Southern Pacific Financing 06-A plc

Report and Financial Statements

30 November 2010

Registered No 05578381

Directors
Capita Trust Corporate Services Limited
D Baker
Capita Trust Corporate Limited

Secretary
Capita Trust Secretaries Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

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

Note Trustee
BNYM Corporate Trustee Services Limited
One Canada Square
London E14 5AL

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 year ended 30 November 2010

Principal activities

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

Business review

On 22 February 2006 the Company purchased £419,974,722 of mortgages from Southern Pacific Mortgage Limited Further consideration may be payable dependent on future performance of the mortgages To facilitate the purchase, the Company issued a series of mortgage-backed loans on 22 February 2006 These loan notes are listed on the Irish Stock Exchange

The mortgage servicing, cash bond administration and accounting services are provided by Acenden Limited (formerly Capstone Mortgage Services Limited), an external party

The results for the year ended 30 November 2010 are set out on page 9 The Company's business activities, together with the factors likely to affect its future development, financial performance and financial position are set out below

The current economic environment is difficult and the Company has reported an operating loss for the year after Financial Reporting Standard No 26 adjustments, which are required in order to recognise the interest income on mortgage loans on an Effective Interest Rate (EIR) basis and a remeasurement adjustment of amortised cost of mortgage backed loan notes However the directors consider that the outlook presents significant challenges in meeting the capital repayments and interest due to the holders of the loan notes as and when they fall due

The directors have concluded that the Company will continue as a going concern and set out the basis for this conclusion in the Going concern section of this report

At the year end the mortgage balance after the effective interest rate adjustment, was £121,353,767 (2009 – £136,140,090) At the December 2010 Interest Payment Date the Company held the following mortgage loans, excluding the effective interest rate adjustment

	Principal balance £000	*Number of loans*
First Mortgages	121,619	1,336
Total	121,619	1,336

These mortgages provide security against loan notes in issue totalling £130,147,175 as at the December 2010 Interest Payment date

The mortgage loans generated a weighted average margin over funding costs of 2 29% during the year, before considering the adjustment for Financial Reporting Standard No 26 The weighted average cost of funds for the year was 0 68%

Directors' report

Business review (continued)

The mortgage loans exhibited the following quarterly arrears profile

	Q1 %	Q2 %	Q3 %	Q4 %
Delinquencies days – (excluding repossessions)				
Current	67 97	68 42	68 53	68 57
>30<=60	6 51	5 72	5 87	6 46
>60<=90	4 57	5 29	6 40	5 90
>90<=120	3 75	3 61	3 64	4 08
>120	17 20	16 96	15 56	14 99
Total	100 00	100 00	100 00	100 00

At the March 2011 Interest Payment Date following the year end, the mortgage loan balance was £119,310,393, 18 99 % of the balance was greater than 3 months in arrears

The directors consider the level of arrears to be within expectations and have not made any adjustment to the provisions recorded as at the year end

The performance of the mortgage loans during the year to 30 November 2010 enabled deferred consideration of £Nil (2009 – £Nil) to be paid to the current holder of the rights to the residual cash flows of the securitisation

Future development

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

Going concern

As described in the Business review, the Company has reported an operating loss for the year

The Company is also in a net liability position as at 30 November 2010 due to the impairment of the mortgage loans Should this impairment not reverse in the forthcoming years the Company may be unable to meet the capital repayments and interest due to the holders of the loan notes as and when they fall due

It is the intention of the directors of the Company to continue operations until such a time as the amounts due from mortgage loans have been fully realised Ultimately, due to the non-recourse nature of the mortgage backed loan notes, any shortfall in the proceeds from the mortgage assets will be a risk to the holders of those notes and accordingly the financial statements have been prepared on a going concern basis

Fair value

Note 17 discloses the fair values of the mortgage assets and loan notes The directors noted that as at 30 November 2010 the respective fair values of the mortgage assets and loan notes are less than the carrying values recorded in the balance sheet

The directors believe that this is reasonable, based on the global contraction of credit markets, the challenges faced by the sub prime mortgage sector and the decline in market demand for mortgage backed securities

Directors' report

Fair value (continued)

As no liquid market exists for either the mortgage loans or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables This model takes into account expected payment rates, arrears, house price movements, level of repossessions, losses and discount rates based on the most recent available information

Dividend

The directors do not recommend the payment of a dividend for the year (2009 – £Nil)

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 year end (2009 – nil days)

Directors

The directors who held office during the year were as follows

Capita Trust Corporate Limited
Capita Trust Corporate Services Limited
D Baker

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, other creditors etc) that arise directly from its operations

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

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

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, 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 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 Where this is not possible the Company has used derivative financial instruments to mitigate any residual interest rate risk

Directors' report

Principal risks and uncertainties (continued)

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

Corporate governance

The Directors are responsible for internal control in Southern Pacific Financing 06-A plc and for reviewing the effectiveness Procedures have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud The procedures enable Southern Pacific Financing 06-A plc to comply with the relevant regulatory obligations

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 Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

Responsibility statements under the Disclosure and Transparency Rules

The directors confirm that, to the best of each person's knowledge

- the financial statements in this report, which have been prepared in accordance with UK GAAP and the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and loss of the Company, and

- the Directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face

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

Capita Trust Corporate Limited

Director

Date 28 MAY 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of Southern Pacific Financing 06-A plc

We have audited the financial statements of Southern Pacific Financing 06-A plc for the year ended 30 November 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of Southern Pacific Financing 06-A plc

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Amarjit Singh (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date 27 MAY 2011

Profit and loss account

for the year ended 30 November 2010

	Notes	2010 £000	2009 £000
Interest receivable and similar income	2	2,635	11,566
Interest payable and similar charges	3	(1,749)	(4,526)
Net interest receivable		886	7,040
Remeasurement adjustment of amortised cost of mortgage backed loan notes		(622)	3,578
Other operating income	4	12	11
Operating expenses		(1,210)	(6,617)
(Loss)/profit on ordinary activities before taxation	5	(934)	4,012
Tax on (loss)/profit on ordinary activities	6	400	(1,673)
(Loss)/profit on ordinary activities after taxation	15	(534)	2,339

The loss for the year was derived from continuing operations

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

The notes on pages 11 to 21 form part of these financial statements

Balance sheet
at 30 November 2010

	Notes	2010 £000	2009 £000
Current assets			
Debtors			
Amounts falling due after one year	10	118,561	133,111
Amounts falling due within one year	11	2,967	3,582
Cash at bank and in hand		30,084	34,640
		151,612	171,333
Creditors amounts falling due within one year	12	(24,774)	(25,410)
Net current assets		126,838	145,923
Creditors amounts falling due after one year	13	(129,597)	(148,148)
Net liabilities		(2,759)	(2,225)
Capital and reserves			
Issued share capital	14	13	13
Profit and loss account	15	(2,772)	(2,238)
Shareholders' deficit	16	(2,759)	(2,225)

The notes on pages 11 to 21 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 Limited

Director

Date 26 MAY 2011

Notes to the financial statements

at 30 November 2010

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 UK accounting standards and under the historical cost convention except for derivative financial instruments which are carried at fair value through the profit and loss account The financial statements have been prepared on a going concern basis as referred to in the Going concern section in the Directors' report

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

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated

An adjustment to the expected cash flows of the mortgage loans would be recognised where there is a risk that the income on the loan will be significantly reduced This could occur if the credit quality of the mortgage assets deteriorated significantly and is calculated in accordance with the provisions policy below

Provisions

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

Premium paid to mortgage loan originator

Gross cash receipts received by the Company on the issue of revenue backed notes (Class DTc Notes mentioned in note 13) are paid to Southern Pacific Mortgage Limited as a premium on acquisition of the mortgage assets This premium is capitalised by the Company and amortised over the expected repayment period of the revenue backed notes The amortised balance is shown in debtors amount falling due within one year with costs amortised in the year included in interest payable

Notes to the financial statements

at 30 November 2010

1. Accounting policies (continued)

Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

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 mortgages

Under the terms of the securitisation the Company earns an annual profit in an amount equal to 0 01 per cent of the aggregate balances of the loans in the mortgage pool This is reflected in the profit and loss before any movements on fair value gains and losses on derivatives and Effective Interest Rate adjustments

Profits in excess of 0 01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation, as deferred consideration Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the balance sheet

Derivatives

The Company uses 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

Financial Reporting Standard No 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet Subsequent to initial recognition, derivatives are remeasured to fair value Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account The fair value of the interest rate swaps and caps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date

Interest rate caps

A series of amortising interest rate caps were entered into in order to manage the Company's interest rate risk in relation to fixed rate mortgage loans The derivative contracts were designed to match the expected profile of the run-off of the fixed rate loans

Issue costs

Initial issue costs incurred in arranging funding facilities are amortised over the life of the facility Unamortised initial issue costs are deducted from the associated liability in accordance with Financial Reporting Standard No 26 and costs amortised in the year are included in interest payable

Notes to the financial statements

at 30 November 2010

1. Accounting policies (continued)

Mortgage-backed loan notes

Mortgage-backed loan notes are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, the mortgage-backed loan notes are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans The directors periodically review the estimated future cash flows on the mortgage loans to determine whether the amortised cost carrying value requires adjustment If a shortfall in the cash flows is identified, an adjustment is credited to the profit and loss account to reduce the carrying value of the loan notes

Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(c) of Financial Reporting Standard No 8, not to disclose transactions with related parties since the Company is 100% owned by Southern Pacific Financing 06-A Parent Limited and is included in its consolidated financial statements which are publicly available

Financial instruments disclosure

The Company has taken advantage of the exemption conferred by paragraph 2(d) of Financial Reporting Standard No 29, not to disclose financial instruments disclosures since the Company is 100% owned by Southern Pacific Financing 06-A Parent Limited and is included in its consolidated financial statements which complies with these disclosure requirements and are publicly available.

Statement of cash flows

Under Financial Reporting Standard No 1 (Revised), the Company is exempt from the requirement to prepare a statement of cash flows on the grounds that a parent undertaking includes the Company in its publicly available consolidated financial statements

Turnover

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

2. Interest receivable and similar income

	2010	*2009*
	£000	*£000*
On mortgage loans	2,547	11,146
Other interest	88	420
	2,635	11,566

3. Interest payable and similar charges

	2010	*2009*
	£000	*£000*
Mortgage backed loan notes	1,359	3,877
Other interest	226	240
Amortisation of capitalised issue costs	130	322
Amortisation of premium on acquisition of mortgage loans	34	87
	1,749	4,526

Notes to the financial statements

at 30 November 2010

4. Other operating income

	2010 £000	2009 £000
Sundry fee income	12	11
	12	11

5. (Loss)/profit on ordinary activities before taxation

This is stated after charging/(crediting)

	2010 £000	2009 £000
Auditors' remuneration – for audit services	14	13
Other fees to auditors – taxation services	9	8
Provision of mortgage loans	(1,196)	(874)
Bad debts incurred on mortgage loans	1,875	6,773

Audit remuneration of £5,100 (2009 – £4,759) and taxation services of £900 (2009 – £1,763) for the parent company, Southern Pacific Financing 06-A Parent Limited was borne by the Company

6. Tax

(a) Tax on (loss)/profit on ordinary activities

The tax (credit)/charge is made up as follows

	2010 £000	2009 £000
Current tax		
UK corporation tax on profit in the year	–	–
Adjustments in respect of prior years	–	–
Total current tax (note 6(b))	–	–
Deferred tax		
Origination and reversal of timing differences	(400)	1,673
Effect of rate change in opening liability	–	–
Total deferred tax (credit)/charge (note 18)	(400)	1,673
Tax on (loss)/profit on ordinary activities	(400)	1,673

Notes to the financial statements
at 30 November 2010

6. Tax (continued)

(b) Factors affecting the tax (credit)/charge in the year

The tax rate assessed for the year is higher than the small companies rate of corporation tax in the UK of 21% (2009 – 21%) The factors affecting the tax charge are explained below

	2010 *£000*	*2009* *£000*
(Loss)/profit on ordinary activities before tax	(934)	4,012
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax for small companies of 21% (2009 – 21%)	(196)	843
Effects of		
Other short-term timing differences	400	(1,673)
Utilisation of tax losses and other deductions arising in the year	(204)	830
Current tax charge/(credit) for the year (note 6(a))	–	–

7. Information regarding directors and employees

The Company has no employees (2009 – none) The directors received no remuneration from the Company during the year (2009 – £Nil)

8. Mortgage loans – net balances

	Mortgage *£000*	*Mortgage loss provision* *£000*	*Total* *£000*
At 1 December 2009	139,915	(3,775)	136,140
Net movement in the year	(15,982)	1,196	(14,786)
At 30 November 2010	123,933	(2,579)	121,354

Mortgage loans of £121,353,767 (2009 – £136,140,090) are held as security against the loan notes referred to in note 13

The current mortgage loans in the pool have loan periods of between 1 to 361 months remaining with current interest rates ranging from 1 68% to 6 59% per annum

9. Mortgage Loans – unamortised premium on acquisition

	2010 *£000*	*2009* *£000*
At the start of the year	173	260
Amortisation in the year	(34)	(87)
At the end of the year	139	173

Notes to the financial statements
at 30 November 2010

10. Debtors amounts falling due after one year

	2010	*2009*
	£000	*£000*
Mortgage balances	118,456	133,024
Premium paid on purchase of mortgage assets	105	87
	118,561	133,111

11 Debtors: amounts falling due within one year

	2010	*2009*
	£000	*£000*
Mortgage balances	2,898	3,116
Premium paid on purchase of mortgage assets	34	86
Prepayments and accrued income	22	360
Other debtors	13	13
Corporation tax	–	7
	2,967	3,582

12. Creditors: amounts falling due within one year

	2010	*2009*
	£000	*£000*
Deferred tax (note 18)	765	1,165
Accruals and deferred income	735	997
Other creditors	23,274	23,248
	24,774	25,410

Other creditors include £23,100,000 (2009 – £23,100,000) owing to the liquidity facility provider This arises from the drawdown of the facility due to the increased counterparty default risk of the provider The cash drawing of £23,100,000 (2009 – £23,100,000) is included in Cash at bank and in hand

Notes to the financial statements

at 30 November 2010

13. Creditors: amounts falling due after one year

	2010	*2009*
	£000	*£000*
GBP Denominated Mortgage backed loan notes due 2044 - Class A	85,698	98,753
GBP Denominated Mortgage backed loan notes due 2044 - Class B	12,066	13,904
GBP Denominated Mortgage backed loan notes due 2044 - Class C	15,686	18,076
GBP Denominated Mortgage backed loan notes due 2044 - Class D1	7,757	8,938
GBP Denominated Mortgage backed loan notes due 2044 - Class E	3,103	3,575
GBP Denominated Mortgage backed loan notes due 2044 - Class F	8,759	9,126
	133,069	152,372
Less Issue costs	(516)	(646)
Less Remeasurement adjustment to amortised cost	(2,956)	(3,578)
	129,597	148,148

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

The mortgage backed floating rate notes due March 2044 are secured over a portfolio of mortgage loans secured by first charge over residential properties in the United Kingdom

The mortgages are administered by Acenden Limited on behalf of Southern Pacific Financing 06-A plc

The loan notes are repaid as the underlying portfolio redeems The terms and conditions of the loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage loans The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments Note holders have no recourse to Southern Pacific Financing 06-A plc in any form

The mortgage backed floating rate notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage loans 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 March 2044

The loan notes issued by the Company are full recourse obligations of the Company and are issued subject to an option of Southern Pacific Financing 06-A Parent Limited the parent undertaking, to acquire the notes for nominal consideration, the post enforcement call option, should any of the notes remain outstanding following enforcement of their rights and realisation of the assets of the Company The Post-Enforcement Call Option may be exercised by Southern Pacific Financing 06-A Parent Limited on the date following the enforcement by the Note Trustee of the Issuer Security on which the Note Trustee determines that there are no further assets available to pay amounts due and owing to the Noteholders Noteholders will be bound by the terms of the Post-Enforcement Call Option granted to Southern Pacific Financing 06-A Parent Limited and the Noteholders will not be paid more than a nominal amount for that transfer

The loan notes are repayable out of capital receipts from the mortgage loan receivables, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to the Class E Notes, which rank in priority to Class F notes

Notes to the financial statements

at 30 November 2010

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

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%

14. Issued share capital

	2010	*2009*
	£000	*£000*
Allotted and called up		
2 shares 100% called and fully paid	–	–
49,998 shares 25% called and fully paid	13	13
	13	13

Share capital of 2 shares fully paid was issued on incorporation on 29 September 2005 and share capital of 49,998 partly paid at £0 25 per share was issued on 19 December 2005

15 Profit and loss account

	2010	*2009*
	£000	*£000*
Retained loss brought forward	(2,238)	(4,577)
(Loss)/profit for the year	(534)	2,339
Retained loss carried forward	(2,772)	(2,238)

16. Reconciliation of movement in shareholders' deficit

	2010	*2009*
	£000	*£000*
Opening shareholders' deficit	(2,225)	(4,564)
(Loss)/profit for the year	(534)	2,339
Closing shareholders' deficit	(2,759)	(2,225)

Notes to the financial statements

at 30 November 2010

17. Derivatives and other financial instruments

As explained on page 4 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 £000	*Total Variable rate £000*	*Total fixed rate £000*	*Weighted average interest rate %*	*Weighted average time for which rate is fixed Years*
2010					
Interest rate profile	153,213	153,213	–	–	–
2009					
Interest rate profile	171,894	171,894	–	–	–

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

	Total £000	*Total Variable rate £000*	*Total fixed rate £000*	*Weighted average interest rate %*	*Weighted average time for which rate is fixed Years*
2010					
Interest rate profile	151,438	150,376	1,062	5 89	0 01
2009					
Interest rate profile	170,780	169,171	1,609	5 99	1 00

The company also has certain financial instruments included within debtors (note 11) and creditors (note 12) which are not subject to interest rate risk as they bear no interest

The rates of interest receivable and payable on variable rate financial instruments are set with reference to the London Interbank Offered Rate

(c) Fair value of financial instruments

	Book value 2010 £000	*Fair value 2010 £000*	*Book value 2009 £000*	*Fair value 2009 £000*
On balance sheet				
Mortgage Loans	121,354	80,426	136,140	108,458
Cash and deposits	30,084	30,084	34,640	34,640
Mortgage backed loan notes due 2044	(130,113)	(82,056)	(148,794)	(115,325)
Liquidity facility provider creditor	(23,100)	(23,100)	(23,100)	(23,100)

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

Notes to the financial statements

at 30 November 2010

17 Derivatives and other financial instruments (continued)

(c) Fair value of financial instruments (continued)

As no liquid market exists for either the mortgage loans or loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables This model takes into account expected payment rates, arrears, house price movements, level of repossessions, losses and discount rates based on the most recent available information

The Company used interest rate caps in certain circumstances to hedge against movements in interest rates Following the default of the interest rate cap counterparty, as at 30 November 2010, the notional value of these caps was £Nil (2009 – £Nil) and the recognised positive fair value was £Nil (2009 – £Nil) These caps would otherwise have expired on 10 September 2009

18. Deferred taxation

	2010	*2009*
	£000	*£000*
(Liability)/asset at the start of the year	(1,165)	508
Deferred tax credit/(charge) during the year (note 6)	400	(1,673)
Liability at the end of the year	(765)	(1,165)

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No 26 adjustments Losses of £5,676,832 (2009 – £6,647,100) resulting in a deferred tax asset of £1,192,135 (2009 – £1,395,891) have not been recognised The deferred tax asset has not been recognised due to the uncertainty surrounding the Company's future profitability

Deferred taxation has been recognised at 21% (2009 – 21%) being the UK small companies' corporation tax rate at the balance sheet date

	2010	*2009*
	£000	*£000*
Effect of Financial Reporting Standard No 26 adjustment for EIR	(145)	(414)
Effect of remeasurement adjustment of amortised cost of Mortgage Backed Loan Notes	(620)	(751)
Total deferred tax liability recognised at 21%	(765)	(1,165)

In the Budget 2011 on 25 March 2011 the small companies' corporation tax rate was reduced to 20% as from 1 April 2011 This was enacted on 29 March 2011 following the House of Commons approval of the Budget resolution

The directors estimate that the effect of these changes will be to decrease the Company's deferred tax liability by £36,460 as a result of the reversal of timing differences in the following years

Notes to the financial statements

at 30 November 2010

19 Parent undertaking and control

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

The entire issued share capital of Southern Pacific Financing 06-A Parent Limited is held under a declaration of trust for charitable purposes

The smallest group in which the results of the Company are consolidated is that headed by Southern Pacific Financing 06-A Parent Limited

The financial statements of this group are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ

Notes to the financial statements

at 30 November 2010

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 UK accounting standards and under the historical cost convention except for derivative financial instruments which are carried at fair value through the profit and loss account The financial statements have been prepared on a going concern basis as referred to in the Going concern section in the Directors' report

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

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated

An adjustment to the expected cash flows of the mortgage loans would be recognised where there is a risk that the income on the loan will be significantly reduced This could occur if the credit quality of the mortgage assets deteriorated significantly and is calculated in accordance with the provisions policy below

Provisions

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

Premium paid to mortgage loan originator

Gross cash receipts received by the Company on the issue of revenue backed notes (Class DTc Notes mentioned in note 13) are paid to Southern Pacific Mortgage Limited as a premium on acquisition of the mortgage assets This premium is capitalised by the Company and amortised over the expected repayment period of the revenue backed notes The amortised balance is shown in debtors amount falling due within one year with costs amortised in the year included in interest payable

Notes to the financial statements

at 30 November 2010

1. Accounting policies (continued)

Taxation

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

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

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 mortgages

Under the terms of the securitisation the Company earns an annual profit in an amount equal to 0 01 per cent of the aggregate balances of the loans in the mortgage pool This is reflected in the profit and loss before any movements on fair value gains and losses on derivatives and Effective Interest Rate adjustments

Profits in excess of 0 01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation, as deferred consideration Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the balance sheet

Derivatives

The Company uses 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

Financial Reporting Standard No 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet Subsequent to initial recognition, derivatives are remeasured to fair value Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account The fair value of the interest rate swaps and caps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date

Interest rate caps

A series of amortising interest rate caps were entered into in order to manage the Company's interest rate risk in relation to fixed rate mortgage loans The derivative contracts were designed to match the expected profile of the run-off of the fixed rate loans

Issue costs

Initial issue costs incurred in arranging funding facilities are amortised over the life of the facility Unamortised initial issue costs are deducted from the associated liability in accordance with Financial Reporting Standard No 26 and costs amortised in the year are included in interest payable

Notes to the financial statements

at 30 November 2010

1. Accounting policies (continued)

Mortgage-backed loan notes

Mortgage-backed loan notes are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, the mortgage-backed loan notes are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans The directors periodically review the estimated future cash flows on the mortgage loans to determine whether the amortised cost carrying value requires adjustment If a shortfall in the cash flows is identified, an adjustment is credited to the profit and loss account to reduce the carrying value of the loan notes

Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(c) of Financial Reporting Standard No 8, not to disclose transactions with related parties since the Company is 100% owned by Southern Pacific Financing 06-A Parent Limited and is included in its consolidated financial statements which are publicly available

Financial instruments disclosure

The Company has taken advantage of the exemption conferred by paragraph 2(d) of Financial Reporting Standard No 29, not to disclose financial instruments disclosures since the Company is 100% owned by Southern Pacific Financing 06-A Parent Limited and is included in its consolidated financial statements which complies with these disclosure requirements and are publicly available

Statement of cash flows

Under Financial Reporting Standard No 1 (Revised), the Company is exempt from the requirement to prepare a statement of cash flows on the grounds that a parent undertaking includes the Company in its publicly available consolidated financial statements

Turnover

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

2. Interest receivable and similar income

	2010	*2009*
	£000	*£000*
On mortgage loans	2,547	11,146
Other interest	88	420
	2,635	11,566

3 Interest payable and similar charges

	2010	*2009*
	£000	*£000*
Mortgage backed loan notes	1,359	3,877
Other interest	226	240
Amortisation of capitalised issue costs	130	322
Amortisation of premium on acquisition of mortgage loans	34	87
	1,749	4,526

Notes to the financial statements

at 30 November 2010

4. Other operating income

	2010	*2009*
	£000	*£000*
Sundry fee income	12	11
	12	11

5 (Loss)/profit on ordinary activities before taxation

This is stated after charging/(crediting)

	2010	*2009*
	£000	*£000*
Auditors' remuneration – for audit services	14	13
Other fees to auditors – taxation services	9	8
Provision of mortgage loans	(1,196)	(874)
Bad debts incurred on mortgage loans	1,875	6,773

Audit remuneration of £5,100 (2009 – £4,759) and taxation services of £900 (2009 – £1,763) for the parent company, Southern Pacific Financing 06-A Parent Limited was borne by the Company

6. Tax

(a) Tax on (loss)/profit on ordinary activities

The tax (credit)/charge is made up as follows

	2010	*2009*
	£000	*£000*
Current tax		
UK corporation tax on profit in the year	–	–
Adjustments in respect of prior years	–	–
Total current tax (note 6(b))	–	–
Deferred tax		
Origination and reversal of timing differences	(400)	1,673
Effect of rate change in opening liability	–	–
Total deferred tax (credit)/charge (note 18)	(400)	1,673
Tax on (loss)/profit on ordinary activities	(400)	1,673

Notes to the financial statements

at 30 November 2010

6 Tax (continued)

(b) Factors affecting the tax (credit)/charge in the year

The tax rate assessed for the year is higher than the small companies rate of corporation tax in the UK of 21% (2009 – 21%) The factors affecting the tax charge are explained below

	2010 *£000*	*2009* *£000*
(Loss)/profit on ordinary activities before tax	(934)	4,012
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax for small companies of 21% (2009 – 21%)	(196)	843
Effects of		
Other short-term timing differences	400	(1,673)
Utilisation of tax losses and other deductions arising in the year	(204)	830
Current tax charge/(credit) for the year (note 6(a))	–	–

7. Information regarding directors and employees

The Company has no employees (2009 – none) The directors received no remuneration from the Company during the year (2009 – £Nil)

8. Mortgage loans – net balances

	Mortgage *£000*	*Mortgage loss provision* *£000*	*Total* *£000*
At 1 December 2009	139,915	(3,775)	136,140
Net movement in the year	(15,982)	1,196	(14,786)
At 30 November 2010	123,933	(2,579)	121,354

Mortgage loans of £121,353,767 (2009 – £136,140,090) are held as security against the loan notes referred to in note 13

The current mortgage loans in the pool have loan periods of between 1 to 361 months remaining with current interest rates ranging from 1 68% to 6 59% per annum

9. Mortgage Loans – unamortised premium on acquisition

	2010 *£000*	*2009* *£000*
At the start of the year	173	260
Amortisation in the year	(34)	(87)
At the end of the year	139	173