Registered number: 05924768

Eurosail 2006-3NC plc

Reports and audited financial statements

for the year ended 30 November 2019

Eurosail 2006-3NC plc

Contents

Eurosail 2006-3NC plc

Company information

Directors	Wilmington Trust SP Services (London) Limited D J Wynne
Company secretary	Wilmington Trust SP Services (London) Limited
Registered office	Third Floor, 1 King's Arms Yard London EC2R 7AF
Independent auditor	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DA
Registered number	05924768
Trustee	BNY Mellon Corporate Trustee Services Limited One Canada Square London E14 5AL

Eurosail 2006-3NC plc

Strategic report
for the year ended 30 November 2019

The directors present their strategic report on Eurosail 2006-3NC plc (the "Company" or "Issuer") for the year ended 30 November 2019.

Principal activities

The Company, a public company limited by shares was incorporated on 5 September 2006 in England, United Kingdom and is registered in England and Wales under the Companies Act 2006. The Company is a special purpose vehicle which acts as an issuer in a residential mortgage backed securitisation transaction. The principal activity of the Company is the issuance of loan notes with the purpose of funding the mortgage originator, Southern Pacific Mortgage Limited (the "originator").

On 9 November 2006, the Company provided funding to the originator for the purchase of £505,250,000 of mortgage assets. Further consideration in the form of deferred consideration may be payable to Southern Pacific Mortgage Limited dependent on the future performance of the mortgages. To facilitate the purchase, the Company issued a series of loan notes on 27 November 2006. These loan notes are issued on Euronext Dublin and are due in 2044.

Under IFRS 9, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The originator failed the derecognition criteria of IFRS 9 when it sold the beneficial ownership of the mortgage assets to the Company as the significant risks and rewards of the loans were not transferred to the Company. Therefore, these loans remain on the statement of financial position of the originator. As such, the beneficial interest in the underlying portfolio is shown as a net deemed loan (the "net deemed loan to originator") in the financial statements of the Company.

During the year the mortgage servicing, cash bond administration and accounting services were transferred from Acenden Limited to Kensington Mortgage Company Limited, an external party.

Business review

The results for the year ended 30 November 2019 are set out on page 16. Both the level of business during the year and the financial position of the Company at the end of the year were satisfactory given the nature of the Company and its limited recourse liability.

During the year, the Company has changed its presentation of deferred consideration in the financial statements. From 1 December 2018, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are presented as a reduction to the deemed loan to originator. Previously deferred consideration was presented within creditors: amounts falling due within one year.

As a result of this reclassification, changes in the fair value of deferred consideration are no longer shown in the records of the Company. Previously fair value changes were presented in operating expenses. These changes have resulted in a restatement of the 2018 comparatives in the statement of comprehensive income and statement of financial position. Further details on the restatements are set out in note 4.

At the year end, the net deemed loan to originator balance after the effective interest rate adjustment, expected credit loss, unamortised discount and premium on acquisition and deferred consideration was £78,686,000 (2018 restated: £89,973,000) on 1,263 mortgages.

After considering property values, anticipated future losses and future income associated with the net deemed loan to originator, over and above the principal figure shown above, the directors consider the net deemed loan to originator together with the other related assets of the Company such as cash, to be adequate collateral against the mortgage backed loan notes in issue.

Strategic report
for the year ended 30 November 2019

At year end the following mortgage assets were underlying the net deemed loan to originator.

	2019 Principal balance £'000	2019 Number of loans	2018 Principal balance £'000	2018 Number of loans
First charge mortgages	75,785	943	86,166	1,031
Second charge mortgages	6,580	320	8,835	381
	82,365	1,263	95,001	1,412

These mortgages provide security against loan notes in issue totalling £29,773,000 and €82,579,000 (2018: £35,512,000 and €91,739,000) as at the year end 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 of the underlying mortgage assets:

Delinquencies days	Mar-19 %	Jun-19 %	Sep-19 %	Dec-19 %	Mar-20 %
Current	62.95	62.57	65.35	66.27	64.58
>30<=60	8.36	9.49	6.82	6.81	7.28
>60<=90	5.79	4.94	4.43	3.82	5.27
>90<=120	3.72	4.10	5.48	3.73	3.64
>120	19.18	18.90	17.92	19.37	19.23
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession underlying the net deemed loan to originator at the year end is £284,000 (2018: £771,000).

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Company comprise the net deemed 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 18.

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

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

(a) Credit risk

The underlying mortgages are classified as a net deemed loan to originator, this means that in the first instance the recovery of the debt is against the originating company, Southern Pacific Mortgage Limited.

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Company's receivables.

In the event of default of the mortgage assets, the Company has rights solely against the originator and only Southern Pacific Mortgage Limited will be entitled to take any remedial actions against the underlying mortgage holders.

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 18.

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 the net deemed loan to originator 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 18.

(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 18.

(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 controls and governance framework provided by the servicer of the net deemed 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.

The UK financial markets and economy have seen significant reduction in volatility post UK election results and Brexit finally happening in January 2020; despite the optimism economic growth is expected to be subdued and uncertainty around EU deal still remains. This could lead to a change in the behavioural characteristics of the net deemed loan to originator including default expectations and the unwind period of the Effective Interest Rate ("EIR") adjustments. To the extent that the impact of this situation can be predicted, changes in these behavioural characteristics have been reflected in the cash flow models which underpin the expected default and EIR adjustments as at 30 November 2019.

However, due to the limited recourse nature of the loan notes issued by the Company, any impact of this uncertainty on the results of the Company will not impact on its ability to continue to operate as a going concern.

Subsequent to the reporting date, extensions to lockdown periods have been announced following the COVID-19 crisis, and the UK Government introduced 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19.

As of 24 September 2020, 92 loans have taken up the payment holiday scheme which represents 7.79% of the total loans and 8.81% of the total balance.

There are no other 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 2019.

This report was approved by the Board on 30 September 2020 and signed on its behalf by:

Ioannis Kyriakopoulos, an Authorised Signatory on behalf of
Wilmington Trust SP Services (London) Limited
Date: 30 September 2020

Directors' report
for the year ended 30 November 2019

The directors present their report together with the audited financial statements of the Company for the year ended 30 November 2019.

Results and dividends

The result for the year, after taxation, amounted to nil (2018 restated: profit of £8,000).

The directors do not recommend the payment of a dividend (2018: nil).

Future developments

An assessment of the Company's future developments is described in the strategic report under the future business developments and strategy section.

Financial instruments

An assessment of the Company's financial instruments is described in the strategic report under the principal risks and uncertainties section.

Directors

The directors who held office during the year and up to the date of the approval of the financial statements, except as noted, are given below:

Wilmington Trust SP Services (London) Limited
D J Wynne

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

Company secretary

Wilmington Trust SP Services (London) Limited continued to act as company secretary for the year ended 30 November 2019 and up to the date of signing the financial statements.

Going concern

The Company has reported a nil result for the current year and is in a net asset position as at 30 November 2019.

The financial statements have been prepared on the going concern basis, as defined in IAS 1 – 'Presentation of Financial Statements'. In order to prepare financial statements on this basis the directors must conclude that management does not intend to liquidate the Company or cease trading, and that the Company has the ability to continue to trade and will be able to satisfy its liabilities as they fall due.

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

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

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

It is not anticipated that the call option will become exercisable for the foreseeable future.

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

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

On this basis, the directors have concluded that it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements.

Post statement of financial position date events

Subsequent to the reporting date, extensions to lockdown periods have been announced following the COVID-19 crisis, and the UK Government introduced 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19.

As of 24 September 2020, 92 loans have taken up the payment holiday scheme which represents 7.79% of the total loans and 8.81% of the total balance.

There are no other 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 2019.

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 18 discloses the fair values of the net deemed loan to originator and loan notes. The directors noted that as at 30 November 2019 the respective fair values of the net deemed loan to originator were higher than and loan notes were lower than the carrying values recorded in the statement of financial position.

As no liquid market exists for either the net deemed 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.

Directors' report
for the year ended 30 November 2019

Corporate governance

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

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

Due to the nature of the securities which have been issued on Euronext Dublin, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the requirements of the Irish Corporate Governance Annex and the provisions of the UK Corporate Governance Code do not apply to the Company.

Employees

The Company does not have any employees (2018: none).

Issued capital and capital contribution

Details of the share capital are set out in note 20 to the financial statements. The issued share capital consists of £12,502 comprising 50,000 ordinary shares of £1 each with 2 ordinary shares being fully paid and 49,998 ordinary shares being quarter paid up.

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions for the benefit of the directors, in accordance with section 234 of the Companies Act 2006, were in force during the year under review and remain force as at the date of approval of the strategic report, directors' report and financial statements.

Disclosure of information to the auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Auditor

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

This report was approved by the Board on 30 September 2020 and signed on its behalf by:

Ioannis Kyriakopoulos, an Authorised Signatory on behalf of
Wilmington Trust SP Services (London) Limited
Date: 30 September 2020

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the member of Eurosail 2006-3NC plc

1 Our opinion is unmodified

We have audited the financial statements of Eurosail 2006-3NC Plc ("the Company") for the year ended 30 November 2019 which comprise the:

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

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 November 2019 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to Those Charged with Governance.

We were first appointed as auditor by the shareholders on 9 March 2018. The period of total uninterrupted engagement is for the three financial years ended 30 November 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Other key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	**Our response**
The impact of uncertainties due to the UK exiting the European Union on our audit Risk vs 2018: ▲ *Refer to the Strategic Report* ***Unprecedented levels of uncertainty*** All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of deemed loan and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — Our Brexit knowledge: We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

depend on assessments of the future economic environment and the Company's future prospects and performance. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	— Sensitivity analysis: When addressing valuation of deemed loan, and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. — Assessing transparency: As well as assessing individual disclosures as part of our procedures on valuation of deemed loan on our audit we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under valuation of deemed loan, we found the resulting estimates and related disclosures of valuation of deemed loan, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Valuation of deemed loan Risk vs 2018: ▲ (£79 million; 2018: £90 million) *Refer to the accounting policy note and note 11 (financial disclosures).* ***Subjective estimate*** IFRS 9 was implemented by the Company on 1 December 2018. This new and complex standard requires the Company to recognise expected credit losses ('ECL') on financial instruments, which involves significant judgement and estimates and resulted in an increase in credit loss provisions. The key areas where we identified greater levels of director judgement and therefore increased levels of audit focus in the Company's implementation of IFRS 9 are: *Model estimations* – Inherently judgemental modelling is used to estimate the ECL which involves determining the Probabilities of Default ('PD') and Loss Given Default ('LGD'). The effect of these matters is that, as part of our risk assessment, we determined that the	Our audit procedures included: — Controls testing: We tested management review controls over the approval of the ECL measured on the deemed loan. — Test of details: Key aspects of our testing involved: - We agreed key inputs and assumptions impacting the ECL calculation against corroborating evidence to assess the reasonableness of this estimate. - We recalculated the ECL and agreed the amount back to the accounting records. — Assessing transparency: We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and assumptions made was sufficient clear. **Our results** The results of our testing were satisfactory and we considered the ECL charge, provision recognised and the related disclosures to be acceptable.

valuation of the deemed loan has a high degree of estimation uncertainty. **Disclosure quality** The disclosures regarding the Company's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.	

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

Materiality for the Company financial statements as a whole was set at £0.85 million (2018: £0.74 million), determined with reference to a benchmark of Company total assets (of which it represents 0.8% (2018: 0.6%)).

We agreed to report to Those Charged with Governance any corrected or uncorrected identified misstatements exceeding £0.04 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

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

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

5 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Independent auditor's report to the member of Eurosail 2006-3NC plc

6 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

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

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report to the member of Eurosail 2006-3NC plc

7 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

K. G. Pountney

Karl Pountney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign St
Leeds
LS1 4DA
30 September 2020

Eurosail 2006-3NC plc

Statement of comprehensive income for the year ended 30 November 2019

	Note	2019 £'000	2018 restated £'000
Interest receivable and similar income	5	2,616	2,336
Interest payable and similar expenses	6	(609)	(753)
Net interest receivable		2,007	1,583
Operating expenses		(908)	(371)
Other operating income	7	17	11
		1,116	1,223
Net fair value loss on derivatives		(3,980)	(703)
Unrealised exchange gain/(loss) on retranslation of loan notes		2,878	(508)
Profit before taxation	8	14	12
Tax expense on profit	9	(14)	(4)
Profit and total comprehensive income for the financial year		-	8

Further details on the restatements are set out in note 4.

All amounts relate to continuing operations.

There were no items of other comprehensive income for 2019 or 2018 and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 19 to 45 are an integral part of these financial statements.

Eurosail 2006-3NC plc

Statement of financial position as at 30 November 2019

	Note	**2019** **£'000**	2018 restated £'000
Non-current assets			
Debtors: amounts falling due after more than one year	12	66,397	77,619
Current assets			
Debtors: amounts falling due within one year	13	12,310	12,386
Derivative financial instruments	18	15,547	20,825
Cash and cash equivalents	15	8,432	11,488
Total current assets		36,289	44,699
Current liabilities			
Creditors: amounts falling due within one year	16	(2,600)	(5,514)
Total assets less current liabilities		100,086	116,804
Non-current liabilities			
Creditors: amounts falling due after more than one year	17	(100,018)	(116,736)
Net assets		68	68
Capital and reserves			
Called up share capital	20	13	13
Retained earnings		55	55
Total equity		68	68

Further details on the restatements are set out in note 4.

These financial statements were approved and authorised for issue by the Board on 30 September 2020 and were signed on its behalf by:

Ioannis Kyriakopoulos, an Authorised Signatory on behalf of
Wilmington Trust SP Services (London) Limited
Date: 30 September 2020

The notes on pages 19 to 45 are an integral part of these financial statements.

Eurosail 2006-3NC plc

Statement of changes in equity for the year ended 30 November 2019

	Called up share capital	Retained earnings/ (accumulated losses)	Total equity/(deficit)
	£'000	£'000	£'000
Balance at 1 December 2017 (original)	13	(1,217)	(1,204)
Prior years' restatement	-	1,264	1,264
Balance at 1 December 2017 (restated)	13	47	60
Profit for the financial year (restated)	-	8	8
Balance at 30 November 2018 (restated)	13	55	68
Adjustment on initial application of IFRS 9, net of tax	-	-	-
Restated balance at 1 December 2018	13	55	68
Profit for the financial year	-	-	-
Balance at 30 November 2019	13	55	68

Further details on the restatements are set out in note 4.

The impact of the application of IFRS 9 was zero due to the credit enhancement within the net deemed loan to originator.

The notes on pages 19 to 45 are an integral part of these financial statements.

1 General information

The principal activity of the Company is the issuance of loan notes with the purpose of funding the mortgage originator, Southern Pacific Mortgage Limited (the "originator").

The Company is a public limited company and was incorporated on 5 September 2006 and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

2 Significant accounting policies

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

2.1. Basis of preparation and statement of compliance with FRS 101

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 10(d), 10(f), 16, 38(c)-(d), 40(a)-(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- The Company has taken advantage of the exemptions conferred by FRS 101: 8 (j) & (k) "Related party disclosures", the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures, and transactions with other wholly owned group companies are not disclosed separately.

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

2.1.1 Going concern

The financial statements have been prepared on the going concern basis, as defined in IAS 1 – 'Presentation of Financial Statements'. In order to prepare financial statements on this basis the directors must conclude that management does not intend to liquidate the Company or cease trading, and that the Company has the ability to continue to trade and will be able to satisfy its liabilities as they fall due.

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

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

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

It is not anticipated that the call option will become exercisable for the foreseeable future.

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

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

On this basis, the directors have concluded that it is appropriate to continue to adopt the going concern basis in the preparation of these financial statements.

2.1.2. New standards, amendments and IFRIC interpretations

IFRS 9 'Financial Instruments' ("IFRS 9") and IFRS 15 'Revenue from contracts with customers' ("IFRS 15") are new accounting standards that are effective from 1 December 2018. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The impact of the application of IFRS 9 was zero due to the credit enhancement within the net deemed loan to originator. In addition there was no impact from the application of IFRS 15 on the Company. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 30 November 2019 which have had a material impact on the Company.

2.2. Interest recognition

Interest income on the net deemed loan to originator, together with the interest expense on the loan notes, is recognised in the statement of comprehensive income on an EIR basis. The EIR basis recognises revenue and expenses equivalent to the rate that effectively discounts estimated future cash flows throughout the expected life to the net carrying value of the net deemed loan to originator or loan notes.

2.3. Current and deferred tax

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

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

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

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

2.4. Foreign currencies

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

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

2.5. Financial instruments

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

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

Financial assets

Net deemed loan to originator

The originator failed the derecognition criteria of IFRS 9 when it sold the beneficial ownership of the mortgage assets to the Company as the significant risks and rewards of the loans were not transferred to the Company. Therefore, these loans remain on the statement of financial position of the originator. As such, the beneficial interest in the underlying portfolio is shown as a net deemed loan to originator in the financial statements.

Purchases and sales of the deemed loan are recognised on trade date - the date on which the Company commits to purchase or sell the assets. They are initially recognised at cost and subsequently measured at amortised cost. They are derecognised when the right to recover cash flows from the investments have expired or the Company has transferred substantially all the risks and rewards of ownership.

The Company recognises principal and interest cash flows from the underlying pool of mortgage assets only to the extent that it is entitled to retain such cash flows. During the year, the Company has changed the way that it has accounted for the cash flows in the deemed loan. Previously the Company recognised all the cash flows in the deemed loan and a liability, if any, to return the deferred consideration element to the seller of the mortgage assets. The Company has now chosen to recognise only the cash flows from the deemed loan that are attributable to the Company. As a result no deferred consideration liability is now recognised. This represents a change in accounting policy which has been disclosed in note 4.

The net deemed loan to originator is initially recognised at fair value and subsequently measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Financial assets at fair value through profit or loss

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

Debtors

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

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

Impairment of financial assets

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

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

Unlike other financial instruments, the net deemed loan to originator is, by its construction, an instrument that incorporates credit enhancement.

As detailed in note 4, as the Company has chosen to move to recognising only the cash flows due to it the unrecognised element of the deemed loan cash flows effectively act as a credit enhancement in the form of excess spread along with various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the net deemed loan to originator would only therefore be recognised where the expected credit losses on the underlying assets were in excess of the unrecognised deferred consideration.

Financial liabilities

Trade and other creditors

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

Loan notes

All loan notes were initially recognised at fair value, which was their transaction price at the date of issue less directly attributable transaction costs. All loan notes are subsequently re-measured at amortised cost taking into account repayments at interest payment dates where applicable.

Interest payable is recognised using the EIR method with the directly attributable transaction costs being amortised over the expected average life of the facility. Any unamortised issue costs are disclosed in note 17.

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

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

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument.

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

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

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

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

ii. fixed and variable rate borrowings - valued as detailed in note 18;

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. net deemed loan to originator - valued as detailed in note 18.

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).

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 16).

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.

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 18.

2.6. Premium paid on the net deemed loan to originator

A premium is recognised where the net deemed loan to originator is acquired at an amount in excess of its carrying value. Where this occurs the premium is capitalised by the Company and amortised over the expected repayment period of the net deemed loan to originator. The amortised balance is added to the net deemed loan to originator balance with the costs amortised in the period included in interest receivable and similar income. Details of any unamortised premiums paid on the net deemed loan to originator are disclosed in note 14.

2.7. Discount on purchase of net deemed loan to originator

Where cash has been received from the originator on acquisition of the net deemed 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 net deemed loan to originator with the income for the year included in interest receivable and similar income. Details of any unamortised discounts on acquisition of the net deemed loan to originator are disclosed in note 14.

2.8. Segmental analysis

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

2.9. Share capital and capital contributions

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax from the proceeds.

3 Significant accounting estimates and judgements

The preparation of financial statements in accordance with FRS 101 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Significant accounting judgements

Derecognition of net deemed loan to originator

The Company has made a significant accounting judgement in the assessment of the net deemed 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. Significant accounting estimates and assumptions

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

Impairment of net deemed loan to originator

The level of potential credit losses on the deemed loan to originator is uncertain and could depend on a number of micro and macro-economic factors that may affect the creditworthiness of the originator. The Company's accounting policy for losses arising on the deemed loan to originator classified at amortised cost as described in note 2.5 (above).

Effective Interest Rate ("EIR")

The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The cash flows used to calculate the EIR in this analysis include directly attributable transaction costs, premiums, discounts and the impact of changes from introductory to reversionary interest rates.

The book value of the net deemed loan to originator is measured at amortised cost using the EIR method, with a provision made for impairment. The current model used to estimate future cash flows in the EIR is sensitive to certain key assumptions, the most important of which is the constant prepayment rate ("CPR"). An increase of 1% in the CPR assumed would result in a debit of £42,000 to the cash flows. However, this not expected to materially impact the statement of comprehensive income of this entity.

Fair value measurement

Where applicable, the Company measures financial instruments, such as derivatives, at fair value at each statement of financial position date. 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 18.

4 Prior year restatements

During the year, the Company has changed its treatment of the deemed loan and deferred consideration in the financial statements. For the current year financial statements, rather than recognising the gross deemed loan asset and amounts owing to the current holder of the rights to the residual cash flows (deferred consideration), the securitisation vehicle has recognised only the right to the first stream of cash flows from the loans as a deemed loan and no deferred consideration. As a result of this the effective interest rate on the lower deemed loan balance has reduced and all previously recognised adjustments to expected cash flows, which relate to the portion of the deemed loan that is no longer recognised, have been reversed.

The reclassification was made to improve the readers understanding of the structure of the securitisation vehicle. That is, credit enhancement is provided by the deferred consideration holder. The deemed loan is not impaired in the books of the Company until the first losses represented by the deferred consideration have been absorbed by the originator. To provide context around the credit risk associated with the deemed loan and the securitisation vehicle, the Company has disclosed in note 18, an indication of the fair value of the deferred consideration as at 30 November 2019.

Notes to the financial statements for the year ended 30 November 2019

In addition to the above reclassification, during the year the Company discovered a miscalculation in the measurement of the previously recognised deferred consideration payable which is now not recognised as it is effectively merged into the accounting for the deemed loan. The deferred consideration amount had previously been recognised through operating expenses and had not been re-estimated for expected changes in all cash flows included non-cash items including mortgage impairment and unrealised exchange gains and losses on the loan notes. This recalculation along with the EIR adjustments, resulted in a lower deemed loan recognised in 2018 and prior financial years and a corresponding decrease of loss in the year ended 30 November 2018.

These changes have resulted in a restatement of the 2018 comparatives in the statement of comprehensive income, statement of financial position and statement of changes in equity. The changes in the 2018 comparatives are set out below.

These changes have been presented as a single adjustment as it would not be practical to separate them.

Statement of comprehensive income

	Note	2018 Previously reported £'000	Adjustment £'000	2018 Restated £'000
Interest receivable and similar income	5	6,240	(3,904)	2,336
Interest payable and similar expenses	6	(753)	-	(753)
Net interest receivable		5,487	(3,904)	1,583
Operating expenses		(5,025)	4,654	(371)
Other operating income	7	11	-	11
		473	750	1,223
Net fair value loss on derivatives		(703)	-	(703)
Unrealised exchange loss on retranslation of loan notes		(508)	-	(508)
(Loss)/profit before taxation	8	(738)	750	12
Tax credit/(expense) on (loss)/profit	9	137	(141)	(4)
(Loss)/profit and total comprehensive (expense)/income for the financial year		(601)	609	8

Notes to the financial statements for the year ended 30 November 2019

Statement of financial position

	Note	2018 Previously reported £'000	Adjustment £'000	2018 Restated £'000
Non-current assets				
Debtors: amounts falling due after more than one year	12	88,420	(10,801)	77,619
Current assets				
Deferred tax assets		439	(439)	-
Debtors: amounts falling due within one year	13	12,386	-	12,386
Derivative financial instruments	18	20,825	-	20,825
Cash and cash equivalents	15	11,488	-	11,488
Total current assets		45,138	(439)	44,699
Current liabilities				
Creditors: amounts falling due within one year	16	(18,627)	13,113	(5,514)
Total assets less current liabilities		114,931	1,873	116,804
Non-current liabilities				
Creditors: amounts falling due after more than one year	17	(116,736)	-	(116,736)
Net (liabilities)/assets		(1,805)	1,873	68
Capital and reserves				
Called up share capital	20	13	-	13
(Accumulated losses)/retained earnings		(1,818)	1,873	55
Total (deficit)/equity		(1,805)	1,873	68

Notes to the financial statements for the year ended 30 November 2019

Statement of changes in equity

	Called up share capital	Retained earnings/ (accumulated losses)	Total equity/(deficit)
	£'000	£'000	£'000
Balance at 1 April 2017 (original)	13	(1,217)	(1,204)
Prior years' restatement	-	1,264	1,264
Balance at 1 December 2017 (restated)	13	47	60
Profit for the financial year (restated)	-	8	8
Balance at 31 March 2018 (restated)	13	55	68

5 Interest receivable and similar income

	2019 £'000	2018 restated £'000
Interest receivable on net deemed loan to originator	2,419	2,123
Amortisation of premium/discount on net deemed loan to originator	196	196
Other interest	1	17
	2,616	2,336

6 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest expense on loan notes	579	724
Amortisation of capitalised issue costs	30	29
	609	753

7 Other operating income

	2019 £'000	2018 £'000
Redemption fees	7	3
Sundry fee income	10	8
	17	11

Notes to the financial statements for the year ended 30 November 2019

8 Profit before taxation

	2019 £'000	2018 restated £'000
Profit before taxation is stated after charging/(crediting):		
Auditor's remuneration for statutory audit	16	11
Impairment credit on deemed loan to originator	(227)	(131)
Mortgage administration fees	165	81

9 Taxation

	2019 £'000	2018 restated £'000
Analysis of tax expense for the year		
Current tax		
UK corporation tax expense on profit for the year	2	2
Adjustments in respect of prior periods	12	2
Total current tax	14	4

Factors affecting taxation

The tax assessed for the year is higher than (2018: higher than) the standard rate of corporation tax in the United Kingdom of 19% (2018: 19%).

	2019 £'000	2018 restated £'000
Profit before tax	14	12
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	3	2
Effects of:		
Impact of restatement of financial statements	(1)	-
Adjustments in respect of prior periods – current tax	12	2
Tax expense for the year	14	4

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the statement of financial position date, its effects are not included in these financial statements.

Notes to the financial statements
for the year ended 30 November 2019

10 Directors and employees

The Company does not have any employees other than the directors (2018: none). The directors' did not receive any remuneration in the year (2018: nil).

11 Net deemed loan to originator

	Net deemed loan to originator £'000	Impairment £'000	Net deemed loan to originator, net of impairment £'000
At 1 December 2017	110,362	(699)	109,663
Movement in the year (restated)	(19,821)	131	(19,690)
At 30 November 2018 (restated)	90,541	(568)	89,973
Movement in the year	(11,514)	227	(11,287)
At 30 November 2019	79,027	(341)	78,686

In accordance with the conditions of the loan notes, the proceeds from the loan notes were applied to acquire a beneficial interest in a portfolio of mortgage assets from Southern Pacific Mortgage Limited, the originator.

Note 19 provides further details on the implementation of IFRS 9.

Under IFRS 9, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The originator failed the derecognition criteria of IFRS 9 when it sold the beneficial ownership of the mortgage assets to the Company as the significant risks and rewards of the loans were not transferred to the Company. Therefore, these loans remain on the statement of financial position of the originator. As such, the beneficial interest in the underlying portfolio is shown as a net deemed loan to originator in the financial statements of the Company.

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

Based on performance, there has been no significant increase in credit risk to the deemed loan to originator and it has therefore been categorised as stage 1 with a 12 month expected credit loss calculated.

Notes to the financial statements for the year ended 30 November 2019

Expected credit losses as at 30 November 2019 are £341,000 (2018: £568,000) and comprise:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	IAS39 £'000	Total £'000
Balance at 30 November 2018	-	-	-	568	568
Net remeasurement of loss allowance	-	-	-	-	-
Transfer to stage 1	568	-	-	(568)	-
Opening balance under IFRS 9 at 1 December 2018	568	-	-	-	568
Movement for the year	(227)	-	-	-	(227)
Balance at 30 November 2019	341	-	-	-	341

The impact of the application of IFRS 9 was zero due to the credit enhancement within the net deemed loan to originator.

12 Debtors: amounts falling due after more than one year

	2019 £'000	2018 restated £'000
Net deemed loan to originator net of impairment (note 11)	66,397	77,619
	66,397	77,619

13 Debtors: amounts falling due within one year

	2019 £'000	2018 £'000
Net deemed loan to originator net of impairment (note 11)	12,289	12,354
Amounts due from group companies	4	-
Prepayments and accrued income	-	4
Other debtors	17	28
	12,310	12,386

Amounts due from group undertakings are interest free and repayable on demand.

The net deemed loan to originator, net of impairment represents the portion of the mortgage book expected to be receivable over the next 12 months based on behavioural assumptions.

Notes to the financial statements for the year ended 30 November 2019

14 Premium/discount on net deemed loan to originator

	2019 £'000	2018 £'000
Premium on net deemed loan to originator		
At the beginning of the year	155	184
Amortisation in the year	(29)	(29)
At the end of the year	126	155

The premium paid on the net deemed loan to originator is amortised in line with the amortisation profile of the net deemed loan to originator. The amortisation charges are recognised within interest receivable in the statement of comprehensive income.

	2019 £'000	2018 £'000
Discount on net deemed loan to originator		
At the beginning of the year	(1,197)	(1,422)
Amortisation in the year	225	225
At the end of the year year	(972)	(1,197)

The discount on the net deemed loan to originator is amortised in line with the amortisation profile of the net deemed loan to originator. The amortisation charges are recognised within interest receivable in the statement of comprehensive income.

15 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash at bank and in hand	8,432	11,488
	8,432	11,488

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

Cash at bank earns interest at the rates specified in note 18.

Notes to the financial statements for the year ended 30 November 2019

16 Creditors: amounts falling due within one year

	2019 £'000	2018 restated £'000
Accruals and deferred income	662	785
Other creditors	33	34
Amounts owed to group undertakings	65	65
Collateral accounts	1,840	4,630
	2,600	5,514

Amounts due to group undertakings are interest free and payable on demand.

As at 30 November 2019, the Company held £1,840,000 (2018: £4,630,000) of cash, including interest, as collateral as a result of the downgrading of certain counterparties' credit ratings. The right to the cash remains with the swap counterparty and a collateral creditor has this 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.

17 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
EUR Denominated mortgage backed loan notes due 2044 -Class A3a	6,587	14,981
GBP Denominated mortgage backed loan notes due 2044 -Class A3c	4,843	10,582
EUR Denominated mortgage backed loan notes due 2044 -Class B1a	41,585	43,289
EUR Denominated mortgage backed loan notes due 2044 -Class C1a	17,043	17,742
GBP Denominated mortgage backed loan notes due 2044 -Class C1c	9,850	9,850
EUR Denominated mortgage backed loan notes due 2044 -Class D1a	5,155	5,367
GBP Denominated mortgage backed loan notes due 2044 -Class D1c	11,000	11,000
GBP Denominated mortgage backed loan notes due 2044 -Class E1c	4,080	4,080
Total loan notes	100,143	116,891
Less unamortised issue costs	(125)	(155)
	100,018	116,736

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

The net deemed loan to originator is administered by Kensington Mortgage Company Limited on behalf of the Company.

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

None (2018: 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 net deemed loan to originator, the mortgage backed loan notes are classified and presented as amounts falling due after one year in accordance with the contractual maturity dates due to the uncertainty in the expected principal repayments or recoveries of the mortgages. If not otherwise redeemed or purchased and cancelled, the mortgage backed loan notes will be redeemed at their principal amount outstanding on the Interest Payment Date falling in 2044.

The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. The mortgage backed loan notes are repayable out of capital receipts from the net deemed loan to originator, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to the Class E Notes.

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

Class A3a	EURIBOR + 0.17%
Class A3c	Sterling LIBOR + 0.17%
Class B1a	EURIBOR + 0.25%
Class C1a	EURIBOR + 0.45%
Class C1c	Sterling LIBOR + 0.45%
Class D1a	EURIBOR + 0.90%
Class D1c	Sterling LIBOR + 0.90%
Class E1c	Sterling LIBOR + 3.25%

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

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

18 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, interest rate risk and operational 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.

During the year, the Company recognised a loss of £1,102,000 (2018: loss of £1,211,000) due to the movements in the fair value of derivatives and exchange rate movements on the loan notes.

a) Credit risk

The underlying mortgages are classified as a net deemed loan to originator, this means that in the first instance the recovery of the debt is against the originating company.

Credit risk is the risk of financial loss to the Company if the counterparty to financial instruments fails to meet its contractual obligation, and arises principally from the Company's receivables.

In the event of default, the Company has rights solely against the originator and only the originator will be entitled to take any remedial actions.

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November 2019 was:

	2019	2018 restated
	£'000	£'000
Net deemed loan to originator	79,027	90,541
Cash and cash equivalents	8,432	11,488
Derivative financial instruments	15,547	20,825
	103,006	122,854

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

The fair value of the deferred consideration as at 30 November 2019 is £8,581,000. The deferred consideration provides headroom to the noteholders.

Collateral accounts

At 30 November, the Company held £1,840,000 (2018: £4,630,000) 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.

b) Liquidity risk

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

As at 30 November 2019 Financial liabilities	**Less than 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**5+ years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loan notes	16,040	17,638	10,398	8,769	8,582	44,735	106,162
Currency swap collateral	1,840	-	-	-	-	-	1,840

As at 30 November 2018 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	16,716	14,717	17,583	9,856	9,564	57,344	125,780
Currency swap collateral	4,630	-	-	-	-	-	4,630

There is no contractual obligation to pay down the loan notes other than as set out in note 17.

The estimated future cash flows are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. Future cash flows have been estimated using a combination of macro environmental factors, including market observable data, and individual borrower data. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

In addition, the Company holds a minimum cash balance to manage short term liquidity requirements which can be used in certain circumstances. The undiscounted cash flows have been estimated by previously applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans and using the weighted average interest rate prevailing at the statement of financial position date.

The loan notes in the above table will not agree to the liability in statement of financial position as the table incorporates both principal and interest payments on an undiscounted basis (see note 17 for maturity dates). For the current and the prior year, all loan notes are due in more than 5 years, and all other non-derivative creditors are repayable on demand.

The Company's policy is to manage liquidity risk by matching cash payments due on the loan notes to cash receipts from the net deemed loan to originator.

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:

	2019 Notional amount €'000	2018 Notional amount €'000
EUR Denominated mortgage backed loan notes due 2044 -Class A3a	7,729	16,889
EUR Denominated mortgage backed loan notes due 2044 -Class B1a	48,800	48,800
EUR Denominated mortgage backed loan notes due 2044 -Class C1a	20,000	20,000
EUR Denominated mortgage backed loan notes due 2044 -Class D1a	6,050	6,050
	82,579	91,739

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:

	2019 Notional amount €'000	2018 Notional amount €'000
Euro denominated currency swaps	82,579	91,739

The Company is not materially exposed to foreign exchange risk as the currency swap notional amount matches the notional amount of the euro denominated mortgage backed loan notes.

The fair value of the currency swaps are disclosed in note 18 (this note) Fair value of derivatives. The maturity profile of the foreign currency swaps is consistent with the mortgage backed loan notes.

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**
2019					
Net deemed loan to originator	79,027	79,027	-	4.41	-
Cash and cash equivalents	8,432	-	8,432	0.23	0.25
Currency swaps	15,547	15,547	-	-	-
2018					
Net deemed loan to originator (restated)	90,541	90,541	-	4.49	-
Cash and cash equivalents	11,488	-	11,488	0.12	0.25
Currency swaps	20,825	20,825	-	-	-

* This is the weighted average spread above LIBOR.

** The derivatives are shown at fair value. The corresponding notional amounts are disclosed in note 18 (this note): Fair value of derivatives.

Notes to the financial statements for the year ended 30 November 2019

Interest rate sensitivity analysis on financial assets

	Increase in basis points	Effect on equity	Effect on result before tax
		£'000	£'000
2019			
Net deemed loan to originator	25	-	-
Cash and cash equivalents	25	-	-
2018			
Net deemed loan to originator (restated)	25	-	-
Cash and cash equivalents	25	-	-

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market conditions. In assessing the effect on financial assets of interest rate sensitivity, management have used a benchmark of 25 bps.

Interest rate risk profile of financial liabilities

	Total	Total variable rate	Weighted average Interest rate
	£'000	£'000	%
2019			
Loan notes	100,143	100,143	0.52
Currency swap collateral	1,840	1,840	-
2018			
Loan notes	116,891	116,891	0.48
Currency swap collateral	4,630	4,630	-

Interest payable on the loan notes and receivable on the net deemed loan to originator are both based on LIBOR. Whilst certain mortgage backed loan notes are denominated in foreign currency and incur interest based on EURIBOR (EUR 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.

The interest rate risk profile of the mortgage backed loan notes in issue can be found in note 17. The Company's approach to managing interest rate risk is included in the principal risks and uncertainties section of the strategic report.

Interest rate sensitivity analysis on financial liabilities

	Increase in basis points	Effect on equity £'000	Effect on result before tax £'000
2019			
GBP loan notes	25	(74)	(74)
EUR loan notes	25	(176)	(176)
2018			
GBP loan notes	25	(89)	(89)
EUR loan notes	25	(203)	(203)

In assessing the effect on financial liabilities of interest rate sensitivity, management have used a benchmark of 25 bps. It should however be noted that the impact of increase in basis points will not impact the equity as the same will flow through as lower deferred consideration to residual note holders.

The Company also has certain financial instruments included within debtors (note 13) and creditors (note 16) 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

	2019 £'000	2018 (restated) £'000
Interest receivable on net deemed loan to originator	2,419	2,123
Interest expense on loan notes	(579)	(724)
	1,840	1,399

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 controls and governance framework provided by the servicer of the net deemed loan to originator. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

f) Fair values of financial assets and liabilities

	2019 Book value £'000	2019 Fair value £'000	2018 restated Book value £'000	2018 restated Fair value £'000
Financial assets				
Net deemed loan to originator	78,686	81,932	89,973	93,665
Cash and cash equivalents				
Reserve and contingency funds	2,550	1,849	2,550	1,575
Other cash balances	5,882	5,882	8,938	8,938
	8,432	7,731	11,488	10,513
Derivative financial instruments	15,547	15,547	20,825	20,825
	102,665	105,210	122,286	125,003
Financial liabilities				
Mortgage backed loan notes	100,143	92,886	116,891	106,150
Swap collateral creditor	1,840	1,840	4,630	4,630
	101,983	94,726	121,521	110,780

All financial assets and liabilities are held at amortised cost, except for derivative financial instruments that are held at fair value. There were no transfers between categories in both periods. Management have assessed all other assets and liabilities and consider book value to be equal to fair value.

Management does not expect any losses from non-performance by the counterparties holding cash and cash equivalents. There are no material differences between their book values and fair values.

The directors have considered the fair values of the Company's main financial instruments which are the net deemed loan to originator, 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 net deemed loan to originator 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.

Loan notes and the net deemed loan to originator are classified as level 2 and level 3 respectively.

Fair value of derivatives

	2019	2019	2019	2018	2018	2018
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Currency swaps	70,370	15,547	-	81,379	20,825	-
		15,547	-		20,825	-

The Company recognised a loss on the fair value of derivatives of £3,980,000 during the year (2018: loss of £703,000).

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 17.

19 Implementation of IFRS 9

This note explains the impact of the adoption of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost.

Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss.

An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit-impaired, which is similar to the guidance on incurred losses in IAS 39.

Impairment of net deemed loan to originator

Unlike other financial instruments, the net deemed loan to originator is, by its construction, an instrument that incorporates credit enhancement. As previously noted the interest due on the net deemed loan to originator is only due to the extent it matches the obligations of the Company. All securitisation programmes incorporate credit enhancement in the form of excess spread and various reserve funds for use in the event the excess spread for a particular payment period is insufficient. Expected losses for the net deemed loan to originator would only therefore be recognised where the ECLs on the underlying assets were large enough that no credit enhancement remained. Based on performance, there has been no significant increase in credit risk to the net deemed loan to originator and it has therefore been categorised as stage 1 with a 12 month expected credit loss calculated.

20 Share capital

	2019	2018
	£	£
Allotted, issued and fully paid:		
2 ordinary 100% issued and fully paid shares of £1 each	2	2
Allotted, issued and partly paid:		
49,998 ordinary 25% issued and paid shares of £1 each	12,500	12,500

Notes to the financial statements for the year ended 30 November 2019

21 Related party transactions

The transactions and outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing. None of the outstanding balances have been impaired.

	Amount expensed 2019 £'000	Amount outstanding 2019 £'000	Amount expensed 2018 restated £'000	Amount outstanding 2018 restated £'000
Southern Pacific Mortgage Limited				
Mortgage related amounts payable	-	(66)	-	(66)
Net deemed loan to originator	-	78,686	-	89,973
Interest income	2,433	-	2,123	-
Amortisation of premium paid on net deemed loan to originator	(29)	-	(29)	-
Amortisation of discount paid on net deemed loan to originator	225	-	225	-
Wilmington Trust SP Services (London) Limited				
Corporate Services fees	(15)	-	(12)	-
	2,614	78,620	2,307	89,907

22 Parent undertaking and control

The Company's immediate parent undertaking is Eurosail 2006-3NC Parent Limited which is registered in England, United Kingdom and has its registered office located at Third Floor, 1 King's Arms Yard, London, EC2R 7AF. The entire issued share capital of Eurosail 2006-3NC Parent Limited is held by a trustee under a declaration of trust for charitable purposes.

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

The largest and smallest group in which the results of the Company are consolidated is Southern Pacific Mortgage Limited, a Company incorporated in England, United Kingdom. The consolidated financial statements of Southern Pacific Mortgage Limited are available to the public and may be obtained from Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

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

Notes to the financial statements for the year ended 30 November 2019

23 Capital management

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

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

24 Post statement of financial position date events

Subsequent to the reporting date, extensions to lockdown periods have been announced following the COVID-19 crisis, and the UK Government introduced 'Payment holiday scheme' in March 2020, in an attempt to mitigate the economic impact of COVID-19.

As of 24 September 2020, 92 loans have taken up the payment holiday scheme which represents 7.79% of the total loans and 8.81% of the total balance.

There are no other 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 2019.