5578381

Southern Pacific Financing 06-A Plc

(formerly known as Orchidplace Plc)

Report and Financial Statements

30 November 2006

Registered No 05578381

Registered No 05578381

Directors
J G Vickers
Capita Trust Corporate Limited
Capita Trust Corporate Services Limited

Secretary
Clifford Chance Secretaries (CCA) Limited
10 Upper Bank Street
London
E14 5JJ

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

Bankers
Barclays Bank plc
Cheapside Business Centre
155 Bishopsgate
London
EC2M 3XA

Solicitors
Clifford Chance
10 Upper Bank Street
London
E14 5JJ

Registered Office
7th Floor
Phoenix House
18 King William Street
London
EC4N 7HE

Directors' report

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

Principal activities

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

Business review

The Company was incorporated on 29 September 2005 as Orchidplace Plc The Company changed its name to Southern Pacific Financing 06-A Plc on 19 December 2005 The Company began trading on 22 February 2006 On 28 February 2006 the Company acquired mortgages of £420m and issued loan notes of £432m

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

As required by FRS 26, the result for the period includes a fair value gain on derivative financial instruments of £1,962,124

At the year end the mortgage balance, after FRS 26 adjustments was £397,600,000 At the December 2006 interest payment date, the company held the following mortgage loans, excluding any FRS 26 adjustments

	Principal balance £	*Number of loans*
First mortgages	385,830,171	4,094
Total	385,830,171	4,094

These mortgages provide security against loan notes in issue totalling £395,156,008 as at the December 2006 interest payment date The directors consider the mortgage loans to be adequate collateral against the loan notes in issue

The mortgage loans generated a weighted average margin over funding costs of 1 18% during the period The weighted average cost of funds for the period was 4 76% The directors consider there to be adequate arrangements in place to hedge against future movements in cost of funds

The mortgage loans exhibited the following quarterly arrears profile

	Q2 %	*Q3 %*	*Q4 %*
Delinquencies days – (excluding repossessions)			
Current	95 02	90 61	89 11
> 30 <= 60	2 18	3 98	4 02
> 60 <= 90	1 47	2 74	3 07
> 90 <= 120	0 60	0 84	1 47
> 120	0 73	1 84	2 33
Total	100 00	100 00	100 00

The directors consider the level of arrears to be within expectations and do not anticipate a material movement in the level of arrears during the year to 30 November 2007

Directors' report

Dividend

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

Policy and practice on payment of creditors

The Company does not follow any stated code on payment practice It is the Company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with the suppliers at the outset It is the policy of the Company to abide by the agreed terms of payment There are no creditor days of suppliers' invoices outstanding at the period end

Directors

The directors who held office during the period were as follows

Capita Trust Corporate Services Limited (appointed on 31 October 2006)
Capita Trust Corporate Limited (appointed on 19 December 2005)
J G Vickers (appointed on 19 December 2005)
D J Pudge (appointed on 29 September 2005, resigned 19 December 2005)
A W Gower (appointed 19 December 2005, resigned 31 October 2006)
A Levy (appointed 29 September 2005, 19 December 2005)

Clifford Chance Secretaries Limited were appointed as secretary to the Company on 29 September 2005 and resigned on 19 December 2005 Clifford Chance Secretaries (CCA) Limited were appointed as secretary to the Company on 19 December 2005

Principal risks and uncertainties

Financial instrument risks

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

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

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

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

Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due All mortgages purchased by the Company during the period were required to adhere to specific lending criteria The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors

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

Directors' report

Principal risks and uncertainties (continued)

Liquidity risks

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

Disclosure of information to the auditors

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

Auditors

Ernst & Young LLP were appointed as auditors on 19 December 2005 A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

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

Capita Trust Corporate Services Limited
(Director)

Director

Date 07/02/2008

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and 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) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

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

ERNST & YOUNG

Independent auditors' report

to the members of Southern Pacific Financing 06-A plc

We have audited the company's financial statements for the period ended 30 November 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 19 These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Independent auditors' report

to the members of Southern Pacific Financing 06-A plc (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2006 and of its profit for the period then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP.

Ernst & Young LLP
Registered Auditor
London

Date 8/2/08

Profit and loss account

for the period ended 30 November 2006

	Notes	*Period ended 30 November 2006 £000*
Interest receivable and similar income	2	22,219
Interest payable and similar charges	3	(20,120)
Net interest payable receivable		2,099
Net fair value gain on derivatives		1,962
Other operating income	4	1,272
Total operating income		5,333
Operating expenses		(517)
Profit on ordinary activities before taxation	5	4,816
Tax on profit on ordinary activities	6	(915)
Profit on ordinary activities after taxation	15	3,901

The profit for the period was derived from continuing operations

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

The notes on pages 10 to 18 form part of these financial statements

Balance sheet
at 30 November 2006

	Notes	2006 £000
Current assets		
Debtors		
Amounts falling due after one year	10	390,433
Amounts falling due within one year	11	11,259
Cash at bank and in hand		22,598
		424,290
Creditors: amounts falling due within one year	12	(6,849)
Net current assets		417,441
Creditors amounts falling due after one year	13	(413,527)
Net assets		3,914
Capital and reserves		
Called up share capital	14	13
Profit and loss account	15	3,901
Shareholders' funds	16	3,914

The notes on pages 10 to 18 form part of these financial statements

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

Capita Trust Corporate Services Limited
(Director)

Director

Date 07/02/2008

Notes to the financial statements

at 30 November 2006

1. Accounting policies

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

Basis of preparation

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

Income recognition

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

Mortgage loans

Mortgage loans are valued on the amortised cost basis using the effective interest rate method less provision made to reduce the value of the loans to their estimated recoverable amount Provisions are made against mortgages when in the opinion of the directors, credit risk or economic risk make recovery doubtful A loan premium is recognised where mortgages are acquired at amounts in excess of the amount recoverable from customers This loan premium is amortised over the expected life of the mortgages

Provisions

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

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

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date 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

at 30 November 2006

1. Accounting policies (continued)

Derivatives

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

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

Interest rate caps

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

Deferred consideration

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

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 FRS No 26 and costs amortised in the period are included in interest payable

Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3 (c) of FRS 8, not to disclose transactions with related parties since the Company is 100% owned by Southern Pacific 06-A Parent Limited group and is consolidated under FRS No 5 into the consolidated financial statements of Southern Pacific 06-A Parent Limited, which are publicly available

Cash flow statement

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

Turnover

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

Notes to the financial statements

at 30 November 2006

2. Interest receivable and similar income

	Period ended 30 November 2006 £000
On mortgage loans	21,750
Other interest	469
	22,219

3. Interest payable and similar charges

	Period ended 30 November 2006 £000
Mortgage backed loan notes	16,771
Amortisation of capitalised issue costs	3,349
	20,120

4. Other operating income

	Period ended 30 November 2006 £000
Redemption fees	1,191
Sundry fee income	81
	1,272

5. Profit on ordinary activities before taxation

	Period ended 30 November 2006 £000
Profit on ordinary activities before taxation is stated after charging	
Auditors' remuneration – for audit services	8
Provision for mortgage losses	1,721
Deferred consideration	(1,646)

Notes to the financial statements

at 30 November 2006

6. Tax on profit on ordinary activities

(a) Analysis of tax charge in the period

	Period ended 30 November 2006 £000
Current tax	
UK corporation tax on profits in the period	6
Total current tax (note 6(b))	6
Deferred tax	
Origination and reversal of timing differences (note 18)	909
Tax on profit on ordinary activities	915

(b) Factors affecting the tax charge in the period

The tax assessed for the period is higher than the standard rate for current corporation tax applicable to small companies in the UK of 19% The differences are explained below

	Period ended 30 November 2006 £000
Profit on ordinary activities before tax	4,816
Profit on ordinary activities multiplied by the UK small companies rate of 19%	915
Effects of	
Short-term timing differences (note 18)	(909)
	6

7. Information regarding directors and employees

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

8. Mortgage loans – net balances

	Mortgage £000	*Mortgage loss provision £000*	*Total £000*
At incorporation	–	–	–
Acquired during the period	420,168	–	420,168
Net movement in the period	(22,568)	(1,721)	(24,289)
At 30 November 2006	397,600	(1,721)	395,879

Mortgage loans of £395,879,000 are held as security against the loan notes referred to in note 13

Notes to the financial statements

at 30 November 2006

9 Mortgage loans - unamortised premium

	2006 £000
Premium on acquisition	4,455
Amortisation in the period	(3,016)
At end of period	1,439

10. Debtors: amounts falling due after one year

	2006 £000
Mortgage loans	
Net balances (note 8)	390,083
Unamortised acquisition premium	350
	390,433

11. Debtors: amounts falling due within one year

	2006 £000
Mortgage loans	
Net balances (note 8)	5,796
Unamortised premium	1,089
Prepayments and accrued income	2,148
Other debtors	580
Deferred consideration	1,646
	11,259

12. Creditors: amounts falling due within one year

	2006 £000
Corporate tax	6
Amounts owed to related parties	650
Accruals and deferred income	5,284
Deferred tax	909
	6,849

Notes to the financial statements

at 30 November 2006

13. Creditors: amounts falling due after one year

	2006
	£000
Class A Mortgage backed floating rate notes due 2044	359,653
Class B Mortgage backed floating rate notes due 2044	14,700
Class C Mortgage backed floating rate notes due 2044	19,110
Class D1 Mortgage backed floating rate notes due 2044	9,450
Class DTc Mortgage backed floating rate notes due 2044	2,140
Class E Mortgage backed floating rate notes due 2044	3,780
Class F Mortgage backed floating rate notes due 2044	8,438
	417,271
Less Issue costs	(3,744)
	413,527

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

With the exception of mortgage backed loan notes due 2044 Class DTc £2 14m, the remaining mortgage backed floating rate notes due 2044 are secured over a portfolio of mortgage loans secured by first and second charges over residential properties in the United Kingdom

The mortgages were purchased from Southern Pacific Mortgage Limited The mortgages are administered by Southern Pacific Mortgage Limited on behalf of Southern Pacific Financing 06-A plc

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 If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in December 2044

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

Class A notes	Sterling LIBOR + 0 16%
Class B notes	Sterling LIBOR + 0 26%
Class C notes	Sterling LIBOR + 0 45%
Class D1 notes	Sterling LIBOR + 0 85%
Class DTc notes	Sterling LIBOR + 0 75%
Class E notes	Sterling LIBOR + 3 30%
Class F notes	Sterling LIBOR + 0 00%

Notes to the financial statements

at 30 November 2006

14. Called up share capital

	2006
	£
Authorised	
Ordinary shares of £1 each	50,000
Allotted and called up	
2 shares 100% called and fully paid	2
49,998 shares 25% called and partially paid	12,500
	12,502

£2 of share capital was issued on incorporation on 29 September 2005 and settled for cash on 29 September 2005

15. Profit and loss account

	2006
	£000
Profit for the period	3,901
Retained profit carried forward	3,901

16. Reconciliation of movement in shareholders' funds

	2006
	£000
Opening shareholders' funds	–
Issue of ordinary share capital	13
Retained profit for the period	3,901
Net increase in shareholders' funds	3,914
Shareholders' funds at incorporation	–
Closing shareholders' funds	3,914

Notes to the financial statements

at 30 November 2006

17 Derivatives and other financial instruments

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

(a) Interest rate risk profile of financial liabilities as at 30 November

	Total	*Total Variable rate*	*Total fixed rate*	*Weighted average interest rate*	*Weighted average time for which rate is fixed*
	£000	*£000*	*£000*	*%*	*Years*
2006					
Interest rate profile	417,271	417,271	–	–	–

All financial liabilities are denominated in pounds sterling

(b) Interest rate risk profile of financial assets as at 30 November

	Total	*Total Variable rate*	*Total fixed rate*	*Weighted average interest rate*	*Weighted average time for which rate is fixed*
	£000	*£000*	*£000*	*%*	*Years*
2006					
Interest rate profile	420,198	143,844	276,354	6 14	1 5

All financial assets are denominated in pounds sterling

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the mortgage backed loan notes, are set with reference to the London Interbank Offer Rate The rates of interest payable on the mortgage backed loan notes are set as detailed in note 13

(c) Fair value of financial instruments

	Book value 2006	*Fair value 2006*
	£000	*£000*
On balance sheet		
Mortgage loans	397,600	397,600
Cash and deposits	22,598	22,598
Mortgage backed loan notes	(417,271)	(417,271)

The Company uses interest rate caps in certain circumstances to hedge against movement in interest rates At 30 November 2006 the notional value of the caps held was £340,698,608 and the recognised value was £1,962,124

Notes to the financial statements

at 30 November 2006

18. Deferred taxation

	2006
	£000
Liability at start of period	–
Deferred tax charge in the profit and loss account (note 6)	(909)
Liability at the end of the period	(909)

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

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

As of 1 April 2007 the UK corporation tax rate increased to 20% The impact of the rate charge on the deferred tax liability expected to reverse in greater than one year would be an increase of £48,000

	2006
	£000
Effect of FRS 26 adjustment for EIR	(536)
Effect of FRS 26 adjustment for Derivatives	(373)
Total deferred tax liability recognised at 19%	(909)
Total deferred tax liability recognised at 20%	(957)
Difference	(48)

19. Parent undertaking and control

The Company is controlled by its parent undertaking, Southern Pacific 06-A Parent Limited, which is registered and operates in the United Kingdom

The entire issued share capital of Southern Pacific 06-A Parent Limited is held by a Trustee under the terms of a trust primarily for the benefit of the creditors of the Company or, if none, for the benefit of the holders of notes issued by Southern Pacific Financing 06-A plc, and ultimately for charitable purposes