of the mortgage assets, with subsequent measurement being amortised cost using the EIR method. The effective interest on the mortgage assets is calculated with reference to the interest earned on the mortgage assets.

The mortgage assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable and similar income in the statement of comprehensive income.

Impairment of mortgage assets

The Company assesses at each statement of financial position date whether there is evidence that a mortgage asset or a portfolio of financial assets is impaired. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset ("a loss event"), and that loss event or events has had an impact on the estimated future cash flows of the portfolio of financial assets or mortgage assets that can be reliably estimated.

The Company assesses whether objective evidence of impairment exists for mortgage assets on an individual loan basis. Those evaluations are based on the individual loan risk characteristics, taking into account: asset type; borrower; loan scores; geographical location; collateral type; past-due status; and other relevant factors. These characteristics are relevant to the estimation of future cash flows by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the loan.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised in the statement of comprehensive income.

Any impairment in the mortgage assets will be reflected in the Company's accounts by adjusting the carrying amount of the mortgage assets in the statement of financial position.

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Notes to the financial statements for the year ended 30 November 2017

Financial liabilities

Trade and other creditors

Creditors including amounts owed to group undertakings, other creditors and accruals, with no stated interest rate and due within one year, are recorded at transaction price.

Mortgage backed loan notes

The mortgage backed loan notes were initially recognised at fair value, which was their par value at the date of issue less directly attributable transaction costs. The mortgage backed loan notes are subsequently remeasured at amortised cost taking into account repayments at interest payment dates where applicable.

Interest payable is recognised using the EIR method with the directly attributable transaction costs being amortised over the expected average life of the facility in line with IAS 39. Any unamortised issue costs are disclosed in note 16.

Interest payable on the notes during the year and any associated EIR adjustments are included in interest payable and similar expenses.

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans.

Discount on revenue backed loan notes

The Company issued loan notes that retain the rights to the excess spread. The notes were issued for consideration less than the principal value, with a discount recorded for the difference.

The discount is recognised on the date the loan notes were issued by the Company and amortised over time, consistent with the relevant note amortisation profile determined at issuance. The discount is amortised on an EIR basis using the expected life of the loan notes. The amortised discount balance is added to the creditor balance with the costs amortised in the year included in interest payable and similar expenses.

Deferred consideration

Deferred consideration is initially recognised at the fair value of the consideration paid.

Under the terms of the securitisation the Company earns a maximum annual profit in an amount equal to 0.01% of the aggregate balance of the loans in the mortgage pool. Profits in excess of this amount 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 Statement of Financial Position.

At each subsequent Statement of Financial Position date an accrual is made for deferred consideration within the financial statements as amounts are expected to become payable as a result of the performance of the mortgage assets.

Offsetting of financial assets and liabilities

In accordance with IAS 32 Financial Instruments: Presentation, the presentation of financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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Notes to the financial statements for the year ended 30 November 2017

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Where applicable, the following methods are used to estimate the fair values of the financial instruments:

- i. cash, trade receivables and payables - the carrying value is a good approximation of the fair value;
- ii. fixed and variable rate borrowings - valued as detailed in note 18; and
- iii. mortgage assets - valued as detailed in note 18.

The Company, where appropriate, classifies disclosed fair values according to a hierarchy that reflects the significance of observable market inputs. A transfer is made between the hierarchy when the inputs have changed or there has been a change in the valuation method.

These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used.

The different levels are identified as follows:

Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2.7. Premium paid on mortgage assets

A premium is recognised where mortgage assets are acquired at amounts in excess of their carrying values. Where this occurs the premium is capitalised by the Company and amortised over the expected repayment period of the mortgage assets. The amortised balance is added to the mortgage assets balance with the costs amortised in the period included in interest payable and similar expenses. Details of any unamortised premiums paid on mortgage assets are disclosed in note 13.

2.8. Segmental analysis

The Company's income and trade are wholly within the United Kingdom and within a single market sector and therefore no segmental analysis has been presented.

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Notes to the financial statements for the year ended 30 November 2017

2.9. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.10. Share capital and capital contributions

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax from the proceeds.

3 Significant accounting estimates and judgements

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Significant accounting judgements

Derecognition of mortgage assets

The Company has made a significant accounting judgement in the assessment of the mortgage assets. The Company performed an assessment of the risks and rewards associated with the financial assets acquired, and concluded that the financial assets qualify for derecognition for the originator. In making this assessment the Company considered the retained risks of the seller, 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. This follows the accounting treatment adopted in the sellers' financial statements.

3.2. Significant accounting estimates and assumptions

The Company has identified the following significant accounting policies that involve significant accounting estimates and assumptions:

Impairment of mortgage assets

Impairment losses on mortgage assets are calculated based on statistical models. The key assumptions relate to estimates of future cash flows from customers' accounts, their timing and, for secured accounts, the expected proceeds from the realisation of the property. These key assumptions are based on observed data from historical patterns and are updated regularly based on new data as it becomes available.

In addition the directors consider how appropriate past trends and patterns might be in the current economic situation and make any adjustments they believe are necessary to reflect current conditions.

The accuracy of the impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes. In particular, if the impact of economic factors such as employment levels on customers is worse than is implicit in the model then the number of accounts requiring provision might be greater than suggested by the model, while falls in house prices, over and above any assumed by the model might increase the provision required in respect of accounts currently provided.

A decrease in the House Price Index of 5% spread over the next 2 years increases the mortgage asset impairment provision by £13,000.

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Notes to the financial statements for the year ended 30 November 2017

Effective Interest Rate ("EIR")

The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The book value of the mortgage assets is measured at amortised cost using the EIR method, with a provision made for impairment. The current model used to estimate future cash flows in the EIR is sensitive to certain key assumptions, the most important of which is the constant prepayment rate ("CPR").

An increase of 1% in the CPR assumed would result in a loss of £24,000.

4 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest receivable on mortgage assets	927	1,107
Other interest	(6)	23
	<u>921</u>	<u>1,130</u>

The estimated weighted average life of the mortgage assets underlying the loans to originator is 5 years (2016: 6 years). During the year the impact of the change in the estimated weighted average life on the effective interest rate calculation resulted in a gain of £106,000 (2016: gain of £162,000).

Interest has accrued for the year in relation to impaired financial assets at 4.41% (2016: 4.48%) of the principal balance.

5 Interest payable and similar expenses

	2017 £'000	2016 £'000
Interest expense on loan notes	538	635
Amortisation of capitalised issue costs	1	1
	<u>539</u>	<u>636</u>

6 Other operating income

	2017 £'000	2016 £'000
Redemption fees	8	11
Sundry fee income	51	62
	<u>59</u>	<u>73</u>

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Notes to the financial statements for the year ended 30 November 2017

7 Profit before taxation

	2017 £'000	2016 £'000
Profit before taxation is stated after charging/(crediting):		
Auditor's remuneration for statutory audit	13	12
Impairment (credit)/charge on mortgage assets	(15)	41
Amounts written off on mortgage assets	42	14
Deferred consideration	(119)	(119)

8 Taxation

	2017 £'000	2016 £'000
Analysis of tax expense for the year		
Current tax		
UK corporation tax expense on profit for the year	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	21	32
Effect of changes in tax rates	(1)	(1)
Total deferred tax	20	31
Tax expense on profit	20	31

Factors affecting taxation

The tax assessed for the year is lower than (2016: lower than) the standard rate of corporation tax in the United Kingdom of 19.33% (2016: 20.00%).

	2017 £'000	2016 £'000
Profit before tax	108	165
Profit multiplied by standard rate of corporation tax in the UK of 19.33% (2016: 20.00%)	21	33
Effects of:		
Utilisation of tax losses	-	(1)
Effect of changes in tax rates	(1)	(1)
Total tax expense for the year	20	31

The Finance Act (No.2) 2015 and Finance Act 2016 contain provisions reducing the rate of United Kingdom corporation tax from 20% to 19% from 1 April 2017 and from 19% to 17% from 1 April 2020, respectively. These Acts were enacted on 18 November 2015 and 15 September 2016 respectively.

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Notes to the financial statements for the year ended 30 November 2017

9 Directors and employees

The Company does not have any employees other than the directors (2016: none). The directors' did not receive any remuneration in the year (2016: nil).

10 Mortgage assets - net of impairment

	Mortgage assets £'000	Impairment £'000	Mortgage assets, net of impairment £'000
At 1 December 2015	22,911	(19)	22,892
Movement in the year	(1,907)	(41)	(1,948)
At 30 November 2016	21,004	(60)	20,944
Movement in the year	(1,910)	15	(1,895)
At 30 November 2017	19,094	(45)	19,049

The mortgage assets 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 201 (2016: 1 to 267) months remaining with current interest rates ranging from 0.00% to 14.28% (2016: 0.00% to 14.39%) per annum.

The book value of the mortgage assets are measured at amortised cost using the EIR method, with a provision made for impairment. The impairment provision includes a specific provision of £45,000 (2016: £60,000). The impairment model used to estimate future cash flows in the impairment calculation is sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred.

A decrease in the House Price Index of 5% spread over the next 2 years increases the mortgage asset impairment provision by £13,000.

11 Debtors: amounts falling due after more than one year

	2017 £'000	2016 £'000
Mortgage assets net of impairment (note 10)	16,562	18,587
	<u>16,562</u>	<u>18,587</u>

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Notes to the financial statements for the year ended 30 November 2017

12 Debtors: amounts falling due within one year

	2017	2016
	£'000	£'000
Mortgage assets net of impairment (note 10)	2,487	2,357
Prepayments and accrued income	2	8
	<u>2,489</u>	<u>2,365</u>

Mortgage assets net of impairment represent the portion of the mortgage book expected to repay in the next 12 months based on behavioural analysis performed.

13 Premium on mortgage assets

	2017	2016
	£'000	£'000
Premium on acquisition of mortgages		
At 1 December	2	2
Amortisation in the year	-	-
At 30 November	<u>2</u>	<u>2</u>

14 Cash and cash equivalents

	2017	2016
	£'000	£'000
Cash at bank and in hand	10,280	10,145
	<u>10,280</u>	<u>10,145</u>

Cash at bank earns interest at the rates specified in note 18.

15 Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Accruals and deferred income	196	219
Other creditors	142	135
Amounts owed to group undertakings	3	3
Deferred consideration	10,205	10,324
	<u>10,546</u>	<u>10,681</u>

Amounts due to group undertakings are interest free and payable on demand.

A monthly accrual is made in the statement of comprehensive income 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. Deferred consideration is paid on a quarterly basis based on available revenue funds.

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Notes to the financial statements for the year ended 30 November 2017

16 Creditors: amounts falling due after more than one year

	2017	2016
	£'000	£'000
GBP Denominated mortgage backed loan notes due 2042 -Class M	14,785	16,524
GBP Denominated mortgage backed loan notes due 2042 -Class B	3,630	3,630
Total loan notes	18,415	20,154
Less unamortised issue costs	(3)	(3)
	18,412	20,151

The mortgage backed loan notes due in 2042 are secured over the portfolio of mortgage assets secured by first and second charges over residential properties in the United Kingdom.

The mortgage assets are administered by Acenden Limited on behalf of the Company.

The mortgage backed loan notes are repaid as the underlying portfolio redeems. The terms and conditions of the mortgage backed loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage assets.

None (2016: none) of the mortgage backed loan notes are owed to a related party.

Whilst the mortgage backed loan 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 loan 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 mortgage backed loan notes will be redeemed at their principal amount outstanding on the Interest Payment Date falling in 2042.

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 mortgage assets, with the Class M Notes ranking in priority to the Class B Notes.

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

Class M	Sterling LIBOR + 2.25%
Class B	Sterling LIBOR + 3.50%

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) once the outstanding mortgage backed loan notes reach 10% of the original issued amount. The threshold has been satisfied. See Note 24 on Post balance sheet events for details of the exercise of the call option that took place in March 2018.

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Notes to the financial statements for the year ended 30 November 2017

17 Deferred tax

	2017 £'000	2016 £'000
Opening deferred tax balance	(31)	-
Origination and reversal of temporary differences	(21)	(32)
Rate change in respect of temporary differences	1	1
Closing deferred tax balance	<u>(51)</u>	<u>(31)</u>

Deferred taxation has been recognised at 19% (2016: 19.33%) being the UK corporation tax rate expected to apply in the period in which the timing differences are expected to reverse based on the tax rates that have been enacted at the statement of the financial position date.

The deferred tax balance is made up as follows:

	2017 £'000	2016 £'000
Short term timing differences	<u>(51)</u>	<u>(31)</u>
	<u>(51)</u>	<u>(31)</u>

Accumulated losses of £94,000 (2016: £96,000) resulting in a deferred tax asset of £18,000 (2016: £19,000) have not been recognised. The deferred tax asset has not been recognised due to uncertainty surrounding the Company's future profitability.

18 Financial instruments and risk management

Nature and extent of risks arising from financial statements

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and operational risk as explained in the strategic report.

a) Credit risk

Credit risk is the risk that borrowers of the mortgage assets will not be able to meet their obligations as they fall due. All mortgage assets are required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage assets. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors.

The level of arrears in the mortgage portfolio has largely stabilised, which the directors consider is consistent with the improvement in the market conditions experienced in the past few years in the United Kingdom mortgage market. Arrears management and recovery processes are performed with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the directors acknowledge that 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.

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Notes to the financial statements for the year ended 30 November 2017

Credit quality of the mortgage is assessed by an assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November 2017 was:

	2017 £'000	2016 £'000
Mortgage assets	19,094	21,004
Cash and cash equivalents	10,280	10,145
	<u>29,374</u>	<u>31,149</u>

Mortgage assets and asset credit quality

All mortgage assets are categorised, as either 'neither past due nor impaired', 'past due but not impaired', or 'past due and impaired'. A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.

As at 30 November 2017, the ageing analysis of mortgage assets is as follows:

	2017 £'000	2016 £'000
Neither past due nor impaired	12,526	9,509
Past due but not impaired – less than 30 days	936	-
Past due but not impaired – between 30 and 60 days	216	525
Past due but not impaired – between 61 and 90 days	-	236
Past due but not impaired – between 91 and 120 days	43	95
Past due but not impaired – more than 120 days	166	293
Impaired	5,207	10,181
Total	<u>19,094</u>	<u>20,839</u>

The mortgage assets underlying the loans to originator have the following loan to value ("LTV") profile based on indexed valuations of the underlying properties, giving an indication of their credit quality:

	2017 £'000	2016 £'000
0-50%	13,266	14,322
50.01% -70%	4,939	5,489
70.01% - 90%	831	1,139
Over 100%	58	54
Total	<u>19,094</u>	<u>21,004</u>

The portfolio of mortgage assets is well diversified geographically with the highest exposure being in the South East at 21.90% (2016: South East at 21.80%)

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Notes to the financial statements for the year ended 30 November 2017

b) Liquidity risk

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

As at 30 November 2017	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
Financial liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	3,267	2,835	2,448	2,379	2,150	10,495	23,574

As at 30 November 2016	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Total
Financial liabilities	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loan notes	3,186	3,007	2,752	2,209	2,220	12,545	25,919

There is no contractual obligation to pay down the loan notes other than as set out in note 16.

The estimated future cash flows are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. Future cash flows have been estimated using a combination of macro environmental factors, including market observable data, and individual borrower data. 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.

In addition, the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances. The undiscounted cash flows have been estimated by previously applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans and using the weighted average interest rate prevailing at the statement of financial position date.

The loan notes in the above table will not agree to the liability in statement of financial position as the table incorporates both principal and interest payments on an undiscounted basis (see note 16 for maturity dates). For the current and the prior year, all mortgage backed loan notes are due in more than 5 years, and all other non-derivative creditors are repayable on demand.

The Company's policy is to manage liquidity risk by matching cash payments due on the mortgage backed loan notes to cash receipts from mortgage assets.

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Notes to the financial statements for the year ended 30 November 2017

c) Interest rate risk

Interest rate risk profile of financial assets

	Total £'000	Total variable rate £'000	Total fixed rate £'000	Weighted average interest rate* %	Weighted average time for which rate is fixed Years
2017					
Mortgage assets	19,094	19,094	-	4.16	-
Cash at bank and in hand	10,280	-	10,280	0.00	0.25
2016					
Mortgage assets	21,004	21,004	-	4.30	-
Cash at bank and in hand	10,145	-	10,145	0.00	0.25

* This is the weighted average spread above LIBOR.

Interest rate sensitivity analysis on financial assets

	Increase in basis points	Effect on equity £'000	Effect on result before tax £'000
2017			
Mortgage assets	25	48	48
Cash at bank and in hand	25	26	26
2016			
Mortgage assets	25	52	52
Cash at bank and in hand	25	25	25

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently – observable market conditions. In assessing the effect on financial assets of interest rate sensitivity, management have used a benchmark of 25 bps.

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Notes to the financial statements for the year ended 30 November 2017

Interest rate risk profile of financial liabilities

	Total	Total variable rate	Weighted average Interest rate
	£'000	£'000	%
2017			
Mortgage backed loan notes	18,415	18,415	2.50
2016			
Mortgage backed loan notes	20,154	20,154	2.86

Interest payable on the mortgage backed loan notes and receivable on mortgage assets are both based on 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 16. The Company's approach to managing interest rate risk is included in the principal risks and uncertainties section of the strategic report.

Interest rate sensitivity analysis on financial liabilities

	Increase in basis points	Effect on equity £'000	Effect on result before tax £'000
2017			
GBP loan notes	25	46	46
2016			
GBP loan notes	25	50	50

In assessing the effect on financial liabilities of interest rate sensitivity, management have used a benchmark of 25 bps.

The Company also has certain financial instruments included within debtors (note 12) and creditors (note 15) which are not subject to interest rate risk as they bear no interest.

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Notes to the financial statements for the year ended 30 November 2017

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

	2017 £'000	2016 £'000
Interest receivable on mortgage assets	927	1,107
Interest expense on loan notes	(538)	(635)
	<u>389</u>	<u>472</u>

d) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Company operates under a controls and governance framework provided by the servicer of the mortgage assets. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

e) Fair values of financial assets and liabilities

	2017 Book value £'000	2017 Fair value £'000	2016 Book value £'000	2016 Fair value £'000
Financial assets				
Mortgage assets	19,049	20,384	20,944	23,932
Cash at bank and in hand	10,280	10,280	10,145	10,145
	<u>29,329</u>	<u>30,664</u>	<u>31,089</u>	<u>34,077</u>
Financial liabilities				
Mortgage backed loan notes	(18,415)	(19,540)	(20,154)	(23,812)
Deferred consideration	(10,205)	(10,205)	(10,324)	(10,324)
	<u>(28,620)</u>	<u>(29,745)</u>	<u>(30,478)</u>	<u>(34,136)</u>

All financial assets and liabilities are held at amortised cost. There were no transfers between categories in both periods. Management have assessed all other assets and liabilities and consider book value to be equal to fair value.

Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents. There are no material differences between their book values and fair values.

The directors have considered the fair values of the Company's main financial instruments which are mortgage assets, mortgage backed loan notes and cash.

The fair value of the mortgage backed loan notes has been based upon their quoted prices; where available, or prices interpolated using latest available market data. The fair value of the mortgage assets has been based upon the fair value of the mortgages underlying the loan notes, and expected residual cash flows. It is the opinion of the directors that this methodology is appropriate as the market is more liquid than in prior years.

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Notes to the financial statements for the year ended 30 November 2017

As part of the process of assessing fair value, management have refined the assumptions used. This has been achieved using a combination of macro environmental factors including market observable data and individual borrower data resulting in a more accurate reflection of the estimated cash flows used for computing fair value.

Mortgage backed loan notes and mortgage assets are classified as level 2 and level 3 respectively.

19 Share capital

	2017 £	2016 £
Authorised, allotted, called up and fully paid:		
2 Ordinary 100% called and fully paid shares of £1 each	<u>2</u>	<u>2</u>
Authorised, 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>

20 Related party transactions

The transactions and outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. None of the outstanding balances have been impaired.

	Amount expensed 2017 £'000	Amount outstanding 2017 £'000	Amount expensed 2016 £'000	Amount outstanding 2016 £'000
Southern Pacific Mortgage Limited				
Mortgage related amounts payable	-	(3)	-	(3)
Deferred consideration	119	(10,205)	119	(10,324)
Wilmington Trust SP Services (London) Limited				
Corporate services fees	(30)	-	(29)	-
	<u>89</u>	<u>(10,208)</u>	<u>90</u>	<u>(10,327)</u>

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Notes to the financial statements for the year ended 30 November 2017

21 Parent undertaking and control

The Company's immediate parent undertaking is Southern Pacific 04-1 Parent Limited which is registered and operates in England, United Kingdom and has its registered office located at 6th Floor, 65 Gresham Street, London, EC2V 7NQ. The entire issued share capital of Southern Pacific 04-1 Parent Limited is held by a trustee under a declaration of trust for charitable purposes.

An affiliate company, Southern Pacific Mortgage Limited, retains an interest in the cash flows and profits of the Company. The Company's operations are managed by Link Trust Corporate Limited (formerly known as Capita Trust Corporate Limited), an affiliate company.

The largest and smallest group in which the results of the Company are consolidated is Southern Pacific Mortgage Limited, a Company incorporated in England, United Kingdom. The consolidated financial statements of Southern Pacific Mortgage Limited are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

The Company's ultimate controlling party is Lehman Brothers Holdings Inc., which is incorporated in the state of Delaware in the United States of America, and is the ultimate parent undertaking of Southern Pacific Mortgage Limited. On 15 September 2008, the ultimate controlling party Lehman Brothers Holdings Inc., filed for Chapter 11 bankruptcy protection.

22 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.

23 Contingent liabilities

There are no (2016: nil) contingent liabilities or commitments at the year end or up to the date of signing the directors' report.

24 Post balance sheet date events

In March 2018, the issuer exercised the call option within the deal and the mortgage assets were repaid at their Principal balance of £18,004,000, the proceeds of this sale being used to fully repay the mortgage backed loan notes in issue at that date. All other liabilities were also settled and any remaining cash was paid out of the Company as deferred consideration.

There are no significant events occurring after the statement of financial position 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 2017.