Registered number: 05578381

Southern Pacific Financing 06-A plc

Reports and audited financial statements for the year ended 30 November 2020

Southern Pacific Financing 06-A plc

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Southern Pacific Financing 06-A plc

Company information

Directors	Apex Corporate Services (UK) Limited Apex Trust Corporate Limited C A Benford
Company secretary	Apex Trust Corporate Limited
Registered office	Bastion House 6th Floor 140 London Wall London EC2Y 5DN
Independent auditor	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DA
Registered number	05578381
Trustee	Apex Corporate Trustees (UK) Limited Bastion House 6th Floor 140 London Wall London EC2Y 5DN

Southern Pacific Financing 06-A plc

Strategic report
for the year ended 30 November 2020

The directors present their strategic report on Southern Pacific Financing 06-A plc (the "Company" or "Issuer") for the year ended 30 November 2020.

Principal activities

The Company, a public company limited by shares was incorporated on 29 September 2005 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 charges over properties within the United Kingdom.

On 22 February 2006, the Company purchased £419,975,000 of mortgage assets from Southern Pacific Mortgage Limited. Further consideration in the form of deferred consideration may be payable to the beneficial owners of the mortgages dependent on their future performance. The acquisition of these mortgage assets has been accounted for as detailed in note 2.5 of the financial statements. To facilitate the purchase, the Company issued a series of loan notes on 22 February 2006. These loan notes are issued on Euronext Dublin and are due in 2044.

The mortgage servicing, cash bond administration and accounting services are provided by Kensington Mortgage Company Limited ("KMC"), an external party.

Business review

The results for the year ended 30 November 2020 are set out on page 19. 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, expected credit loss and unamortised discount and premium on acquisition was £43,693,000 (2019: £48,744,000) on 606 mortgages. The estimated weighted average remaining life of the mortgage assets is 4.6 years (2019: 5.3 years).

After considering property values, anticipated future losses 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 loan notes in issue.

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

	2020 Principal balance £'000	**2020 Number of loans**	2019 Principal balance £'000	2019 Number of loans
First charge mortgages	45,555	606	50,634	669
	45,555	606	50,634	669

These mortgages provide security against loan notes in issue totalling £48,317,000 (2019: £53,775,000) as at the year end excluding accrued interest.

The directors have concluded that the Company will continue as a going concern, with material uncertainty, and set out the basis for this conclusion in the going concern section of the directors' report.

Southern Pacific Financing 06-A plc

Strategic report
for the year ended 30 November 2020

Key performance indicators

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

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Delinquencies days	%	%	%	%	%
Current	78.31	76.79	76.03	74.76	74.35
>30<=60	4.34	4.14	4.84	4.05	4.61
>60<=90	3.97	3.66	3.62	4.92	4.38
>90<=120	3.14	3.60	2.77	4.50	2.74
>120	10.24	11.81	12.74	11.77	13.92
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the year end is £481,000 (2019: £497,000).

In March 2020, following the commencement of the COVID-19 crisis, the FCA and PRA issued guidance to all lenders that borrowers impacted by the virus are entitled to a 6 month payment deferral (Mortgage Payment Holiday, "MPH"). Payment holidays for loans provided by the Company peaked at 158 loans in June 2020. As of 30 November 2020, 22 loans remain that have taken up MPH, which represents 3.65% of the total loans.

Cash flow calculations are prepared to determine the extent to which deferred consideration will be payable and a creditor is recognised and classified at amortised cost. Interest payable on this creditor is recognised on an effective interest rate basis. 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. Based on these calculations, the directors have determined that £1,074,000 (2019: £613,000) consideration was payable at the year end.

Principal risks and uncertainties

Whilst the directors have overall responsibility for the establishment and oversight of the Company's risk management framework, this obligation has been allocated and managed in accordance with the transaction documents. Further details of financial risk management are outlined in note 17 of the financial statements.

COVID-19

The Board has considered the potential implications of the COVID-19 pandemic in its assessment of the financial and operational viability of the Company and has a reasonable belief that the Company retains adequate levels of financial resources (capital and liquidity). In assessing the viability of the Company, the Board has considered the potential impact and risks facing the Company with respect to the virus. The key short term risk relates to when the MPH ends as an increased proportion of underlying mortgage customers may be impacted through unemployment and reduced income which creates uncertainty around the ability of these customers to recommence their monthly payment obligations. The key long-term risk remains related to a deterioration in the ability of customers to make monthly contractual payments caused by an increase in the unemployment rates and reduced income. A knock-on effect of an increase in unemployment could be a potential reduction in the level of collateral held by the Company should house prices decrease. The potential impact of the pandemic on the economy and the Company's operations is subject to continuous monitoring by the servicer, KMC, an external party with appropriate escalation to the Board.

Brexit

The Company's business model is focused in the UK and the business does not have any direct exposure to the European Union ("EU"). However, the Company is exposed to secondary impacts, particularly any volatility in the UK economy and financial markets. The UK left the EU on 31 January 2020. Following the agreement of the UK and EU Trade Deal on 24 December 2020 the UK withdrew from the EU single market and customs union on 1 January 2021.
The Company has not experienced any adverse impact or identified any additional risks as a result of these developments. Depending on how the UK government manages to negotiate new trade deals, there is a risk of financial instability which would manifest itself through movements in interest rates which would in turn result in movement in the net interest margin, however the housing market is relatively well insulated from Brexit compared to other parts of the economy.

The Company will continue to closely monitor and analyse political, economic and regulatory developments to ensure it remains well positioned to respond to any potential shocks and minimise any disruption for customers.

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.

Strategic report
for the year ended 30 November 2020

The Company continues to closely monitor IFRS 9 impairment coverage levels:

	Gross carrying amount £'000	Provisions £'000	Coverage ratio %
At 30 November 2020			
Stage 1	21,692	2	0.01
Stage 2	11,639	105	0.90
Stage 3	11,088	619	5.58
Total	44,419	726	1.63
At 30 November 2019			
Stage 1	29,926	7	0.02
Stage 2	8,101	73	0.90
Stage 3	11,116	319	2.87
Total	49,143	399	0.81

(b) Liquidity risk

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

(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 KMC, 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.

Operational risk is currently heightened by the impact of COVID-19 on KMC. This has driven working from home and changes in processes to meet new regulatory requirements including the provision of payment holidays. However, the nature of the risks to which the Company is exposed remain similar to those when all of KMC's staff were working from office locations prior to COVID-19, but additional focus has been required on the controls appropriate for the altered working environment. The technology solutions required for all of KMC's staff to function from home continue to be reviewed with additional controls implemented and guidance provided with regard to the technology. The focus on the technology and working environment will continue as KMC responds to the adjusted way of working during the remainder of the COVID-19 situation and afterwards.

The customer response to COVID-19 has driven more interaction with KMC, whether implementing full payment holidays or other measures as customers respond to the impact of COVID-19 on their financial situation. KMC has undertaken a variety of activity to support consistent implementation of payment holidays and to manage the customer experience as they end their payment holiday. Monitoring of customer service quality has been maintained to mitigate the operational risks associated with the increased customer interaction and new processes related to payment holidays.

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.

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 2020.

Section 172 statement

Section 172(1) of Companies Act 2006 requires the directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a) the likely consequences of any decision in the long term,
b) the interests of the company's employees,
c) the need to foster the company's business relationships with suppliers, customers and others,
d) the impact of the company's operations on the community and the environment,
e) the desirability of the company maintaining a reputation for high standards of business conduct, and
f) the need to act fairly as between members of the company.

As a special purpose vehicle the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The directors have had regards to the matters set out in section 172(1) of Companies Act 2006 as follows:

With reference to the likely consequences of any decision in the long term, the transaction documents have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and in accordance with relevant securitisation legislation.

Southern Pacific Financing 06-A plc

Strategic report
for the year ended 30 November 2020

The matters set out in subsections (b)–(f) have limited or no relevance to the Company for the following reasons:

- the Company has no employees;
- the Company has appointed various professional third parties to perform certain roles governed by the transaction documents;
- as a special purpose vehicle, the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment; and
- the Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purposes.

This report was approved by the Board on 12 November 2021 and signed on its behalf by:

C A Benford
Director
Date: 12 November 2021

Southern Pacific Financing 06-A plc

Directors' report
for the year ended 30 November 2020

The directors present their report together with the audited financial statements of the Company for the year ended 30 November 2020.

Results and dividends

The profit for the year, after taxation, amounted to £25,000 (2019: profit of £232,000).

The directors do not recommend the payment of a dividend (2019: 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:

Apex Corporate Services (UK) Limited
Apex Trust Corporate Limited
C A Benford

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

Apex Trust Corporate Limited continued to act as company secretary for the year ended 30 November 2020 and up to the date of signing the financial statements.

Going concern

The Company has reported a profit after taxation for the current year and is in a net asset position as at 30 November 2020.

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons.

The directors have prepared a going concern assessment for a period of 12 months from the date of approval of these financial statements which includes reasonably possible downsides concerning the impact of COVID-19 and reasonably possible changes in trading performance and funding availability.

A call option exists over the loan notes issued by the Company which may be exercised at the sole discretion of the Issuer once the outstanding mortgage backed loan notes reach 10% of the original issued amount. At this point, the call option permits the Issuer, at any interest payment date, to repay all of the outstanding external borrowings at their carrying value at the time.

In order for the call option to be exercised the directors must certify to the Trustee of the loan notes that the Issuer will be able to repay all amounts due and payable on the interest payment date on which the option would take effect.

In the directors' judgement, based on historic repayment patterns and the contractual features of the underlying mortgages, it is anticipated that within 12 months from the date of the signing of these accounts or soon thereafter the call option will become exercisable.

The exercise of the call option would result in the effective cessation of the Company's trade, followed by the orderly settlement of any remaining assets and liabilities and ultimately the dissolution of the Company.

At the date of signing these accounts it is not known whether and if yes, when the call option will be exercised once the ability to do so exists, though the directors believe it to be possible, but not certain, that the call option will be exercised.

The existence of this option combined with the uncertainties around its exercise means that there is a material uncertainty as to whether the Company will continue to trade.

The repayment of the principal liabilities of the Company, the floating rate notes, are limited to available principal cash received on the Company's loan portfolio until the final repayment date. Should the total cash flows be insufficient at this date, the Company may default on loan note payments due. In such circumstances, the Trustee may choose to dispose of the Company's assets, and, potentially wind up the Company.

The cash currently held by the Company, together with other structural features of the borrowing arrangements, gives the Company the ability to pay any interest actually due in cash over the next 12 months. Therefore the directors have a reasonable expectation that the Company has adequate resources to continue in existence and satisfy any liabilities as they fall due for the next 12 months from the date of signing the financial statements.

On this basis, the directors have concluded that it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements. However, this matter indicates the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Post statement of financial position date events

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 2020.

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 17 discloses the fair values of the mortgage assets and loan notes. The directors noted that as at 30 November 2020 the respective fair values of the mortgage assets were higher than and loan notes were 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 repossessions, losses and discount rates based on the most recent available information.

Southern Pacific Financing 06-A plc

Directors' report
for the year ended 30 November 2020

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 Euronext Dublin, 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 Irish Corporate Governance Annex and the provisions of the UK Corporate Governance Code do not apply to the Company.

Employees

The Company does not have any employees (2019: none).

Issued capital and capital contribution

Details of the share capital are set out in note 18 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 quarter paid up.

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 year under review and remain force as at the date of approval of the strategic report, 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.

Southern Pacific Financing 06-A plc

Directors' report
for the year ended 30 November 2020

Auditor

The auditor, KPMG LLP, has indicated its willingness to continue in office and pursuant to section 489 of the Companies Act 2006, a resolution concerning its re-appointment will be considered at the Annual General Meeting.

This report was approved by the Board on 12 November 2021 and signed on its behalf by:

C A Benford
Director
Date: 12 November 2021

Southern Pacific Financing 06-A plc

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

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 the 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

Independent auditor's report to the member of Southern Pacific Financing 06-A plc

1 Our opinion is unmodified

We have audited the financial statements of Southern Pacific Financing 06-A Plc ("the Company") for the year ended 30 November 2020 which comprise the:

- Statement of comprehensive income
- Statement of financial position
- Statement of changes in equity
- Related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 30 November 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Material uncertainty related to going concern

	The risk	**Our response**
Going concern	***Disclosure quality***	Our procedures included:
We draw attention to note 2.1 of the financial statements which indicates that a call option exists over the Notes issued by the Company which may be exercised at the sole discretion of the Issuer once the outstanding mortgage backed loan notes reach 10% of the original issued amount. At this point, the call option permits the Issuer, at any interest payment date, to require the company to refinance the assets and repay all the outstanding external borrowings and cease to trade. It is anticipated that within 12 months from the date of signing these accounts or soon thereafter the call option may be exercised.	There is little judgement involved in the Directors' conclusion that risks and circumstances described in note 2.1 to the financial statements represent a material uncertainty over the ability of the company to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	***Assessing transparency:*** • Assessing the completeness and accuracy of the matters covered in the going concern disclosure by considering the structure of the entity by reference to the prospectus and enquiry of the directors as to the likelihood of exercise of the option and the timing thereof. • Considering whether the going concern disclosure in note 2.1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern. ***Our assessment of management's going concern assessment also included:***

These events and conditions, along with the other matters explained in note 2.1, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.		• We considered the Directors' assessment of the risks for the business and financial resources compared with our own understanding of the risks; and • We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements 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. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Going concern is a significant key audit matter and is described in section 2 of our report. In arriving at our audit opinion above, the other key audit matter was as follows (unchanged from 2019):

Impairment allowances on loans to customers Risk vs 2019: ▲ (£726,000; 2019: £399,000) *Refer to the accounting policy note 2.5, 3.2 and note 10 (financial disclosures).* ***Subjective estimate*** The determination of the Expected Credit Loss ('ECL') on financial assets involves significant judgement and estimate. There is a risk in relation to the complexity, subjectivity and estimation uncertainty in relation to the assumptions used in determining the Probability of Default ('PD') and Loss Given Default ('LGD') which is a key input in the ECL estimation. Additionally, the COVID-19	Our audit procedures included: - Test of details: agreeing key inputs and assumptions impacting the ECL calculations to corroborative evidence to assess the reasonableness of this estimate. - Sensitivity analysis: We performed sensitivity analysis over the Company's key IFRS 9 assumptions, which included PDs and LGDs to address the risk associated with estimation uncertainty. - Assessing transparency: We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses. In addition, we have challenged whether the disclosure of the key judgements and assumptions made is sufficiently clear.

pandemic has had a significant impact on the UK economy and has resulted in increased risk in ECL. ***Disclosure quality*** The disclosure regarding the Company's application of IFRS 9 are key to explaining the key judgements and material inputs to the IFRS 9 ECL results.	

4 Our application of materiality and an overview of the scope of our audit

Materiality for the Company financial statements as a whole was set at £377,000 (2019: £450,000), determined with reference to a benchmark of Company total assets (of which it represents 0.75% (2019: 0.75%)).

We agreed to report to Those Charged with Governance any corrected or uncorrected identified misstatements exceeding £19,000 in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

5 Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company, or to cease its operations, and as they have concluded that the company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out section 2 of our report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we found the going concern disclosure in note 2.1.1 to be acceptable.

6 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including any actual, suspected or alleged fraud.

- Using our own judgment and knowledge of the company and the circumstances of the company to identify potential fraud risks.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

Independent auditor's report to the member of Southern Pacific Financing 06-A plc

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the company's management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as loan impairment. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited complexity in the calculation and recognition of revenue.

We also identified a fraud risk related to loan impairment in response to possible manipulation of estimates. We performed the following procedure:

- Assessing significant accounting estimates for bias

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards). We also discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation including related companies legislation, distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: money laundering, financial crime and various requirements governing securitisation transactions recognising the financial nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report to the member of Southern Pacific Financing 06-A plc

7 We have nothing to report on the Strategic Report and the Directors' Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements 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 financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements 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.

8 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, 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.

We have nothing to report in these respects.

9 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 12, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 financial statements as a whole are free from material misstatement, whether due to fraud 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 financial statements.

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

Independent auditor's report to the member of Southern Pacific Financing 06-A plc

10 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.

K. G. Pountney

Karl Pountney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom

15 November 2021

Southern Pacific Financing 06-A plc

Statement of comprehensive income for the year ended 30 November 2020

	Note	2020 £'000	2019 £'000
Interest receivable and similar income	4	1,691	1,755
Interest payable and similar expenses	5	(966)	(828)
Net interest receivable		725	927
Operating expenses		(722)	(675)
Other operating income	6	2	2
Profit before taxation	7	5	254
Tax credit/(expense) on profit	8	20	(22)
Profit and total comprehensive income for the financial year		25	232

All amounts relate to continuing operations.

There were no items of other comprehensive income for 2020 or 2019 and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 22 to 48 are an integral part of these financial statements.

Registered number: 05578381

Southern Pacific Financing 06-A plc

Statement of financial position as at 30 November 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Debtors: amounts falling due after more than one year	11	37,274	40,669
Current assets			
Debtors: amounts falling due within one year	12	6,433	8,105
Cash and cash equivalents	14	6,035	6,043
Total current assets		12,468	14,148
Current liabilities			
Creditors: amounts falling due within one year	15	(1,339)	(992)
Total assets less current liabilities		48,403	53,825
Non-current liabilities			
Creditors: amounts falling due after more than one year	16	(48,272)	(53,719)
Net assets		131	106
Capital and reserves			
Called up share capital	18	13	13
Retained earnings		118	93
Total equity		131	106

These financial statements were approved and authorised for issue by the Board on 12 November 2021 and were signed on its behalf by:

C A Benford
Director
Date: 12 November 2021

The notes on pages 22 to 48 are an integral part of these financial statements.

Southern Pacific Financing 06-A plc

Statement of changes in equity for the year ended 30 November 2020

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 December 2018	13	(139)	(126)
Profit for the financial year	-	232	232
Balance at 30 November 2019	13	93	106
Balance at 1 December 2019	13	93	106
Profit for the financial year	-	25	25
Balance at 30 November 2020	13	118	131

The notes on pages 22 to 48 are an integral part of these financial statements.

Southern Pacific Financing 06-A plc

Notes to the financial statements for the year ended 30 November 2020

1 General information

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

The Company is a public limited company and was incorporated on 29 September 2005 and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at Bastion House 6th Floor, 140 London Wall, London, EC2Y 5DN.

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

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons.

The directors have prepared a going concern assessment for a period of 12 months from the date of approval of these financial statements which includes reasonably possible downsides concerning the impact of COVID-19 and reasonably possible changes in trading performance and funding availability.

A call option exists over the loan notes issued by the Company which may be exercised at the sole discretion of the Issuer once the outstanding mortgage backed loan notes reach 10% of the original issued amount. At this point, the call option permits the Issuer, at any interest payment date, to repay all of the outstanding external borrowings at their carrying value at the time.

In order for the call option to be exercised the directors must certify to the Trustee of the loan notes that the Issuer will be able to repay all amounts due and payable on the interest payment date on which the option would take effect.

In the directors' judgement, based on historic repayment patterns and the contractual features of the underlying mortgages, it is anticipated that within 12 months from the date of the signing of these accounts or soon thereafter the call option will become exercisable.

The exercise of the call option would result in the effective cessation of the Company's trade, followed by the orderly settlement of any remaining assets and liabilities and ultimately the dissolution of the Company.

At the date of signing these accounts it is not known whether and if yes, when the call option will be exercised once the ability to do so exists, though the directors believe it to be possible, but not certain, that the call option will be exercised.

The existence of this option combined with the uncertainties around its exercise means that there is a material uncertainty as to whether the Company will continue to trade.

The repayment of the principal liabilities of the Company, the floating rate notes, are limited to available principal cash received on the Company's loan portfolio until the final repayment date. Should the total cash flows be insufficient at this date, the Company may default on loan note payments due. In such circumstances, the Trustee may choose to dispose of the Company's assets, and, potentially wind up the Company.

The cash currently held by the Company, together with other structural features of the borrowing arrangements, gives the Company the ability to pay any interest actually due in cash over the next 12 months. Therefore the directors have a reasonable expectation that the Company has adequate resources to continue in existence and satisfy any liabilities as they fall due for the next 12 months from the date of signing the financial statements.

On this basis, the directors have concluded that it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements. However, this matter indicates the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

2.1.2. New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 30 November 2020 which have had a material impact on the Company.

In October 2020, the IASB published Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for interest rate benchmark reform, effective for accounting periods starting on or after 1 January 2021. The main impact of these amendments will be to facilitate the Company's transition to use of the SONIA reference rate for its mortgage portfolio and for its LIBOR-based loan notes without the requirement for remeasurement of the carrying value of these assets and liabilities that might otherwise be required as a result of a contractual change.

2.2. Interest recognition

Interest income on mortgage assets, together with the interest expense on the loan notes, is recognised in the statement of comprehensive income on an 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 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. Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument and are derecognised on the date it ceases to be a party or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction such that substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company's financial instruments are classified as described below:

Financial assets

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.

Southern Pacific Financing 06-A plc

Notes to the financial statements for the year ended 30 November 2020

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 lending 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.

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 an original maturity of three months or less.

Financial assets at fair value through profit or loss

At initial recognition, the Company has designated certain financial assets at fair value through profit or loss (FVTPL) because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise. Financial assets at FVTPL include derivative financial instruments held for risk management purposes. Financial assets at FVTPL are measured at fair value in the statement of financial position with changes in fair value recognised in finance revenue or finance expense in the statement of comprehensive income.

Debtors

Debtors including amounts owed by group undertakings and other debtors, with no stated interest rate and receivable within one year are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method.

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

Impairment of financial assets

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12 - month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected losses).

Financial assets where 12 - month expected credit losses are recognised are considered to be stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to stage 3.

Unlike other financial instruments, the mortgage assets is, by its construction, an instrument that incorporates credit enhancement.

The interest due on mortgage assets is only due to the extent it matches the obligations of the Company. All securitisation programmes incorporate credit enhancement in the form of excess spread along with various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the mortgage assets would only therefore be recognised where the expected credit losses on the underlying assets were large enough that no credit enhancement remained.

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.

Loan notes

All loan notes were initially recognised at fair value, which was their transaction price at the date of issue less directly attributable transaction costs. All loan notes are subsequently re-measured 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. 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.

Deferred consideration

Deferred consideration is initially recognised at fair value and is then subsequently measured at amortised cost under the effective interest rate method.

Under the terms of the securitisation the Company earns a maximum annual profit for the year ended 30 November 2020 in an amount equal to 0.01% of the aggregate balance of the loans in the mortgage pool.

Cash flow calculations are prepared to determine the extent to which deferred consideration will be payable and a creditor is recognised and classified at amortised cost. Interest payable on this creditor is recognised on an effective interest rate basis. 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. Based on these calculations, the directors have determined that £1,074,000 (2019: £613,000) consideration was payable at the year end.

Offsetting of financial assets and liabilities

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.

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 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 17; and

iii. mortgage assets - valued as detailed in note 17.

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).

2.6. 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 receivable and similar income. Details of any unamortised premiums paid on the mortgage assets are disclosed in note 13.

2.7. 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.

2.8. 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

Significant increase in credit risk for classification in stage 2

The Company's transfer criteria determines what constitutes a significant increase in credit risk ("SICR"), which results in an exposure being moved from stage 1 to stage 2. At the point of recognition, a loan is assigned a lifetime PD estimate. For each monthly reporting date thereafter, an updated lifetime PD estimate is computed for the life of the loan. The Company's transfer criteria analyses relative changes in lifetime PD versus the origination lifetime PD, where if prescribed thresholds are met, an account will be transferred from stage 1 to stage 2.

IFRS 9 includes a rebuttable presumption that if an account is more than 30 days past due it has experienced a significant increase in credit risk. The Company considers more than 30 days past due to be an appropriate back stop measure and therefore has not rebutted this presumption.

A borrower will move back to stage 1 where a significant increase in credit risk is deemed to no longer be satisfied.

Probation period for classification from stage 3 into stage 1 or 2

The Company has set a minimum probation period for which an account must perform before returning to non-defaulted status. The probation period is set judgementally to ensure that only a limited number of accounts default soon after returning to a non-defaulted status, whilst also allowing permanent cures to return to non-default as commensurate with the risk status of the respective assets.

Probability of Default ("PD") models

The Company developed a number of PD models to assess the likelihood of a default event occurring within the next 12 months, utilising historical credit risk information. The Company also computes a lifetime PD estimate for each loan exposure once recognised, underpinned by the 12 month PD estimate.

Loss Given Default ("LGD") model

The Company developed a LGD model, which includes a number of estimated assumptions including propensity of possession given default ("PPGD"), forced sale discount ("FSD") and time to sale and sale cost estimates. The LGD is sensitive to the application of the HPI.

Forward-looking macroeconomic scenarios

The forward-looking macroeconomic scenarios affect both the PD and LGD estimates. Therefore the expected credit losses calculations are sensitive to both the scenarios utilised and their associated probability weightings. As the Company does not have an in-house economics function it sources economic forecasts from an appropriately qualified third party. The Company considers eight probability weighted scenarios, including base, upside and downside scenarios as well as a "protracted slump" scenario which would cover eventualities due to Brexit and COVID-19 uncertainty.

Under the "protracted slump" scenario, the mortgage impairment provision increases by £165,000 to £891,000.

In ensuring an unbiased, probability-weighted outcome, Kensington uses a number of economic scenarios which include a base case as well as a range of upside and downside scenarios. These scenarios include the forecast of the macroeconomic variables that have been identified as relevant to the Company's exposures, including, but not limited to:

- Regional UK House Prices
- 3-month GBP LIBOR
- UK GDP
- UK Unemployment Rate

The economic scenarios used are sourced externally and probability weights have been reviewed internally to ensure that they are plausible and consistent with economic forecasts used for other purposes.

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 cash flows used to calculate the EIR in this analysis include directly attributable transaction costs, premiums, discounts and the impact of changes from introductory to reversionary interest rates. Further details are disclosed in note 4.

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 debit of £160,000 to the statement of comprehensive income.

Notes to the financial statements for the year ended 30 November 2020

4 Interest receivable and similar income

	2020 **£'000**	2019 £'000
Interest receivable on mortgage assets	1,685	1,747
Amortisation of premium on mortgage assets	(3)	(3)
Other interest	9	11
	1,691	1,755

The estimated weighted average life of the mortgage assets is 4.6 years (2019: 5.3 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 £324,000 (2019: gain of £25,000).

Interest has accrued for the year in relation to impaired financial assets at 2.52% (2019: 3.18%) of the principal balance.

5 Interest payable and similar expenses

	2020 **£'000**	2019 £'000
Interest expense	955	816
Amortisation of capitalised issue costs	11	12
	966	828

6 Other operating income

	2020 **£'000**	2019 £'000
Sundry fee income	2	2
	2	2

7 Profit before taxation

	2020 **£'000**	2019 £'000
Profit before taxation is stated after charging/(crediting):		
Auditor's remuneration for statutory audit	14	23
Impairment charge on mortgage assets	327	81
Mortgage administration fees	159	178

8 Taxation

	2020 **£'000**	2019 £'000
Analysis of tax expense for the year		
Current tax		
UK corporation tax expense on profit for the year	1	1
Adjustments in respect of prior periods	(21)	21
Total current tax	(20)	22

Factors affecting taxation

The tax assessed for the year is lower than (2019: lower than) the standard rate of corporation tax in the United Kingdom of 19% (2019: 19%).

	2020 **£'000**	2019 £'000
Profit before tax	5	254
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	1	48
Effects of:		
Impact of restatement of financial statements	-	(47)
Adjustment in respect of prior periods – current tax	(21)	21
Tax (credit)/expense for the year	(20)	22

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the statement of financial position date, its effects are not included in these financial statements. However, it is unlikely that the overall effect of the change, had it been substantively enacted by the statement of financial position date, would affect the tax charge arising.

Southern Pacific Financing 06-A plc

Notes to the financial statements
for the year ended 30 November 2020

9 Directors and employees

The Company does not have any employees other than the directors (2019: none). The directors did not receive any remuneration in the year (2019: nil).

10 Mortgage assets

	Mortgage assets £'000	Impairment £'000	Mortgage assets, net of impairment £'000
At 1 December 2018	55,105	(318)	54,787
Movement in the year	(5,962)	(81)	(6,043)
At 30 November 2019	49,143	(399)	48,744
Movement in the year	(4,724)	(327)	(5,051)
At 30 November 2020	44,419	(726)	43,693

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 contractual loan periods of between 1 to 242 (2019: 1 to 254) months remaining with current interest rates ranging from 1.57% to 4.07% (2019: 2.27% to 4.77%) per annum.

Gross carrying amount

	2020 Buy to let £'000	**2020 Residential £'000**	**2020 Total £'000**	2019 Buy to let £'000	2019 Residential £'000	2019 Total £'000
Stage 1	4,156	17,536	21,692	5,072	24,854	29,926
Stage 2	1,404	10,235	11,639	1,351	6,750	8,101
Stage 3	1,340	9,748	11,088	925	10,191	11,116
Total	6,900	37,519	44,419	7,348	41,795	49,143

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 December 2018	32,834	11,791	10,480	55,105
Repayments and write-offs	(3,644)	(928)	(1,390)	(5,962)
Transfers:				
- To stage 1	3,463	(3,422)	(41)	-
- To stage 2	(2,370)	3,456	(1,086)	-
- To stage 3	(357)	(2,796)	3,153	-
At 30 November 2019	29,926	8,101	11,116	49,143
Repayments and write-offs	(2,288)	(1,618)	(818)	(4,724)
Transfers:				
- To stage 1	656	(558)	(98)	-
- To stage 2	(6,144)	7,623	(1,479)	-
- To stage 3	(458)	(1,909)	2,367	-
At 30 November 2020	21,692	11,639	11,088	44,419

Expected credit loss

The Company's ECL by segment and IFRS 9 stage is shown below:

	2020 Buy to let £'000	**2020 Residential £'000**	**2020 Total £'000**	2019 Buy to let £'000	2019 Residential £'000	2019 Total £'000
Stage 1	-	2	2	4	3	7
Stage 2	34	71	105	26	47	73
Stage 3	63	556	619	38	281	319
Total	97	629	726	68	331	399

The table below shows the movement in the ECL by IFRS 9 stage during the year. ECL on originations reflect the IFRS 9 stage of loans originated during the year as at 30 November 2020 and not the date of origination.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 December 2018	3	83	232	318
Repayments and write-offs	23	(7)	65	81
Transfers:				
- To stage 1	2	(2)	-	-
- To stage 2	(11)	35	(24)	-
- To stage 3	(10)	(36)	46	-
At 30 November 2019	7	73	319	399
Repayments and write-offs	45	2	280	327
Transfers:				
- To stage 2	(48)	62	(14)	-
- To stage 3	(2)	(32)	34	-
At 30 November 2020	2	105	619	726

The book value of the mortgage assets are measured at amortised cost using the EIR method, with a provision made for impairment. The impairment model used to estimate future cash flows in the impairment calculation is sensitive to certain key assumptions as detailed in the accounting policies section.

The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired.

11 Debtors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Mortgage assets net of impairment (note 10)	37,274	40,669
	37,274	40,669

12 Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Mortgage assets net of impairment (note 10)	6,419	8,075
Other debtors	14	30
	6,433	8,105

Mortgage assets, net of impairment represent the portion of the mortgage book expected to be receivable over the next 12 months based on behavioural assumptions.

13 Premium on mortgage assets

	2020	2019
	£'000	£'000
Premium on mortgage assets		
At the beginning of the year	15	18
Amortisation in the year	(3)	(3)
At the end of the year	12	15

The premium paid on mortgage assets is amortised in line with the amortisation profile of the mortgage assets. The amortisation charges are recognised within interest receivable in the statement of comprehensive income.

14 Cash and cash equivalents

	2020	2019
	£'000	£'000
Cash at bank and in hand	6,035	6,043
	6,035	6,043

The expected credit loss of the Cash at bank and in hand is deemed to be zero.

Cash at bank earns interest at the rates specified in note 17.

15 Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Accruals and deferred income	246	339
Other creditors	19	40
Deferred consideration	1,074	613
	1,339	992

Cash flow calculations are prepared to determine the extent to which deferred consideration will be payable and a creditor is recognised and classified at amortised cost. Interest payable on this creditor is recognised on an effective interest rate basis. 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. Based on these calculations, the directors have determined that £1,074,000 (2019: £613,000) consideration was payable at the year end.

16 Creditors: amounts falling due after more than one year

	2020	2019
	£'000	£'000
GBP Denominated mortgage backed loan notes due 2044 - Class A	12,744	17,903
GBP Denominated mortgage backed loan notes due 2044 - Class B	10,783	10,783
GBP Denominated mortgage backed loan notes due 2044 - Class C	14,018	14,018
GBP Denominated mortgage backed loan notes due 2044 - Class D1	6,932	6,932
GBP Denominated mortgage backed loan notes due 2044 - Class E	2,773	2,773
GBP Denominated mortgage backed loan notes due 2044 - Class F	1,067	1,366
Total loan notes	48,317	53,775
Less unamortised issue costs	(45)	(56)
	48,272	53,719

The loan notes due in 2044 are secured over the portfolio of mortgage assets secured by first charges over residential properties in the United Kingdom.

The mortgage assets are administered by Kensington Mortgage Company 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 (2019: none) of the 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 2044.

The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. The mortgage backed loan notes are repayable out of capital receipts from the mortgage assets, 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 the Class F Notes.

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

Class A	Sterling LIBOR + 0.16%
Class B	Sterling LIBOR + 0.26%
Class C	Sterling LIBOR + 0.45%
Class D1	Sterling LIBOR + 0.85%
Class E	Sterling LIBOR + 3.30%
Class F	Sterling LIBOR + 0.00%

A call option exists over the loan notes issued by the Company which may be exercised at the sole discretion of the Issuer once the outstanding mortgage backed loan notes reach 10% of the original issued amount. At this point, the call option permits the Issuer, at any interest payment date, to repay all of the outstanding external borrowings at their carrying value at the time.

In order for the call option to be exercised the directors must certify to the Trustee of the loan notes that the Issuer will be able to repay all amounts due and payable on the interest payment date on which the option would take effect.

17 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.

Credit quality of the mortgage assets 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.

Southern Pacific Financing 06-A plc

Notes to the financial statements for the year ended 30 November 2020

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November 2020 was:

	2020	2019
	£'000	£'000
Mortgage assets	44,419	49,143
Cash and cash equivalents	6,035	6,043
	50,454	55,186

The Company reviews the mortgage assets to assess impairment at least on a yearly basis. The credit quality of the financial assets is also reviewed on a monthly basis by the Company.

Mortgage assets and asset credit quality

All mortgage assets are categorised, as either 'stage 1', 'stage 2' or 'stage 3'. A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.

	2020 Gross carrying amount	**2020 Capped collateral held**	2019 Gross carrying amount	2019 Capped collateral held
	£'000	**£'000**	£'000	£'000
Stage 1	21,692	21,692	29,926	29,926
Stage 2	11,639	11,639	8,101	8,101
Stage 3	11,088	11,088	11,116	11,116
	44,419	44,419	49,143	49,143

Credit risk profile by internal PD grade for mortgage assets at amortised cost:

2020

			Gross carrying amount		
	PD range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	%	**£'000**	**£'000**	**£'000**	**£'000**
Credit quality description					
Very strong	0%-1%	10,665	-	-	10,665
Strong	1%-5%	10,541	-	-	10,541
Satisfactory	5%-10%	479	-	-	479
Higher risk	10%-99.9%	7	11,639	-	11,646
Credit impaired	100%	-	-	11,088	11,088
Total		21,692	11,639	11,088	44,419

		Allowance for ECL			
	PD range %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Credit quality description					
Very strong	0%-1%	1	-	-	1
Strong	1%-5%	1	-	-	1
Higher risk	10%-99.9%	-	105	-	105
Credit impaired	100%	-	-	619	619
Total		2	105	619	726

	PD range %	Net exposure £'000	ECL coverage %
Credit quality description			
Very strong	0%-1%	10,664	0.01
Strong	1%-5%	10,540	0.01
Satisfactory	5%-10%	479	0.00
Higher risk	10%-99.9%	11,541	0.90
Credit impaired	100%	10,469	5.58
Total		43,693	1.63

2019

		Gross carrying amount			
	PD range %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Credit quality description					
Very strong	0%-1%	18,028	-	-	18,028
Strong	1%-5%	10,997	-	-	10,997
Satisfactory	5%-10%	626	-	-	626
Higher risk	10%-99.9%	275	8,101	-	8,376
Credit impaired	100%	-	-	11,116	11,116
Total		29,926	8,101	11,116	49,143

		Allowance for ECL			
	PD range %	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Credit quality description					
Very strong	0%-1%	1	-	-	1
Strong	1%-5%	2	-	-	2
Satisfactory	5%-10%	1	-	-	1
Higher risk	10%-99.9%	3	73	-	76
Credit impaired	100%	-	-	319	319
Total		7	73	319	399

Notes to the financial statements for the year ended 30 November 2020

	PD range %	Net exposure £'000	ECL coverage %
Credit quality description			
Very strong	0%-1%	18,027	0.01
Strong	1%-5%	10,995	0.02
Satisfactory	5%-10%	625	0.16
Higher risk	10%-99.9%	8,300	0.91
Credit impaired	100%	10,797	2.87
Total		48,744	0.81

As at 30 November 2020, the ageing analysis of mortgage assets is as follows:

2020	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Not past due	20,896	7,755	973	29,624
Past due < 1 month	796	1,893	431	3,120
Past due 1 to 3 months	-	1,991	1,899	3,890
Past due 3 to 6 months	-	-	3,299	3,299
Past due 6 to 12 months	-	-	2,374	2,374
Past due over 12 months	-	-	2,112	2,112
Total mortgage assets before provisions	21,692	11,639	11,088	44,419

2019	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Not past due	27,747	2,681	1,415	31,843
Past due < 1 month	2,179	3,336	1,043	6,558
Past due 1 to 3 months	-	2,084	1,587	3,671
Past due 3 to 6 months	-	-	2,808	2,808
Past due 6 to 12 months	-	-	2,314	2,314
Past due over 12 months	-	-	1,949	1,949
Total mortgage assets before provisions	29,926	8,101	11,116	49,143

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

LTV analysis by band for all loans:

	2020 £'000	2020 %	2019 £'000	2019 %
0%-10%	274	0.62	398	0.81
10%-20%	1,958	4.41	1,364	2.78
20%-30%	4,221	9.50	3,847	7.83
30%-40%	7,187	16.18	6,999	14.24
40%-50%	9,112	20.51	11,423	23.25
50%-60%	8,087	18.21	7,920	16.12
60%-70%	6,184	13.92	7,201	14.65
70%-80%	5,796	13.05	5,982	12.17
80%-90%	1,463	3.29	3,639	7.40
90%-100%	137	0.31	370	0.75
Total mortgage assets before provisions	44,419	100.00	49,143	100.00

Geographic analysis by region

	2020 £'000	2020 %	2019 £'000	2019 %
Region				
East Anglia	4,509	10.15	4,880	9.93
East Midlands	2,026	4.56	2,722	5.54
London	7,693	17.32	8,566	17.43
North	3,878	8.73	4,030	8.20
North West	6,538	14.72	7,018	14.28
Other South East	4,366	9.83	4,511	9.18
Scotland	1,270	2.86	1,573	3.20
South West	2,239	5.04	2,452	4.99
Wales	3,660	8.24	3,990	8.12
West Midlands	4,642	10.45	5,175	10.53
Yorkshire and the Humber	3,598	8.10	4,226	8.60
Total mortgage assets before provisions	44,419	100.00	49,143	100.00

Notes to the financial statements for the year ended 30 November 2020

Forbearance measures undertaken

	2020 Number of accounts	At 30 November 2020 £'000	2019 Number of accounts	At 30 November 2019 £'000
Forbearance type				
Interest only switch	4	168	-	-
Term extension	6	339	7	313
None	596	43,912	662	48,830
Total	606	44,419	669	49,143

	2020 Number of accounts	At 30 November 2020 £'000	2019 Number of accounts	At 30 November 2019 £'000
Loan type				
First charge owner occupier	523	37,519	582	41,795
Buy to let	83	6,900	87	7,348
Total	606	44,419	669	49,143

b) Liquidity risk

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

As at 30 November 2020 Financial liabilities	Less than 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	5+ years £'000	Total £'000
Loan notes	7,368	6,697	6,107	4,772	7,088	19,658	51,690

As at 30 November 2019 Financial liabilities	Less than 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	5+ years £'000	Total £'000
Loan notes	9,688	6,196	6,110	5,146	4,342	29,382	60,864

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 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 loan notes to cash receipts from the mortgage assets.

c) Interest rate risk

The Company has exposure to interest rates based on LIBOR reference rates.

On the assets side, all mortgages are linked to LIBOR. A programme to transfer all such mortgages to a SONIA-based reference rate in the latter part of 2021 is in progress. The necessary adjustments to customer contracts will be based on the rate adjustments published by ISDA, following the FCA's announcement regarding the cessation of LIBOR as a reliable benchmark.

On the liabilities side, the Company is exposed to LIBOR reference rates, as set out in note 16. The LIBOR-based reference rates will be replaced by equivalent term SONIA-based reference rates. The necessary adjustments to these contracts will again be based on the rate adjustments published by ISDA.

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
2020					
Mortgage assets	44,419	44,419	-	2.42	-
Cash and cash equivalents	6,035	-	6,035	0.20	0.25
2019					
Mortgage assets	49,143	49,143	-	3.09	-
Cash and cash equivalents	6,043	-	6,043	0.34	0.25

Notes to the financial statements for the year ended 30 November 2020

* This is the weighted average spread above LIBOR.

Interest rate sensitivity analysis on financial assets

	Increase in basis points	Effect on equity	Effect on result before tax
		£'000	£'000
2020			
Mortgage assets	25	111	111
Cash and cash equivalents	25	15	15
2019			
Mortgage assets	25	123	123
Cash and cash equivalents	25	15	15

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.

Interest rate risk profile of financial liabilities

	Total	Total variable rate	Weighted average interest rate
	£'000	£'000	%
2020			
Loan notes	48,317	48,317	0.54
2019			
Loan notes	53,775	53,775	0.50

Interest payable on the loan notes and receivable on the mortgage assets are both based on LIBOR. The Company thus has limited exposure to interest rate risk.

The interest rate risk profile of the 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
2020			
GBP loan notes	25	(121)	(121)
2019			
GBP loan notes	25	(134)	(134)

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.

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

	2020 £'000	2019 £'000
Interest receivable on mortgage assets	1,685	1,747
Interest expense	(955)	(816)
	730	931

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 KMC, 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.

Operational risk is currently heightened by the impact of COVID-19 on KMC. This has driven working from home and changes in processes to meet new regulatory requirements including the provision of payment holidays. However, the nature of the risks to which the Company is exposed remain similar to those when all of KMC's staff were working from office locations prior to COVID-19, but additional focus has been required on the controls appropriate for the altered working environment. The technology solutions required for all of KMC's staff to function from home continue to be reviewed with additional controls implemented and guidance provided with regard to the technology. The focus on the technology and working environment will continue as KMC responds to the adjusted way of working during the remainder of the COVID-19 situation and afterwards.

The customer response to COVID-19 has driven more interaction with KMC, whether implementing full payment holidays or other measures as customers respond to the impact of COVID-19 on their financial situation. KMC has undertaken a variety of activity to support consistent implementation of payment holidays and to manage the customer experience as they end their payment holiday. Monitoring of customer service quality has been maintained to mitigate the operational risks associated with the increased customer interaction and new processes related to payment holidays.

e) Fair values of financial assets and liabilities

	2020 Book value £'000	**2020 Fair value £'000**	2019 Book value £'000	2019 Fair value £'000
Financial assets				
Mortgage assets	43,693	44,658	48,744	50,846
Cash and cash equivalents				
Reserve and contingency funds	3,360	3,360	3,360	3,360
Other cash balances	2,675	2,675	2,683	2,683
	6,035	6,035	6,043	6,043
	49,728	50,693	54,787	56,889
Financial liabilities				
Mortgage backed loan notes	48,317	49,479	53,775	52,944
Deferred consideration	1,074	1,074	613	613
	49,391	50,553	54,388	53,557

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, loan notes and cash.

The fair value of the 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. The fair value of reserve and contingency funds and other cash balances approximates to book value.

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.

Loan notes and mortgage assets are classified as level 2 and level 3 respectively.

18 Share capital

	2020	2019
	£	£
Allotted, issued and fully paid:		
2 ordinary 100% issued and fully paid shares of £1 each	2	2
Allotted, issued and partly paid:		
49,998 ordinary 25% issued and paid shares of £1 each	12,500	12,500

19 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	**Amount outstanding**	Amount expensed	Amount outstanding
	2020	**2020**	2019	2019
	£'000	**£'000**	£'000	£'000
Southern Pacific Mortgage Limited				
Deferred consideration	(461)	(1,074)	(80)	(613)
Apex Corporate Trustees (UK) Limited				
Corporate services fees	(5)	-	(29)	-
	(466)	(1,074)	(109)	(613)

20 Parent undertaking and control

The Company's immediate parent undertaking is Southern Pacific Financing 06-A Parent Limited which is registered in England, United Kingdom and has its registered office located at Bastion House 6th Floor, 140 London Wall, London, EC2Y 5DN. The entire issued share capital of Southern Pacific Financing 06-A 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 Apex 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 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.

21 Capital management

The Company is not subject to any externally proposed capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

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.

22 Post statement of financial position date events

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 2020.