Registered number: 05595906

Preferred Residential Securities 06-1 plc

Reports and audited financial statements for the year ended 30 November 2016

Contents

Company information

Directors	M H Filer – Resigned 28 March 2017 Wilmington Trust SP Services (London) Limited M Clarke-Whelan D J Wynne – Appointed 28 March 2017
Company secretary	Wilmington Trust SP Services (London) Limited
Registered office	c/o Wilmington Trust SP Services (London) Limited Third Floor, 1 King's Arms Yard London EC2R 7AF
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf, London E14 5EY
Registered number	05595906
Note trustee	BNYM Corporate Trustee Services Limited One Canada Square London E14 5AL

Preferred Residential Securities 06-1 plc

Strategic report
for the year ended 30 November 2016

The directors present their strategic report on the company for the year ended 30 November 2016.

Introduction

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

On 23 February 2006, Preferred Residential Securities 06-01 plc ("the company") purchased £431,359,000 mortgages from Preferred Mortgages Limited. Further consideration in the form of deferred consideration may be payable to Preferred Mortgages Limited dependent on the future performance of the mortgages. The acquisition of these mortgage assets has been accounted for as loans to originators as detailed in note 2 of the financial statements. To facilitate the purchase, the company issued a series of loan notes on 23 February 2006. These loan notes are listed on the Irish Stock Exchange.

As a consequence of the transfer of the mortgages not qualifying for derecognition, the mortgages have continued to be recognised by the originators.

The mortgage servicing, cash bond administration and accounting services are provided by Acenden Limited, an external party.

During the year the company transitioned to Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and has taken advantage of the disclosure exemptions allowed under this standard. The company's shareholders were notified and did not object to the use of the EU adopted IFRS disclosure exemptions. Further details of the impact of the transition to FRS 101 are disclosed in note 24. There were no material changes in the primary statements from 1 December 2014 to 30 November 2016.

Business review

The results for the year ended 30 November 2016 are set out on page 12. Both the level of business during the year and the financial position of the company at the end of the year were satisfactory.

At the year end, the loans to originators balance after the Effective Interest Rate adjustment, specific provisions and unamortised discounts and premiums on acquisition, was £79,189,000 (2015: £84,672,000) on 958 mortgages. In the current year, the method by which the cash flows for the EIR adjustment have been calculated was changed and the estimated weighted average life of the mortgages underlying the loan to originator was reassessed resulting in an increase from 2 years to 7 years. This resulted in an EIR asset of £ 2,478,000. The change in estimate has been applied prospectively.

After considering property values, anticipated bad debts and future income associated with the mortgage assets underlying the loans to originators, over and above the principal figure shown above, the directors consider the mortgage assets together with the other related assets of the company such as cash, to be adequate collateral against the mortgage backed loan notes in issue. The weighted average funding costs are 1.39% above LIBOR and the weighted average interest on mortgage assets is 3.32%.

On 22 September 2009 the Company filed claims of US$654,000 against the interest rate cap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement. Subsequently the claims were agreed at US$241,170. Up to the year ended 30 November 2016 the company had received distributions totaling US$147,684 leaving an amount outstanding of US$93,486. The directors are unable to quantify how much more of the claim will be received.

Preferred Residential Securities 06-1 plc

Strategic report
for the year ended 30 November 2016

At the December 2016 Interest Payment Date the originators held the following amount of mortgage loans underlying the loans to originators, excluding the Effective Interest Rate adjustment:

	Principal Balance £'000	**2016 Number of loans**	2015 Principal balance £'000	2015 Number of loans
First Charge mortgages	74,765	920	82,632	1,008
Second Charge Mortgages	300	38	377	46
	75,065	958	83,009	1,054

These mortgages provide security against loan notes in issue totalling £55,713,000, €35,242,000 and $1,386,000 (2015: £64,091,000 and €37,361,000 and $1,991,000) as at the September 2016 Interest Payment date excluding accrued interest.

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

Key performance indicators

The key performance indicator of the company is the quarterly arrears profile:

Delinquencies days	**Mar-16 %**	**Jun-16 %**	**Sep-16 %**	**Dec-16 %**	**Mar-17 %**
Current	77.00	77.16	77.08	76.96	77.23
>30<=60	2.32	2.15	2.73	3.60	3.30
>60<=90	2.59	2.69	4.01	2.59	3.36
>90<=120	3.26	3.55	2.84	2.12	2.98
>120	14.83	14.45	13.34	14.73	13.13
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the year end is £388,000 (2015: £923,000).

A monthly accrual is made in the statement of comprehensive income for deferred consideration that will ultimately become payable. Under the terms of the waterfall payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Cash flow projections have been prepared to determine the extent to which deferred consideration will be payable. Based on these projections, the directors have determined that £nil consideration was payable at the year end.

Principal risks and uncertainties

Financial instrument risk

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

The company also enters into derivative transactions where necessary to manage its interest rate and currency risk. Details of any derivatives held by the company are disclosed in note 17.

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

Financial instrument risk (continued)

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

(a) Credit risk

The underlying mortgages are classified as loan to originators, this means that in the first instance the recovery of the debt is against the originating company Preferred Mortgages Limited. The mortgages are fully secured against the loan and therefore ring fenced from other creditors in the originating company and the originating company is bound under the contractual terms to pay across the cash flows from the underlying loans, therefore credit risk is assessed as being against the underlying mortgages.

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgages underlying the loans to originators were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored through an extensive 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 loans to the originators as explained in note 2. In addition, where derivatives are held by the company, there is a credit risk associated with the ability of the swap counterparty to meeting its obligations under the swap agreement. In some instances, this may be mitigated by the payment of cash collateral to the company. Details of any cash collateral held by the company are included in note 17.

The directors continue to closely monitor the economic landscape to ensure the company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

(b) Liquidity risk

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

(c) Foreign exchange risk

Foreign exchange risk exists where the loan notes are denominated in a currency which is different to the underlying Sterling mortgage loans. Where this exists, the company minimises its exposure to foreign currency risk by ensuring that the currency characteristic of its assets and liabilities are similar. Where this is not possible the company has used derivative financial instruments to mitigate any foreign exchange risk. Details of foreign exchange exposures and any related derivatives held by the company are disclosed in note 17.

(d) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible the company has used derivative financial instruments to mitigate any residual interest rate risk. Details of interest rate risk exposures and any related derivatives held by the company are disclosed in note 17.

Financial instrument risk (continued)

(e) 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 robust controls and governance framework provided by the servicer of the mortgage assets underlying the loan to originator. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

Future business developments and strategy

The directors expect the business will continue in its principal activities described above for the foreseeable future and will ensure that customers continue to be serviced on a business as usual basis.

The business is subject to a number of risks under the principal risks and uncertainties section, which could adversely affect the business in future years, and the directors will continue to monitor and manage those risks.

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

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

To date, there have been no matters that warrant adjustment to the company's financial results as at 30 November 2016 and for the year then ended.

This report was approved by the Board on 6 JUNE 2017 and signed on its behalf by:

Andreas Demosthenous For and on behalf of Wilmington Trust SP Services (London) Limited

Director
Date: 6 JUNE 2017

Preferred Residential Securities 06-1 plc

Directors' report
for the year ended 30 November 2016

The directors present their report and the financial statements for the year ended 30 November 2016.

Results and dividends

The profit for the year, after taxation, amounted to £2,112,000 (2015: loss £5,199,000).

The directors do not recommend the payment of a dividend (2015: £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, are given below:

M H Filer – Resigned 28 March 2017
Wilmington Trust SP Services (London) Limited
M Clarke-Whelan
D J Wynne – Appointed 28 March 2017

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

Going concern

The company has reported an operating profit for the year and is in a net liability position as at 30 November 2016.

It is the intention of the directors of the company to continue operations until such a time as the amount due from mortgage loans underlying the loan to originator have been fully realised. Forecasts indicate that the company will have adequate cash to enable it to meet its obligations within the next 12 months from the date of the approval of these financial statements. Additionally, the company has performed as expected during the year and is expected to do the same over the next 12 months from the date of the approval of these financial statements.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) once the outstanding mortgage backed loan notes reach 10% of the original issued amount. The threshold has not been satisfied.

Due to the non-recourse nature of the loan notes, any shortfall in the proceeds from the mortgage assets underlying loan to originators will be a risk to the holders of these notes and accordingly the financial statements have been prepared on a going concern basis.

Directors' report
for the year ended 30 November 2016

Post balance sheet events

To date, there have been no matters that warrant adjustment to the company's financial results as at 30 November 2016 and for the year then ended.

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 disclose the fair values of the mortgage assets underlying the loan to originator, and loan notes. The directors noted that as at 30 November 2016 the respective fair values of the mortgage assets underlying the loan to originator were higher and loan notes were lower than the carrying values recorded in the statement of financial position.

As no liquid market exists for either the mortgage loans underlying the loan to originator 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.

Corporate governance

The directors have been charged with governance in accordance with the transaction documents describing the structure and operation of the company. The governance structure of the company is such that the key policies have been predetermined at the time of the transaction documents issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage, rather than eliminate the risk of failure to achieve business objectives, whilst enabling them to comply with the regulatory obligations.

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

Employees

The company does not have any employees (2015: none).

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Preferred Residential Securities 06-1 plc

Directors' report
for the year ended 30 November 2016

Disclosure of information to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

• so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

• the director has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Auditors

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be considered at the Annual General Meeting.

This report was approved by the Board on 6 June 2017 and signed on its behalf by:

Andreas Demosthenous For and on Behalf of Wilmington Trust SP Services (London) Limited

Director
Date: 6 June 2017

Preferred Residential Securities 06-1 plc

Statement of directors' responsibilities

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 period. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departure disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the member of Preferred Residential Securities 06-1 plc

We have audited the financial statements of Preferred Residential Securities 06-1 plc for the year ended 30 November 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Audited Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the member of Preferred Residential Securities 06-1 plc

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or the Directors' Report.

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

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

Ernst & Young LLP

Michael-John Albert (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 6th June 2017

Preferred Residential Securities 06-1 plc

Statement of comprehensive income for the year ended 30 November 2016

	Note	2016 £'000	2015 £'000
Interest receivable and similar income	4	5,210	3,059
Interest payable and similar charges	5	(2,166)	(7,492)
Net interest receivable		3,044	(4,433)
Operating expenses		(945)	(652)
Other operating income	6	156	200
		2,255	(4,885)
Re-measurement adjustment of amortised cost of loan notes		(86)	(343)
Net fair value gain/(loss) on derivatives		5,774	(3,636)
Unrealised exchange gain/(loss) on retranslation of loan liabilities		(5,492)	3,562
Profit/(loss) on ordinary activities before taxation	7	2,451	(5,302)
Tax on profit/(loss) on ordinary activities	8	(339)	103
Profit/(loss) and total comprehensive income/(expense) for the financial year		2,112	(5,199)

All amounts relate to continuing operations.

There were no items of other comprehensive income for 2016 or 2015 and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 15 to 43 are an integral part of these financial statements.

Registered number: 05595906

Preferred Residential Securities 06-1 plc

Statement of financial position as at 30 November 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Debtors: amounts falling due after more than one year	13		71,987		82,896
Current assets					
Debtors: amounts falling due within one year	12	7,233		1,993	
Derivative financial instruments	17	6,838		1,195	
Cash at bank and in hand	11	12,084		7,302	
		26,155		10,490	
Creditors: amounts falling due within one year	14	(7,093)		(3,238)	
Net current assets			19,062		7,252
Total assets less current liabilities			91,049		90,148
Creditors: amounts falling due after more than one year	15		(88,378)		(89,928)
Deferred tax	18		(4,317)		(3,978)
Net liabilities			(1,646)		(3,758)
Capital and reserves					
Called up share capital	16		13		13
Retained earnings			(1,659)		(3,771)
Total equity/(deficit)			(1,646)		(3,758)

These financial statements were approved and authorised for issue by the board on 6 June 2017 and were signed on its behalf by:

Andreas Demosthenous For and on Behalf of Wilmington Trust SP Services (London) Limited

Director
Date: 6 June 2017

The notes on pages 15 to 43 are an integral part of these financial statements.

Preferred Residential Securities 06-1 plc

Statement of changes in equity
for the year ended 30 November 2016

	Called up share capital	Retained earnings	Total equity /(deficit)
	£'000	£'000	£'000
Balance at 1 December 2014	13	1,428	1,441
Loss for the financial year	-	(5,199)	(5,199)
Balance at 30 November 2015	13	(3,771)	(3,758)
Balance at 1 December 2015	13	(3,771)	(3,758)
Profit for the financial year	-	2,112	2,112
Balance at 30 November 2015	13	(1,659)	(1,646)

The notes on pages 15 to 43 are an integral part of these financial statements.

Preferred Residential Securities 06-1 plc

Notes to the financial statements for the year ended 30 November 2016

1 General information

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

The company is a public limited company and was incorporated and is domiciled in the UK. Its principal place of business is its registered office located at c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

2 Significant accounting policies

The company transitioned from previously extant UK GAAP to Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) for all periods presented. The financial statements have therefore been prepared in accordance with FRS 101. This transition is not considered to have had a material impact on the recognition and measurement of balances in these financial statements (see note 24). The company has opted to take advantage of disclosure exemptions under FRS 101 outlined below under 2.1.

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

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 requirement 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 6 and 21 of IFRS 1: First Time Adoption of International Financial Reporting Standards;

• The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and

• The requirements in IAS 24 Related party disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

2.1.1 Going concern

It is the intention of the directors to continue operations until such a time as the amount due from mortgage loans underlying the loan to originator have been fully realised. Forecasts indicate that the company will have adequate cash to enable it to meet its obligations within the next 12 months from the date of the approval of these financial statements. Additionally, the company has performed as expected during the year and is expected to do the same over the next 12 months from the date of the approval of these financial statements.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) once the outstanding mortgage backed loan notes reach 10% of the original issued amount. The threshold has not been satisfied.

Due to the non-recourse nature of the loan notes, any shortfall in the proceeds from the mortgage loans underlying the loan to originator will be a risk to the holders of these notes and accordingly the financial statements have been prepared on a going concern basis.

2.2. Interest recognition

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

2.3. Current and deferred tax

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

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

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

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

2.4. Foreign currencies

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

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

2.5. Loan notes

Loan notes are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, the loan notes are measured at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an EIR basis.

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

2.6. Financial instruments

Initial recognition

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

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

Classification and measurement

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

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

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

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

2.6 Financial instruments (continued)

Financial assets at fair value through profit or loss

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

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

Loans and receivables

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

Available for sale financial assets

Available for sale financial investments include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value though profit or loss.

After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the unrealised gains and losses reserve. When the investment is derecognised, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the income statement in other operating expenses and removed from the unrealised gains and losses reserve.

The company evaluates its available for sale financial assets and whether the ability and intent to sell them in the near term is still appropriate. When the company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the company may elect to reclassify these financial assets in rare circumstances.

Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and when the company has the intent and ability to hold these assets for the foreseeable future or until maturity.

2.6 Financial instruments (continued)

Derecognition

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

Financial assets

Debtors

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

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

Loans to originators

Where a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset for financial reporting purposes, as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the mortgage portfolio transferred to the company, derecognition is considered to be inappropriate for the portfolio seller's or originator's (Preferred Mortgages Limited) own financial statements as the originator has retained significant risks, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. The company's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as a collateralised non-recourse loan to the originator.

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

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

2.6 Financial instruments (continued)

Impairment of loans to originators

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

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

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

Any impairment in the mortgage assets underlying the loan to originator will be reflected in the company's accounts by adjusting the carrying amount of the loan to originator in the statement of financial position.

Financial liabilities

Trade and other creditors

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

Mortgage backed loan notes

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

Interest payable is recognised using the EIR method with the directly attributable transaction costs being amortised over the expected average life of the facility in line with IAS 39. Any unamortised issue costs are disclosed in note 15.

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

2.6 Financial instruments (continued)

Discount on revenue backed loan notes

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

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

Deferred consideration

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

Under the terms of the securitisation the company earns a maximum annual profit in an amount equal to 0.01% of Mortgage Balance. Profits in excess of this amount accrue to the current holder of the rights to the residual cash flows of the securitisation as deferred consideration, unless the company has cumulative adjusted losses from prior years. Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the statement of financial position.

At each subsequent statement of financial position date an accrual is made for deferred consideration within the financial statements as amounts are expected to become payable as a result of the performance of the mortgage assets underlying the loans to originators.

Offsetting of financial assets and liabilities

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

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.

2.6 Financial instruments (continued)

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

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

(i) cash, trade receivables and payables - the carrying value is a good approximation of the fair value;

(ii) fixed and variable rate borrowings- valued as detailed in note 17;

(iii) derivatives - net present value of the future cash-flows, calculated using market data at the statement of financial position date (principally exchange rates and yield curves); and

(iv) loan to originator- 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 Financial instruments (continued)

Derivative financial instruments

Where applicable the company may use derivative financial instruments to hedge its exposure to interest rate risk and foreign exchange risk arising from financing and investment activities. The company does not hold or issue derivative financial instruments for trading purposes. None of the economic hedge relationships held by the company qualify for hedge accounting.

All derivative financial instruments are held at fair value through profit or loss. Subsequent to initial recognition, derivatives are remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the statement of comprehensive income. The fair value of the derivative financial instruments is the estimated amount that the company would receive or pay to terminate the derivative contract at the statement of financial position date. Where derivative contracts contain collateral agreements which reduce counterparty risk the collateral is held in cash and recorded within creditors: due in less than one year (see note 14).

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA). The company's own risk of default is also incorporated into the fair value of derivative positions. This adjustment is known as the debit value adjustment (DVA). Neither adjustment has a material impact on the fair value of derivative positions.

Basis rate swaps

Amortising basis rate swaps may be entered into in order to manage the company's basis rate exposure that may arise from a difference in reset dates of the mortgage backed loan notes and the mortgage assets underlying the loan to originator. Where applicable, the net interest payable and receivable on the swaps is recorded on an accruals basis and included within interest payable and receivable within the statement of comprehensive income.

Currency swaps

Where the company holds non-Sterling denominated loan notes, the company may enter into currency swaps in order to manage the company's currency rate exposure. Where applicable, the derivative contracts are designed to match the expected profile of the run-off of the non-Sterling denominated loan notes.

Details of any derivatives held by the company are disclosed in note 17.

2.7. Premiums paid on mortgage assets underlying the loans to originators

A premium is recognised where mortgage assets underlying the loan to originator 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 underlying the loan to originator. The amortised balance is added to the loan to originator balance with the costs amortised in the period included in interest receivable and similar income.

2.8. Discount on purchase of mortgage assets underlying the loans to originators

Where cash has been received from the originator on acquisition of the mortgage assets underlying the loan to originator to cover start-up costs, it is amortised over the expected life of those mortgage assets. The amortised balance is deducted from the loan to originator with the income for the year included in interest receivable and similar income.

2.9. Segmental analysis

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

2.10. Cash and short-term deposits

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

2.11. 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 Critical 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. Critical accounting judgements

Derecognition of mortgage assets

The company has made a significant accounting judgement in the assessment of the loan to originator. The company performed an assessment of the risks and rewards associated with the financial assets acquired, and concluded that the financial assets do not 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. Critical accounting estimates and assumptions

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

Impairment of loans to originators

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

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

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

Effective Interest Rate ("EIR")

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

The book value of the mortgage assets underlying the loans to originators 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").

3.2 Critical accounting estimates and assumptions (continued)

Fair value measurement

Where applicable, the company measures financial instruments, such as derivatives, at fair value at each statement of financial position date (note 17). For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation, and is constructed by benchmarking to generic instruments in the market that are sensitive to overnight index swap ("OIS") movements. Details of the fair value measurement of any derivative financial instruments held by the company are included in note 17.

Notes to the financial statements for the year ended 30 November 2016

4 Interest receivable and similar income

	2016 £'000	2015 £'000
On loans to originator	5,170	3,031
Other interest	40	28
	5,210	3,059

In the current year, the method by which the cash flows for the EIR adjustment have been calculated was changed and the estimated weighted average life of the mortgages underlying the loan to originator was reassessed resulting in an increase from 2 years to 7 years. This resulted in an EIR asset of £2,478,000. The change in estimate has been applied prospectively.

Interest has accrued for the year in relation to impaired financial assets at 3.58% (2015: 3.74%) of the principal balance.

5 Interest payable and similar charges

	2016 £'000	2015 £'000
On loan notes	2,155	2,230
Amortisation of capitalised issue costs	11	42
Amortisation of premium paid on mortgage assets underlying the loans to originators	-	5,220
	2,166	7,492

6 Other operating income

	2016 £'000	2015 £'000
Redemption fees	23	24
Sundry fee income	133	176
	156	200

7 Profit/(loss) on ordinary activities before taxation

	2016 £'000	2015 £'000
The operating profit/(loss) is stated after charging/(crediting):		
Auditors' remuneration for statutory audit	21	16
Impairment release for the period on mortgage assets underlying the loan to originator	(13)	(114)
Amounts written off in relation to mortgage assets underlying the loan to originator	471	188

8 Taxation

	2016 £'000	2015 £'000
Analysis of tax charge in the year		
Current tax		
UK corporation tax charge on profit/(loss) for the year	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	490	(103)
Effect of changes in tax rates	(151)	-
Total deferred tax	339	(103)
Tax charge/(credit)	339	(103)

Factors affecting taxation charge/(credit) for the year

The tax assessed for the year is lower than (2015: higher than) the standard rate of corporation tax in the UK of 20% (2015: 20%). The differences are explained below:

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

8 Tax on profit on ordinary activities

	2016 £'000	2015 £'000
Profit/(loss) on ordinary activities before tax	2,451	(5,302)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20%)	490	(1,060)
Effects of:		
Short term timing differences leading to a change in taxation	-	103
Current year losses not recognised	-	957
Changes in tax rates	(151)	-
Total tax charge/(credit) for the year	339	-

9 Directors and employees

The company does not have any employees other than the directors (2015: none). The directors' did not receive any remuneration in the year (2015: £ Nil).

10 Loan to originators - net of impairment

	Loan to originators	**Impairment**	**Loan to originators, net of impairment**
	£'000	**£'000**	**£'000**
At 1 December 2014	97,696	(707)	96,989
Movement in the year	(12,431)	114	(12,317)
At 30 November 2015	85,265	(593)	84,672
Movement in the year	(5,496)	13	(5,483)
At 30 November 2016	79,769	(580)	79,189

The loans to Preferred Mortgages Limited are denominated in Sterling and bear interest at a variable rate. They are secured on the beneficial interest in the portfolio of residential mortgage loans.

The current mortgage loans in the pool have loan periods of between 1 to 290 (2015: 1 to 301) months remaining with current interest rates ranging from 2.14% to 8.39% (2015: 2.30% to 8.59%) per annum.

The book value of the mortgage assets underlying the loans to originator is measured at amortised cost using the EIR method, with a provision made for impairment. The impairment provision includes a specific provision of £580,000 (2015: £593,000). The impairment model used to estimate future cash flows in the impairment calculation 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. The method of estimation of the cash flows has been changed in the year which has had the impact of increasing the provision by £297,000.

11 Cash and short term deposits

	2016	2015
	£'000	£'000
Cash at bank and in hand	12,084	7,302
	12,084	7,302

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

Notes to the financial statements for the year ended 30 November 2016

12 Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Prepayments and accrued income	11	6
Other debtors	20	211
Loans to originators net of impairment (note 10)	7,202	1,776
	7,233	1,993

Loans to originators net of impairment represent the portion of the mortgage book contractually receivable over the next 12 months.

13 Debtors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Loans to originators net of impairment (note 10)	71,987	82,896
	71,987	82,896

14 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed to group undertakings	3	3
Other creditors	6,564	2,585
Accruals and deferred income	526	650
	7,093	3,238

Amounts owed to group undertakings are interest free and repayable on demand.

A monthly accrual is made in the statement of comprehensive income for deferred consideration that will ultimately become payable. Under the terms of the waterfall of payments, any deferred consideration would only be paid when there are sufficient revenue funds available and all other liabilities in the waterfall have been satisfied. Deferred consideration is paid on a quarterly basis based on available revenue funds. At 30 November 2016, deferred consideration payable was £ nil (2015: £nil).

Other creditors include cash collateral of £6,540,000 (2015: £2,560,000) owing to the foreign currency swap counterparty. Cash collateral arises from the drawdown of the facility due to the increased counterparty default risk of the provider and the payment of collateral by the swap counterparty, under the currency swap agreement, following the downgrade in their credit rating. The cash collateral of £6,540,000 (2015: £2,560,000) is included in cash at bank and in hand.

15 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
EUR Denominated mortgage backed loan notes due 2045 - Class A2a	4,106	4,893
USD Denominated mortgage backed loan notes due 2045 - Class A2b	1,110	1,322
GBP Denominated mortgage backed loan notes due 2045 - Class A2c	11,577	16,636
EUR Denominated mortgage backed loan notes due 2045 - Class B1a	3,764	3,121
GBP Denominated mortgage backed loan notes due 2045 - Class B1c	21,016	21,016
EUR Denominated mortgage backed loan notes due 2045 - Class C1a	11,633	9,647
GBP Denominated mortgage backed loan notes due 2045 - Class C1c	5,254	5,254
EUR Denominated mortgage backed loan notes due 2045 - Class D1a	10,333	8,569
GBP Denominated mortgage backed loan notes due 2045 - Class D1c	8,083	8,083
GBP Denominated mortgage backed loan notes due 2045 – Class E1c	6,563	6,563
GBP Denominated mortgage backed loan notes due 2045 – Class FTc	3,220	4,163
Total Loan notes	86,659	89,267
Subordinated loans	21,542	20,582
Less Remeasurement adjustment to amortised cost	(19,750)	(19,837)
	88,451	90,012
Less unamortised issue costs	(73)	(84)
	88,378	89,928

The mortgage backed loan notes due 2045 are secured over the portfolio of mortgage loans secured by first and second charges over residential properties in the UK.

The mortgage assets underlying the loans to originators are administered by Acenden Limited on behalf of the company.

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

None (2015: None) of the mortgage backed loan notes are owed to a related party.

Whilst the mortgage backed loan notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage assets underlying loan to originators, 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 2045.

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 mortgages underlying the loans to originators, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to Class E Notes, which rank in priority to the Class F notes.

The revenue backed loans are repayable out of interest receipts from the mortgages underlying the loans to originators, with the Class B Notes ranking in priority to the Class C Notes, Class A, B, C, D, and E rank in priority to Class F.

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

Class A2a	EURIBOR + 0.19%
Class A2b	USD LIBOR + 0.19%
Class A2c	LIBOR + 0.19%
Class B1a	EURIBOR + 0.28%
Class B1c	Sterling LIBOR+ 0.30%
Class C1a	EURIBOR + 0.51%
Class C1c	EURIBOR + 0.53%
Class D1a	EURIBOR + 0.95%
Class D1c	Sterling LIBOR + 1.00%
Class E1c	Sterling LIBOR + 3.75%
Class FTc	Sterling LIBOR + 6.50%

The loan notes issued by the company are limited recourse obligations of the company. However they are issued subject to an option of Eurosail Options Limited, a related party, to acquire the notes for nominal consideration, the post enforcement call option, should any of the notes remain outstanding following enforcement of their rights and realisation of the assets of the company. The post enforcement call option may be exercised by Eurosail Options Limited on the date following the enforcement by the note trustee of the issuer security on which the note trustee determines that there are no further assets available to pay amounts due and owing to the noteholders. Noteholders will be bound by the terms of the post enforcement call option granted to Eurosail Options Limited and the noteholders will not be paid more than a nominal amount for that transfer.

A call option exists over the notes which may be exercised at the sole discretion of the issuer (with the approval of the trustee) once the outstanding mortgage backed loan notes reach 10% of the original issued amount. The threshold has not been satisfied.

16 Share capital

	2016	2015
	£	£
Authorised, allotted, called up and fully paid :		
2 Ordinary 100% called and fully paid shares of £1 each	2	2
Authorised, allotted, called up and partly paid:		
49,998 Ordinary 25% called and paid shares of £1 each	12,500	12,500

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, foreign currency risk and interest rate risk as explained in the strategic report. Financial instruments used by the company for risk management purposes include derivative instruments. Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes. The principal derivative instruments used by the company in managing its risks are foreign currency swaps. The maturity profile of the derivative instruments reflects the nature of exposures arising from underlying business activities. All of the company's derivatives activities are contracted with financial institutions.

17 Financial instruments and risk management (continued)

During the year, the company recognised a gain of £282,000 (2015: loss of £74,000) due to the movements in the fair value of derivatives and exchange rate movements on the loan notes.

a) Credit risk

Credit risk is the risk that borrowers of the mortgage assets underlying the loans to originators will not be able to meet their obligations as they fall due. All mortgage assets underlying the loans to originators 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 underlying the loans to originators. 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 UK mortgage market. Re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. 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 mortgages is assessed by an extensive 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.

17 Financial instruments and risk management (continued)

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

	2016	2015
	£'000	£'000
Loans to originators	79,769	85,265
Cash at bank and in hand	12,084	7,302
Derivative financial instruments	6,838	1,195
	98,691	93,762

Collateral accounts

At 30 November 2016, the company held £6,540,000 (2015: £2,560,000) of cash, including interest, as collateral as a result of the downgrading of certain swap counterparties' credit ratings. The right to the cash remains with the swap counterparty and a collateral creditor has been recognised. Collateral accounts accrue interest at published overnight currency interest rates and are repayable in the event the swap counterparty's credit rating exceeds pre-determined thresholds.

Loans to originators and asset credit quality

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

As at 30 November, the ageing analysis of mortgage assets underlying the loans to originators is before accounting adjustments, as follows:

	2016	2015
	£'000	£'000
Neither past due nor impaired	41,393	63,807
Past due but not impaired – less than 30 days	147	2,284
Past due but not impaired – between 30 and 60 days	399	990
Past due but not impaired – between 61 and 90 days	442	1,547
Past due but not impaired – between 91 and 120 days	4	350
Past due but not impaired – more than 120 days	125	6,860
Impaired	34,781	9,324
Total	77,291	85,163

17 Financial instruments and risk (continued)

b) Liquidity risk

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

As at 30 November 2016 **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	9,680	8,887	8,849	8,563	6,815	53,926	96,720
Subordinated loan	960	832	-	-	-	-	1,792
Currency swap collateral	6,540	-	-	-	-	-	6,540

As at 30 November 2015 **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	4,798	3,744	84,207	-	-	-	92,749
Subordinated loan	945	70	-	-	-	-	1,015
Currency swap collateral	2,560	-	-	-	-	-	2,560

There is no contractual obligation to pay down the loan notes other than as set out in note 15.

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 underlying the company 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 15 for maturity dates). For the current and the prior year, all mortgage backed loan notes are due in more than 5 years, and all other non-derivative creditors are repayable on demand.

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

Notes to the financial statements for the year ended 30 November 2016

17 Financial instruments and risk (continued)

c) Foreign currency risk

With the exception of certain mortgage backed loan notes and cross currency swaps, as shown below, all financial instruments are denominated in Sterling. The outstanding mortgage backed loan notes include the following foreign currency denominated balances on base currency:

	2016 Notional amount Euro €'000	2015 Notional amount Euro €'000
EUR Denominated mortgage backed loan notes due 2043 - Class A2a	4,850	6,968
EUR Denominated mortgage backed loan notes due 2043 - Class B1a	4,446	4,446
EUR Denominated mortgage backed loan notes due 2043 - Class C1a	13,741	13,741
EUR Denominated mortgage backed loan notes due 2043 - Class D1a	12,205	12,205
	35,242	37,360
USD Denominated mortgage backed loan notes due 2043 – Class A2b	1,386	1,991

A series of currency swaps have been entered into, in order to manage the company's currency rate exposure in relation to non-Sterling denominated backed loan notes.

The following is the profile of the company's currency swaps:

	2016 Notional amount Local Currency '000	2015 Notional amount Local currency '000
Euro denominated currency swaps	35,242	37,997
USD denominated currency swaps	1,386	1,991

The company is not materially exposed to foreign exchange risk as the currency swap notional matches the notional of the Euro and USD denominated mortgage backed loan notes.

The fair value of the currency swaps are disclosed in this note 17 (this note) Fair value of derivatives. The maturity profile of the foreign currency swaps is consistent with the mortgage backed loan notes.

Preferred Residential Securities 06-1 plc

Notes to the financial statements for the year ended 30 November 2016

17 Financial instruments and risk (continued)

d) Interest rate risk

Interest rate risk profile of financial assets

	Total £'000	Total variable rate £'000	Total fixed rate £'000	Weighted average interest rate* %	Weighted average time for which rate is fixed Years
2016					
Loans to originators	79,769	79,769	-	3.32	-
Cash in call account	12,084	-	12,084	0.19	0.25
Derivative financial instruments**	6,838	6,838	-	-	-
2015					
Loans to originators	85,265	85,265	-	2.93	-
Cash in call account	7,302	-	7,302	0.16	0.25
Derivative financial instruments**	1,195	1,195	-	-	-

Interest rate sensitivity analysis on financial assets

	Increase in basis points	Effect on equity £'000	Effect on result before tax £'000
2016			
Loans to originators	25	193	193
Cash in call account	25	30	30
2015			
Loans to originators	25	213	213
Cash in call account	25	18	18

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.

* This is the weighted average spread above LIBOR.

** The derivatives are shown at fair value. The corresponding notional amounts are disclosed in note 17 (this note) fair value derivatives.

17 Financial instruments and risk (continued)

Interest rate risk profile of financial liabilities

	Total	Total variable rate	Weighted average Interest rate
	£'000	£'000	%
2016			
Mortgage backed loan notes	86,659	86,659	1.39
Subordinated Loan	1,792	1,792	4.00
Currency swap collateral	6,540	6,540	0.19
2015			
Mortgage backed loan notes	89,267	89,267	1.58
Subordinated Loan	745	745	4.00
Currency swap collateral	2,560	2,560	0.16

Interest payable on the mortgage backed loan notes and receivable on mortgage assets underlying loan to originators are both based on LIBOR. Whilst certain mortgage backed loan notes are denominated in foreign currency and incur interest based on EURIBOR (EUR notes) and LIBOR (USD notes) the company has entered into currency swap agreements which allows the company to settle its note liability obligations with reference to LIBOR. The company thus has limited exposure to interest rate risk.

On 22 September 2009 the Company filed claims of US$654,000 against the interest rate cap counterparty arising from the Swap Agreement and against Lehman Brothers Holdings Inc (LBHI) arising from a guarantee given by LBHI unconditionally guaranteeing the obligations of the Swap Counterparty in connection with the Swap Agreement. Subsequently the claims were agreed at US$241,170. Up to the year ended 30 November 2016 the company had received distributions totaling US$147,684 leaving an amount outstanding of US$93,486. The directors are unable to quantify how much more of the claim will be received.

The interest rate risk profile of the mortgage backed loan notes in issue can be found in note 15. The company's approach to managing interest rate risk is included in the principal risks and uncertainties section of the strategic report.

17 Financial instruments and risk (continued)

Interest rate sensitivity analysis on financial liabilities

	Increase in basis points	Effect on equity	Effect on result before tax
		£'000	£'000
2016			
GBP	25	139	139
EUR	25	76	76
USD	25	3	3
2015			
GBP	25	154	154
EUR	25	67	67
USD	25	3	3

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 14) 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

	2016 £'000	2015 £'000
Interest receivable on loans to originators	5,170	3,031
Interest expense on loan notes	(2,155)	(2,230)
	3,015	801

e) 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 robust controls and governance framework provided by the servicer of the mortgage assets underlying the loan to originator. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

17 Financial instruments and risk (continued)

f) Fair values of financial assets and liabilities

	2016 Book value £'000	**2016 Fair value £'000**	2015 Book value £'000	2015 Fair value £'000
Financial assets				
Loan to originators	79,189	81,502	84,672	85,157
Cash and deposits	12,084	12,084	7,302	7,302
Derivative financial instruments	6,838	6,838	1,195	1,195
	98,111	100,424	93,169	93,654
Financial liabilities				
Mortgage backed loan notes due	(86,659)	(79,302)	(89,267)	(85,295)
Subordinated loan	(1,792)	(1,792)	(745)	(745)
Swap collateral creditor	(6,540)	(6,540)	(2,560)	(2,560)
	(94,990)	(87,634)	(92,572)	(88,600)

Except for derivative financial instruments that are held at fair value, all other 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 short-term deposits. 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 loans to originators, mortgage backed loan notes, derivative financial instruments and cash.

The fair value of the mortgage backed loan notes has been based upon their quoted prices; where available, or prices interpolated using latest available market data. The fair value of the loans to originators 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.

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

Mortgage backed loan notes and loans to originators are classified as level 2 and level 3 respectively.

17 Financial instruments and risk (continued)

Fair value of derivatives

	2016 Notional amount £'000	**2016 Assets £'000**	**2016 Liabilities £'000**	2015 Notional amount £'000	2015 Assets £'000	2015 Liabilities £'000
Foreign Exchange	30,946	6,838	-	27,552	1,995	-
	30,946	6,838	-	27,552	1,995	-

The company recognised a gain on fair value of derivatives of £5,774,000 during the year (2015: loss of £3,636,000).

For the valuation of derivative financial instruments, a discounted cash flow model is used based on a current interest rate yield curve. The yield curve is the primary determinant of the valuation, and is constructed by benchmarking to generic instruments in the market that are sensitive to Overnight Index Swap ("OIS") movements. Consequently, the company deems all its derivative financial instruments to be Level 2.

The company does not have other financial instruments held at fair value and there have been no transfers between levels within the fair value hierarchy.

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the non-Sterling denominated mortgage backed loan notes, are set with reference to the London Interbank Offer Rate ("LIBOR"). The rates of interest payable on the mortgage backed loan notes are set as detailed in Note 15.

18 Deferred tax

	2016	2015
	£'000	£'000
Opening deferred tax balance	(3,978)	(4,081)
Origination and reversal of timing differences	(490)	-
Rate change in respect of timing differences	151	103
Closing deferred tax balance	(4,317)	(3,978)

Deferred taxation has been recognised at 19.33% (2015: 20%) being the UK corporation tax rate expected to apply in the period in which the timing differences are expected to reverse based on the tax rates that have been enacted at the statement of the financial position date.

The deferred tax balance is made up as follows:

	2016	2015
	£'000	£'000
Short term timing differences	(4,317)	(3,978)
	(4,317)	(3,978)

Accumulated losses of £19,701,000 (2015: £19,703,000) resulting in a deferred tax asset of £3,808,000 (2015: £3,941,000) have not been recognised. The deferred tax asset has not been recognised due to uncertainty surrounding the company's future profitability.

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 charged 2016	**Amount outstanding 2016**	Amount charged 2015	Amount outstanding 2015
	£'000	**£'000**	£'000	£'000
Preferred Mortgages Limited				
Subordinated loan interest	(960)	-	(923)	-
Subordinated loan	-	(1,792)	-	(745)
Loan to originator	-	79,189	-	84,672
Interest receivable on loan to originator	5,170	-	3,031	-
Wilmington Trust SP Services (London) Limited				
Corporate services fees	(18)	-	(20)	(7)
	4,192	77,397	2,088	83,920

Notes to the financial statements for the year ended 30 November 2016

20 Parent undertaking and control

The company's immediate parent undertaking is Preferred Residential Securities 06-1 Parent Limited, which is registered and operates in England and Wales. The entire issued share capital of Preferred Residential Securities 06-1 Parent Limited is held by a Trustee under a declaration of trust for charitable purposes.

An affiliate company, Preferred Mortgages Limited, retains an interest in the cash flows and profits of the company. The company's operations are managed by Wilmington Trust SP Services (London) Limited, an affiliate company.

The largest and smallest group in which the results of the company are consolidated is Resetfan Limited, a company registered in England & Wales. The consolidated financial statements of Resetfan Limited are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

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

21 Capital management

The company's capital consists of share capital contributed by investors. Due to the structural features of the securitisation process, where cash paid out to noteholders cannot exceed cash received, and where the holder of the deferred consideration certificate is entitled to any excess deferred consideration, the amount of share capital is not expected to fluctuate over time. Accordingly, the objective of capital management is to hold constant the amount of share capital, and this objective is achieved by the structural features of the securitisation transaction documented in the offering circular and other legal documentation.

22 Contingent liabilities

There are no (2015: no) contingent liabilities or commitments at the year end or up to the date of signing the directors' report.

23 Subsequent 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 2016.

24 Transitioning from old UK GAAP to FRS 101

For all periods up to and including the year ended 30 November 2015, the company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 30 November 2016, are the first the company has prepared in accordance with FRS 101.

During the year the company transitioned from previously extant UK GAAP to FRS 101 - Reduced Disclosure Framework and has taken advantage of the disclosure exemptions allowed under this standard. The transition to FRS 101 has resulted in increased disclosures contained within note 10 and note 18.

Notes to the financial statements for the year ended 30 November 2016

Accordingly, the company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 December 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the company has started from an opening Statement of financial position as at 1 December 2014, the company's date of transition to FRS101, and made those changes in accounting policies required for the first-time adoption of FRS 101. There were no material changes in the primary statements from 1 December 2014 to 30 November 2016.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements to apply IFRSs as effective for December 2014 year ends retrospectively. The company has taken advantage of the following exemptions:

Presentation of Financial Statements

The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of i. paragraph 79(a) (iv) of IAS 1. On first-time adoption of FRS 101, a qualifying entity shall apply the requirements of paragraphs 6 to 33 of IFRS 1 except for the requirement of paragraphs 6 and 21 to present an opening statement of financial position at the date of transition.

The requirement of paragraphs 134-136 of IAS 1 Presentation of Financial Statements to disclose information that enables users to evaluate the entity's objectives, policies and processes for managing capital.

The requirements of IAS 1 including paragraph 10 (d) and paragraph 111 - a statement of cash flows for the period.

The requirements of IAS 1 including paragraph 10 (f) and paragraph 38 (c) - a statement of financial position retrospectively stating the comparative figures under IFRS.

Accounting Policies

The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Statement of Cash flows

The requirements of IAS 7 Statement of Cash Flows.

Related party transactions

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.