Eurosail 2006-4 NP Parent Limited

Report and Financial Statements

30 November 2008

Registered No: 05894183

Registered No: 05894183

Directors
M H Filer
Wilmington Trust SP Services (London) Limited
J Traynor

Secretary
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Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2008.

Principal activities

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

Business review

The Company was incorporated on 2 August 2006 as Dustfield Limited and commenced its activities on 27 November 2006. On 14 September 2006 the Company changed its name to Eurosail 2006-4BL Parent Limited; and on 7 November 2006 to Eurosail 2006-4 NP Parent Limited. Eurosail 2006-4 NP Parent Limited acquired Eurosail 2006-4 NP plc on 14 September 2006.

On 27 November 2006 the Group purchased £744,999,177 of mortgages from Southern Pacific Mortgage Limited and Preferred Mortgages Limited. Further consideration may be payable to Southern Pacific Mortgage Limited and Preferred Mortgages Limited dependent on future performance of the mortgages. The acquisition of these mortgage assets has been accounted for as loans to originators as detailed in Note 1 of the financial statements. To facilitate the purchase, the Group issued a series of mortgage-backed loans on 27 November 2006. These loan notes are listed on the Irish Stock Exchange.

The consolidated profit and loss account for the year ended 30 November 2008 is set out on page 10. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out below.

Although the current economic environment is difficult, the Group has reported an operating profit for the year after Financial Reporting Standard No 26 adjustments and allowing for the impairment of the mortgage loans underlying the loans to originators. However, the directors consider that the outlook presents significant challenges in meeting the capital repayments and interest due to the holders of the loan notes as and when they fall due.

Furthermore, on 3 October 2008, the interest rate swap counterparty, Lehman Brothers Special Financing Inc filed for Chapter 11 bankruptcy. This has had an impact on the results of the Group for the year, and its ability to manage its significant risks and uncertainties, and the cash available to pay interest, and repay capital, owing to Mortgage Backed Loan Note Holders.

The swap was in default at the year end and was terminated on 3 March 2009. Future amounts due to the Group under the swap will not be paid. It is anticipated that the Group is likely to make losses as a result of not having a swap in place to manage its interest rate risks, however it is not possible to quantify the amount of these losses.

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

As required by Financial Reporting Standard No. 26, the result for the year includes a fair value gain on derivative financial instruments of £17,862,783 (period ended 30 November 2007: £12,471,542) and an unrealised exchange loss on restatement of loan liabilities of £24,897,564 (period ended 30 November 2007: £8,818,000).

Directors' report

Business review (continued)

At the year end the loans to originators balance after the Effective Interest Rate Adjustment, was £434,136,280 (period ended 30 November 2007: £656,337,182). At December 2008 Interest Payment Date the originators held the following mortgage loans underlying the loans to originators, excluding the Effective Interest Rate Adjustment:

	Principal balance £000	*Number of loans*
First Mortgages	440,476	4,540
Total	440,476	4,540

These mortgages provide security against loan notes in issue totalling £440,470,617 as at the December 2008 Interest Payment date.

The mortgage loans generated a weighted average margin over funding costs of 1.23% during the year, before considering the adjustments for Financial Reporting Standard No. 26. The weighted average cost of funds for the year was 6.02%.

The mortgage loans exhibited the following quarterly arrears profile:

	Q1	*Q2*	*Q3*	*Q4*
	%	*%*	*%*	*%*
Delinquencies days – (excluding repossessions)				
Current	84.17	82.92	80.90	77.65
>30<=60	5.29	5.37	6.16	7.35
>60<=90	3.38	3.56	3.96	4.26
>90<=120	1.96	1.66	2.52	3.17
>120	5.20	6.49	6.46	7.57
Total	100.00	100.00	100.00	100.00

At the March 2009 Interest Payment Date following year end, the mortgage assets underlying the loans to originators balance, was £419,867,637, 14.41% of the balance was greater than 3 months in arrears.

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

The performance of the mortgage loans during the year to 30 November 2008 enabled deferred consideration of £1,831,670 (period ended 30 November 2007: £859,810) to be paid to the current holder of the rights to the residual cash flows of the securitisation.

Directors' report

Going concern

As described in the Business Review, the Group has reported an operating profit for the year. The Group is in a net asset position as at 30 November 2008 after Financial Reporting Standard No. 26 adjustments. Should these adjustments reverse in forthcoming periods the Group may be unable to meet its capital repayments and interest due to the holders of the loan notes as and when they fall due.

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

Fair value

Note 18 discloses the fair values of the mortgage assets, underlying the loans to originators, and non recourse loan notes. The directors noted that as at 30 November 2008 the respective fair values of the mortgage assets underlying the loans to originators, and non recourse loan notes are less than the carrying values recorded in the balance sheet.

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

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

The fair values disclosed do not necessarily represent the directors' view of the current value of the predicted future cash flows on either the mortgage asset receivables underlying the loans to originators or non recourse loan notes.

Dividend

The directors do not recommend the payment of a dividend for the year (2007: £nil).

Policy and practice on payment of creditors

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

Directors

The directors who held office during the year were as follows:

M H Filer
Wilmington Trust SP Services (London) Limited
J Traynor (appointed 28 February 2008)
R G Baker (resigned 28 February 2008)

Directors' report

Directors (continued)

Clifford Chance Secretaries (CCA) Limited resigned as Group Secretary on 27 January 2009, and Wilmington Trust SP Services (London) Limited was appointed as secretary to the Group on 25 Feburary 2009.

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Group comprise mortgages assets, underlying the loans to originators, borrowings, cash and various other items (such as trade debtors, trade creditors etc) that arise directly from its operations.

The Group also entered into derivative transactions where necessary (principally interest rate and currency swaps) to manage its interest rate risk and currency risk.

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

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

Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgages 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 by the directors. The mortgage portfolio is recognised as collateralised non-recourse loans to the originators as explained in note 1.

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 Group 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 Group considers the use of derivative financial instruments to mitigate any residual interest rate risk. However, as stated on page 2, the interest rate swap counterparty has filed for Chapter 11 bankruptcy, and has defaulted on the swap. The swap agreement has not been replaced. The directors believe under current circumstances that it is not viable to replace the swap and until such time, the Group will continue with an unhedged interest rate risk exposure.

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. The Group minimises its exposure to foreign currency risk by ensuring that the currency characteristics of its assets and liabilities are similar. Where this is not possible the Group considers the use of derivative financial instruments to mitigate any foreign exchange risk.

Liquidity risk

The Group'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 Group holds a minimum cash balance to manage short term liquidity requirements.

Directors' report

Disclosure of information to the auditors

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

Auditors

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

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

Director:

Date: 24 SEPTEMBER 2009

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

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

Independent auditors' report

to the members of Eurosail 2006-4 NP Parent Limited

We have audited the Group and Parent Company financial statements of Eurosail 2006-4 NP Parent Limited for the year ended 30 November 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 30 November 2008 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
Date 25 September 2009

Consolidated profit and loss account

for the year ended 30 November 2008

	Notes	*Year ended 30 November 2008 £000*	*Period ended 30 November 2007 £000*
Interest receivable and similar income	2	50,668	52,097
Interest payable and similar charges	3	(37,261)	(52,361)
Net interest receivable/(payable)		13,407	(264)
Net fair value gain on derivatives		17,863	12,472
Other operating income	4	2,625	5,256
Remeasurement adjustment of amortised cost of Mortgage Backed Loan Notes	14	9,336	–
Unrealised exchange loss on restatement of loan liabilities		(24,898)	(8,818)
Total operating income		18,333	8,646
Operating expenses		(12,756)	(8,750)
Profit/(loss) on ordinary activities before taxation	5	5,577	(104)
Tax on profit/(loss) on ordinary activities	6	(1,370)	(871)
Profit/(loss) on ordinary activities after taxation	16	4,207	(975)

The profit for the year was derived from continuing operations.

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

The notes on pages 13 to 30 form part of these financial statements.

Consolidated balance sheet

at 30 November 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Loans to originators	9	434,136	656,337
Current assets			
Debtors:			
Amounts falling due after one year	11	30,334	12,472
Amounts falling due within one year	12	4,644	5,956
Cash at bank and in hand		53,117	37,891
		88,095	56,319
Creditors: amounts falling due within one year	13	(10,783)	(13,810)
Net current assets		77,312	42,509
Creditors: amounts falling due after one year	14	(508,216)	(699,821)
Net assets/(liabilities)		3,232	(975)
Capital and reserves			
Called up share capital	15	–	–
Profit and loss account	16	3,232	(975)
Shareholders' funds/(deficit)	17	3,232	(975)

The notes on pages 13 to 30 form part of these financial statements.

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

Director

Date 24 SEPTEMBER 2009

Company balance sheet

at 30 November 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Investments	8	13	13
Creditors	13	(13)	(13)
Net assets		–	–
Capital and reserves			
Called up share capital	15	–	–
Profit and loss account	16	–	–
Shareholder's funds	17	–	–

The notes on pages 13 to 30 form part of these financial statements.

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

Director

Date: 24 SEPTEMBER 2009

Notes to the financial statements

at 30 November 2008

1. Accounting policies

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

Basis of preparation

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries for the year ended 30 November 2008. All the subsidiaries are accounted for using acquisition accounting.

In accordance with section 230 (4) of the Companies Act 1985, Eurosail 2006-4 NP Parent Limited is exempt from the requirement to present its own profit and loss account. The result for the year of Eurosail 2006-4 NP Parent Limited is disclosed in note 16 to the financial statements.

Income recognition

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

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 portfolios transferred to the Group, derecognition is considered to be inappropriate for the portfolio seller's or originators' (Southern Pacific Mortgage Limited and Preferred Mortgages Limited) own financial statements as the originators have 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 Group's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in mortgage portfolios are recognised as collateralised non-recourse loans to the originators.

The originators are classified within "loans and receivables". The initial measurement is at fair value with subsequent measurement being amortised cost using the effective interest rate method. The effective interest on the loans to the originators are calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio less the residual interest due to the current holder of the rights to the residual cash flow of the securitisation.

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

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

Notes to the financial statements

at 30 November 2008

1. Accounting policies (continued)

Provisions

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

Fixed asset investment

The Company's investment in subsidiary companies is stated at cost, less provision for diminution in value where the directors consider this necessary.

Premium paid on mortgage assets underlying the loans to originators

Gross cash receipts received by the Group on the issue of turbo notes are paid to Southern Pacific Mortgage Limited and Preferred Mortgage Limited as a premium on acquisition of the mortgage assets underlying the loans to originators. This premium is capitalised by the Group and amortised over the expected repayment period of the Class DTc Notes mentioned in note 14. The amortised balance is added to the loans to originators with the costs amortised in the year included in interest payable.

Discount on purchase of mortgage assets underlying the loans to originators

Cash received from the originators on acquisition of the mortgage assets underlying the loans to originators to cover start up costs are amortised over the expected life of the mortgage assets. The amortised balance is deducted from the loans to originators with the income for the year included in interest receivable.

Taxation

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

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

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

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Southern Pacific Mortgage Limited and Preferred Mortgages Limited. The payment of these amounts is conditional on the performance of the mortgages underlying the loans to originators.

Under the terms of the securitisation the Group earns an annual profit in an amount equal to 0.01 per cent of the aggregate balances of the loans in the mortgage pool. This is reflected in the profit and loss before any movements on fair value gains and losses on derivatives and Effective Interest Rate adjustments.

Profits in excess of 0.01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation, as deferred consideration. Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in its balance sheet.

Notes to the financial statements

at 30 November 2008

1. Accounting policies (continued)

Derivatives

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

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

Interest rate caps

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

Currency swaps

A series of currency swaps were entered into in order to manage the Group's currency rate exposure in relation to non-sterling denominated Loan Notes. The derivative contracts match the expected profile of the run-off of the non-sterling denominated Loan Notes.

Foreign currencies

Mortgage-backed floating rate notes included in financial liabilities, denominated in foreign currencies at the balance sheet date, are reported at the rates of exchange prevailing at the reporting date. Any exchange differences arising in the year on the settlement or retranslation of foreign currency liabilities are included in the profit and loss account.

Issue costs

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

Mortgage-backed Loan notes

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

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

Related party transactions

Southern Pacific Mortgage Limited and Preferred Mortgages Limited retain an interest in the cash flows and profits of Eurosail 2006-4 NC plc, a wholly owned subsidiary of Eurosail 2006-4 NC Parent Limited. Accordingly Southern Pacific Mortgage Limited and Preferred Mortgages Limited, whilst having no direct investment in the Group, are treated as related parties.

Notes to the financial statements

at 30 November 2008

1. Accounting policies (continued)

Cash flow statement

Under Financial Reporting Standard No.1 (Revised), the Group is exempt from the requirement to prepare a cash flow statement on the grounds that it is included in consolidated financial statements under Financial Reporting Standard No. 5.

Turnover

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

2. Interest receivable and similar income

	Year ended 30 November 2008 £000	*Period ended 30 November 2007 £000*
On loans to originators	46,602	44,750
Other interest	2,349	1,338
Amortisation of start up costs contributed by the mortgage loan originators	1,717	6,009
	50,668	52,097

3. Interest payable and similar charges

	Year ended 30 November 2008 £000	*Period ended 30 November 2007 £000*
Mortgage backed loan notes	36,812	45,053
Amortisation of capitalised issue costs	289	19
Amortisation of premium paid to mortgage loan originators	160	7,289
	37,261	52,361

4. Other operating income

	Year ended 30 November 2008 £000	*Period ended 30 November 2007 £000*
Redemption fees	1,413	2,930
Sundry fee income	1,212	2,326
	2,625	5,256

Notes to the financial statements

at 30 November 2008

5. Profit/(loss) on ordinary activities before taxation

This is stated after charging:

	Year ended 30 November 2008 £000	*Period ended 30 November 2007 £000*
Auditors' remuneration – For audit services – Group	13	10
– Company	4	4
Adjustment to the expected cash flows of the loans to originators arising from the impairment of the underlying mortgages	4,155	2,615
Deferred consideration	1,832	860
Adjustment to the expected cash flows of the loans to originators arising from bad debts incurred on the underlying mortgages	2,549	49

6. Tax on profit/(loss) on ordinary activities

(a) Analysis of tax charge in the year

	Year ended 30 November 2008 £000	*Period ended 30 November 2007 £000*
Current tax:		
UK corporation tax on loss in the year	–	–
Total current tax (note 6(b))	–	–
Deferred tax:		
Origination and reversal of timing differences	1,326	871
Effect of tax rate change on opening balance	44	–
Total deferred tax charge (note 19)	1,370	871
Tax on profit/(loss) on ordinary activities	1,370	871

Notes to the financial statements

at 30 November 2008

6. Tax on profit/(loss) on ordinary activities

(b) Factors affecting the tax charge in the year

The tax assessed for the year is higher than the small companies rate of corporation tax in the UK of 21% (period ended 30 November 2007: 20%). The factors affecting the tax charge are explained below:

	Year ended 30 November 2008 £000	*Period ended 30 November 2007 £000*
Profit/(loss) on ordinary activities before tax	5,577	(104)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax for small companies of 21% (period ended 30 November 2007: 20%)	1,153	(21)
Effects of:		
Other short-term timing differences	(1,305)	(871)
Unrelieved tax losses and other deductions arising in the year/period	152	892
Current tax charge for the year/period (note 6(a))	–	–

7. Information regarding directors and employees

The Group has no employees (2007: none). The directors received no remuneration from the Group during the year (2007: £nil).

8. Investments

Company

	Shares in group undertakings £000
At 30 November 2007 and 2008	13

The undertakings in which the Company's interest at 30 November 2008 is more than 20% are as follows:

Company	*Principal activity*	*Proportion held*
Eurosail 2006-4 NP plc	Investment in residential loans	100%

At 30 November 2008 the Company held 49,998 ordinary shares of £1 each in Eurosail 2006-4 NP Plc, and has paid up 25p on each share. The Company also held one fully paid share of £1 in the same company. These holdings represent the entire issued share capital of that company except for one fully paid ordinary share of £1 held by Wilmington Trust SP Services (London) Limited on a discretionary basis.

Notes to the financial statements

at 30 November 2008

8. Investments (continued)

Eurosail 2006-4 NP Plc acts as an investment company, holding mortgages financed by Mortgage Backed Floating Rate Notes. The subsidiary is registered and operates in the United Kingdom. The following information is presented in respect of its financial statements for the year ended 30 November 2008:

	2008	*2007*
	£000	*£000*
Aggregate capital and reserves	(3,245)	(962)
Profit/(loss) for the year/period	4,207	(975)

9. Loans to originators – net balances

Group

	2008	*2007*
	£000	*£000*
At the start of the year	656,337	–
Acquisition of mortgage loans underlying the loans to originators	–	733,621
Movement in unamortised premium on acquisition of mortgage loans underlying the loans to originators (Note 10)	(161)	(7,289)
Movement in unamortised discount on acquisition of mortgage loans underlying the loans to originators	1,717	6,009
Net movement in the year	(217,053)	(73,340)
Adjustment to the expected cash flows of the loans to originators arising from the impairment of the underlying mortgages	(4,155)	(2,615)
Adjustment to the expected cash flows of the loans to originators arising from bad debts incurred on the underlying mortgage loans	(2,549)	(49)
At the end of the year	434,136	656,337

The Group purchased portfolios of mortgage loans from Southern Pacific Mortgage Limited and Preferred Mortgages Limited. However, as the principal economic risk and rewards associated with these mortgage loans remain with Southern Pacific Mortgage Limited and Preferred Mortgages Limited, these loans are not deemed for accounting purposes to have been transferred to the Group. Accordingly, the Group accounts for the transaction as loans to Southern Pacific Mortgage Limited and Preferred Mortgages Limited, as the originators of the loans. The repayment of the loans to originators is linked to the repayment of the loan notes referred to in note 14.

The loans to Southern Pacific Mortgage Limited and Preferred Mortgages Limited are denominated in Sterling and bears interest at a variable rate. It is secured on the beneficial interest in a portfolio of residential mortgage loans.

The current mortgage loans in the pool have loan periods of between 28 to 394 months remaining with current interest rates ranging from 5.13% to 10.25% per annum.

The mortgage loans are held as security against the loan notes referred to in note 14.

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at 30 November 2008

10. Premium on mortgages underlying the loans to originators

Group

	2008	*2007*
	£000	*£000*
At the start of the year/period	161	–
Premium paid to originators	–	7,450
Amortisation in the year/period	(161)	(7,289)
At the end of the year/period	–	161

11. **Debtors:** amounts falling due after one year

Group

	2008	*2007*
	£000	*£000*
Derivative financial instruments	30,334	12,472

The above mark to market gain is net of a credit valuation adjustment of £3,873,787 (2007: £nil) in respect of counterparty default risk

12. **Debtors:** amounts falling due within one year

Group

	2008	*2007*
	£000	*£000*
Amounts owed by group undertakings	1,012	1,056
Other debtors	13	87
Prepayments and accrued income	3,619	4,813
	4,644	5,956

13. **Creditors:** amounts falling due within one year

Group

	Group	*Company*	*Group*	*Company*
	2008	*2008*	*2007*	*2007*
	£000	*£000*	*£000*	*£000*
Amounts owed to group undertakings	397	–	1,629	–
Deferred tax (note 19)	2,241	–	871	–
Accruals and deferred income	6,907	–	11,310	–
Other creditors	1,238	13	–	13
	10,783	13	13,810	13

Notes to the financial statements

at 30 November 2008

14. Creditors: amounts falling due after one year

Group

	2008	*2007*
	£000	*£000*
EUR Denominated Mortgage backed loan notes due 2024 - Class A1a	–	55,178
USD Denominated Mortgage backed loan notes due 2024 - Class A1b	–	24,047
GBP Denominated Mortgage backed loan notes due 2024 - Class A1c	–	102,760
GBP Denominated Mortgage backed loan notes due 2044 - Class A2c	146,459	171,300
EUR Denominated Mortgage backed loan notes due 2044 - Class A3a	81,405	70,344
GBP Denominated Mortgage backed loan notes due 2044 - Class A3c	150,000	150,000
EUR Denominated Mortgage backed loan notes due 2044 - Class M1a	28,099	24,281
GBP Denominated Mortgage backed loan notes due 2044 - Class M1c	12,000	12,000
EUR Denominated Mortgage backed loan notes due 2044 - Class B1a	51,735	44,706
EUR Denominated Mortgage backed loan notes due 2044 - Class C1a	16,529	14,283
GBP Denominated Mortgage backed loan notes due 2044 - Class C1c	8,000	8,000
EUR Denominated Mortgage backed loan notes due 2044 - Class D1a	10,247	8,855
GBP Denominated Mortgage backed loan notes due 2044 - Class D1c	8,000	8,000
GBP Denominated Mortgage backed loan notes due 2044 - Class DTc	–	1,259
GBP Denominated Mortgage backed loan notes due 2044 - Class E1c	6,700	6,700
	519,174	701,713
Less: Issue costs	(1,622)	(1,892)
Less: Remeasurement adjustment to amortised cost	(9,336)	–
	508,216	699,821

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

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

The mortgages underlying the loans to originators are administered by Capstone Mortgage Services Limited on behalf of Eurosail 2006-4 NP plc.

The loan notes are repaid as the underlying portfolio redeems. The terms and conditions of the loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage loans. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. Note holders have no recourse to Eurosail 2006-4 plc in any form.

The mortgage backed floating rate notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgages underlying the loans to originators. If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in September 2044.

The loan notes are repayable out of capital receipts from the mortgage loan receivables, with the Class A Notes ranking in priority to the Class M Notes, which rank in priority to the Class B1a 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 E1c Notes.

Notes to the financial statements

at 30 November 2008

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

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

Class A1a	EURIBOR + 0.06%
Class A1b	USD LIBOR + 0.06%
Class A1c	Sterling LIBOR + 0.08%
Class A2c	Sterling LIBOR + 0.14%
Class A3a	EURIBOR + 0.16%
Class A3c	Sterling LIBOR + 0.16%
Class M1a	EURIBOR + 0.23%
Class M1c	Sterling LIBOR + 0.24%
Class B1a	EURIBOR + 0.27%
Class C1a	EURIBOR + 0.44%
Class C1c	Sterling LIBOR + 0.44%
Class D1a	EURIBOR + 0.77%
Class D1c	Sterling LIBOR + 0.80%
Class DTc	Sterling LIBOR + 0.75%
Class E1c	Sterling LIBOR + 3.00%

15. Called up share capital

	2008	*2007*
Authorised		
Ordinary shares of £1 each	100	100
Allotted and called up		
1 share 100% called and fully paid	1	1

Share capital of £1 was issued on incorporation on 2 August 2006.

16. Profit and loss account

	Group 2008 £000	*Company 2008 £000*	*Group 2007 £000*	*Company 2007 £000*
Retained loss brought forward	(975)	–	–	–
Profit/(loss) for the year/period	4,207	–	(975)	–
Retained profit/(loss) carried forward	3,232	–	(975)	–

Notes to the financial statements

at 30 November 2008

17. Reconciliation of movement in shareholders' funds

	Group 2008 £000	*Company 2008 £000*	*Group 2007 £000*	*Company 2007 £000*
Opening shareholders' deficit	(975)	–	–	–
Issue of ordinary share capital	–	–	–	–
Profit/(loss) for the year/period	4,207	–	(975)	–
Closing shareholders' funds/(deficit)	3,232	–	(975)	–

18. Derivatives and other financial instruments

Nature and extent of risks arising from financial instruments

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. Financial instruments used by the Group 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 Group in managing its risks are interest rate caps, interest rate swaps and foreign currency swaps. The maturity profile of the derivative instruments reflects the nature of exposures arising from underlying business activities. All of the Group's derivatives activities are contracted with financial institutions.

During the year, the Group recognised net fair value losses of £7,034,781 (2007:£3,653,510 gain) due to the movements in the fair value of derivatives and exchange rate movements on the loan notes.

The main risks arising from the Group's financial instruments and management of these risks are summarised below:

Credit risk

Credit risk arises primarily from the potential for default in the mortgage loan portfolio. Credit risk is managed through the arrears management process which ensures that mortgages going into arrears are quickly identified and closely monitored.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as set out in table (a).

Liquidity risk

The underlying mortgage loan assets are funded by the issue of non-recourse floating rate loan notes. Liquidity risk is managed by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the loan notes. The Group holds a minimum cash balance to manage short-term liquidity requirements.

Foreign currency risk

Certain loan notes are issued in Euro and US dollar denominations and repayments of principal and payments of interest are made in Euros or US dollars. The Group takes out derivative instruments to manage movements in foreign currency exchange rates.

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments

Nature and extent of risks arising from financial instruments (continued)

Interest rate risk

The Group is exposed to interest rate risk where assets and liabilities have interest rates set under different bases or which reset at different times. The Group 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 Group takes out derivative financial instruments to manage interest rate mismatches. However, on 3 October 2008, the interest rate swap counterparty has filed for Chapter 11 bankruptcy, and has defaulted on the swap which has not been replaced. The directors believe under the current circumstances that it is not viable to replace the swap and until such time the Group will continue with an unhedged interest rate risk exposure.

(a) Credit risk

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

	2008	*2007*
	£000	*£000*
Loan to originator	434,136	656,337
Derivative financial instruments	30,334	12,472
Cash at bank and in hand	53,117	37,891
	517,587	706,700

(b) Liquidity risk

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

At 30 November 2008

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	189,207	117,632	79,428	53,632	36,214	71,544	547,657
Gross financial liabilities	167,346	103,316	69,762	47,105	31,806	99,839	519,174

At 30 November 2007

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	253,139	176,711	101,143	75,857	56,893	154,000	817,743
Gross financial liabilities	216,254	152,428	83,258	62,443	46,832	140,498	701,713

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(b) Liquidity risk (continued)

There is no contractual obligation to pay down the loan notes other than as set out in note 14.

The undiscounted cash flows have been estimated by applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans underlying the loans to originators and using the weighted average interest rate prevailing at the balance sheet date. 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.

(c) Foreign currency risk

The Group uses foreign currency swaps in certain circumstances to hedge against any currency exposure risks. At 30 November 2008, the notional value of the swaps held was £154,300,000 (2007: £232,876,362) and the recognised positive fair values of the Euro swaps and US Dollar swap was £34,181,775 and £nil respectively (2007: £9,215,199 and (£2,252,295)).

Excluding the effect of derivatives, the amounts of financial assets and liabilities denominated in foreign currencies were as follows:

At 30 November 2008

	Euro	*USD*	*Total*
	£000	*£000*	*£000*
Financial liabilities			
EUR Denominated Mortgage backed loan notes due 2044 - Class A3a	81,405	–	81,405
EUR Denominated Mortgage backed loan notes due 2044 - Class M1a	28,099	–	28,099
EUR Denominated Mortgage backed loan notes due 2044 - Class B1a	51,735	–	51,735
EUR Denominated Mortgage backed loan notes due 2044 - Class C1a	16,529	–	16,529
EUR Denominated Mortgage backed loan notes due 2044 - Class D1a	10,247	–	10,247
	188,015	–	188,015

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(c) Foreign currency risk (continued)

At 30 November 2007

	Euro £000	USD £000	Total £000
Financial liabilities			
EUR Denominated Mortgage backed loan notes due 2024 - Class A1a	55,178	–	55,178
USD Denominated Mortgage backed loan notes due 2024 - Class A1b	–	24,047	24,047
EUR Denominated Mortgage backed loan notes due 2044 - Class A3a	70,344	–	70,344
EUR Denominated Mortgage backed loan notes due 2044 - Class M1a	24,281	–	24,281
EUR Denominated Mortgage backed loan notes due 2044 - Class B1a	44,706	–	44,706
EUR Denominated Mortgage backed loan notes due 2044 - Class C1a	14,283	–	14,283
EUR Denominated Mortgage backed loan notes due 2044 - Class D1a	8,855	–	8,855
	217,647	24,047	241,694

There were no financial assets that were denominated in foreign currencies.

(d) Interest rate risk

The table below summarises the interest rate risk profile of the Group's financial instruments.

At 30 November 2008

	Total £000	Total non-interest bearing £000	Within 3 months £000	After 3 months but within 6 months £000	After 6 months but within 1 year £000	After 1 year but within 5 years £000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Financial assets								
Loan to originators	434,136	(9,716)	280,952	20,476	139,528	2,896	6.0	0.56
Cash and deposits	53,117	–	53,117	–	–	–		
Derivative financial instruments	30,334	30,334	–	–	–	–		
Total assets	517,587	20,618	334,069	20,476	139,528	2,896		
Financial liabilities								
Mortgage backed loan notes due 2024 and 2044	509,838	24,379	485,459	–	–	–		
Total liabilities	509,838	24,379	485,459	–	–	–		

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(d) Interest rate risk (continued)

At 30 November 2007

	Total £000	Total non-interest bearing £000	Within 3 months £000	After 3 months but within 6 months £000	After 6 months but within 1 year £000	After 1 year but within 5 years £000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Financial assets								
Loan to originators	656,337	(11,174)	185,227	36,003	260,705	185,576	5.88	0.82
Cash and deposits	37,891	–	37,891	–	–	–		
Derivative financial instruments	12,472	12,472	–	–	–	–		
Total assets	706,700	1,298	223,118	36,003	260,705	185,576		
Financial liabilities								
Mortgage backed loan notes due 2024 and 2044	701,713	8,818	692,895	–	–	–		
Total liabilities	701,713	8,818	692,895	–	–	–		

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the mortgage backed loan notes, are set with reference to the London Interbank Offer Rate. The rates of interest payable on the mortgage backed loan notes are set as detailed in note 14.

The Group uses interest rate caps in certain circumstances to hedge against movements in interest rates. At 30 November 2008, the notional value of these caps was £223,500,000 (2007: £223,500,000) and the recognised positive fair value was £26,336 (2007: £257,843 positive).

The Group used interest rate swaps in certain circumstances to hedge against interest rate fluctuations when mortgage loans have fixed interest rates while the mortgage backed loan notes have variable rates. Following the default of the swap counterparty at 30 November 2008, the notional value of its swaps held was £nil (2007: £594,968,924) and the recognised positive fair value was £nil (2007: £5,250,794 positive).

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments

Nature and extent of risks arising from financial instruments (continued)

(e) Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	At 30 November 2008			*At 30 November 2007*		
			If fair values Increased			*If fair values increased*
	Book value	*Fair value*	*by 1%*	*Book value*	*Fair value*	*by 1%*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Financial assets						
Loan to originators	434,136	354,005	3,540	656,337	643,117	6,431
Cash and deposits	53,117	53,117	531	37,891	37,891	379
Derivative financial instruments	30,334	30,334	303	12,472	12,472	125
	517,587	437,456	4,374	706,700	693,480	6,935
Financial liabilities						
Mortgage backed loan notes due 2024 and 2044	(509,838)	(397,429)	(3,974)	(701,713)	(680,605)	(6,806)

The directors have considered the fair values of the Group's main financial instruments, which are mortgage loan receivables underlying the loans to originators and non recourse loan notes.

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

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

	2008	*2007*
	£000	*£000*
Interest receivable on loan to originator	46,602	44,750
Interest expense on loan notes	(36,812)	(45,053)
	9,790	(303)

Notes to the financial statements

at 30 November 2008

19. Deferred taxation

	2008 *£000*	*2007* *£000*
Liability at start of year/period	(871)	–
Deferred tax charge during the year/period (note 6)	(1,370)	(871)
Liability at the end of the year/period	(2,241)	(871)

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No. 26 adjustments. Losses of £5,195,746 resulting in a deferred tax asset of £1,091,106 have not been recognised. The deferred tax asset has not been recognised due to uncertainty surrounding the Group's future profitability

Deferred taxation has been recognised at 21% (2007: 20%) being the UK small companies' corporation tax rate at the balance sheet date.

	2008 *£000*	*2007* *£000*
Effect of Financial Reporting Standard No. 26 adjustment for EIR	(990)	(140)
Effect of Financial Reporting Standard No. 26 adjustment for Derivatives	(6,370)	(2,494)
Effect of Financial Reporting Standard No 26 adjustment for FX hedge	7,080	1,763
Remeasurement adjustment off amortised cost of Mortgage Backed Loan Notes	(1,961)	–
Total deferred tax liability recognised at 20%	–	(871)
Total deferred tax liability recognised at 21%	(2,241)	(915)

20. Related party transactions

During the year, Eurosail 2006-4 NP plc has charged the following amounts to Southern Pacific Mortgage Limited and Preferred Mortgages Limited, and the amounts outstanding at the end of the year were:

Eurosail 2006-4 NP plc

	Amount charged 2008 £000	*Amount outstanding 2008 £000*	*Amount charged 2007 £000*	*Amount outstanding 2007 £000*
Mortgage related amounts receivable	–	(1,025)	–	(1,030)
Residual income – redemption penalties	1,408	–	477	933

21. Capital structure

The Company's capital is represented by the capital and reserves attributable to equity holders. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act 1985, with which it complies. The Company manages its ordinary share capital in order that there is sufficient capital to meet the needs of the Company in its operation.

Notes to the financial statements

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22. Parent undertaking and control

The entire issued share capital of Eurosail 2006-4 NP Parent Limited is held by a Trustee under a declaration of trust for charitable purposes.

Eurosail 2006-4 NP Parent Limited is included in the financial statements of Southern Pacific Mortgage Limited, a company registered in England and Wales under linked presentation. Financial statements of this group is available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.