Registered number: 05370021

Southern Pacific Financing 05-A (F) Limited

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



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Company information

Directors	Capita Trust Corporate Limited Capita Trust Corporate Services Limited C A Benford
Company secretary	Capita Trust Corporate Limited
Registered office	4th Floor 40 Dukes Place London EC3A 7NH
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf, London E14 5EY
Registered number	05370021

Southern Pacific Financing 05-A (F) Limited

Strategic report
for the year ended 30 November 2016

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

Introduction

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

On 18 May 2005, Southern Pacific Financing 05-A (F) Limited ("the Company") received a funding loan of £148,700,000 from Southern Pacific Financing 05-A plc ("the plc"). The Company used this loan to purchase a portfolio of residential mortgage loans from Southern Pacific Mortgage Limited, a fellow group Company. Interest payable on the funding loan is linked to the interest received on the mortgage portfolio. The funding loan does not bear a pre-determined rate of interest and is due in 2052. The acquisition of these mortgage assets has been accounted for as detailed in note 2 of the financial statements.

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

During the year the Company transitioned to Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102). Further details of the impact of the transition to FRS 102 are disclosed in note 25. There were no material changes in the primary statements from 1 December 2014 to 30 November 2016.

Business review

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

At the year end, the mortgage assets balance after the Effective Interest Rate adjustment, specific provisions and unamortised premium on acquisition was £18,062,000 (2015: £19,756,000) on 194 underlying mortgages.

In the current year, the method by which the cash flows for the EIR adjustment have been calculated was changed and the estimated weighted average life of the mortgage assets was reassessed resulting in an increase from 2 years to 7 years. This resulted in an EIR asset of £871,000. The change in estimate has been applied prospectively.

After considering property values, anticipated bad debts and future income associated with the mortgage assets, over and above the principal figure shown above, the directors consider the mortgage assets together with the other related assets of the Company such as cash, to be adequate collateral against the funding loan. The weighted average funding costs are 1.77% above LIBOR and the weighted average interest on mortgage assets is 2.18%.

At the December 2016 Interest Payment Date the Company held the following amount of mortgage assets, excluding the Effective Interest Rate adjustment:

	2016 Principal balance £'000	**2016 Number of loans**	2015 Principal balance £'000	2015 Number of loans
First charge mortgages	16,826	194	19,336	216
	16,826	194	19,336	216

These mortgages provide security against the funding loan totalling £17,114,000 (2015: £19,418,000) as at 30 November 2016 excluding accrued interest.

Southern Pacific Financing 05-A (F) Limited

Strategic report
for the year ended 30 November 2016

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

Key performance indicators

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

Delinquencies days	Mar-16 %	Jun-16 %	Sep-16 %	Dec-16 %	Mar-17 %
Current	56.72	54.91	51.15	46.43	46.56
>30<=60	8.51	9.48	8.65	8.15	10.03
>60<=90	5.42	3.93	6.60	9.84	10.17
>90<=120	2.74	3.80	4.95	4.76	2.89
>120	26.61	27.88	28.65	30.82	30.35
Total	100.00	100.00	100.00	100.00	100.00

The value of mortgages in repossession at the year end is £73,000 (2015: nil).

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

Principal risks and uncertainties

Financial instrument risk

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

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

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

(a) Credit risk

Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. All mortgage assets underlying the funding loan to the Company were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored through an extensive assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary. The mortgage portfolio is recognised as collateralised non-recourse mortgage loans as explained in note 2.

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

Financial instrument risk (continued)

(b) Liquidity risk

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

(c) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar.

(d) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Company operates under a robust controls and governance framework provided by the servicer of the mortgage assets. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

Future business developments and strategy

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

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

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

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

Future business developments and strategy (continued)

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

This report was approved by the Board on 31 AUG 2017 and signed on its behalf by:

Director
Date: 31 AUG 2017

Southern Pacific Financing 05-A (F) Limited

Directors' report
for the year ended 30 November 2016

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

Results and dividends

The profit for the year, after taxation, amounted to £655,000 (2015: profit £10,000).

The directors do not recommend the payment of a dividend (2015: nil).

Future developments

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

Financial instruments

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

Directors

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

Capita Trust Corporate Limited

Capita Trust Corporate Services Limited

C A Benford

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

Going concern

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

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

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

Post balance sheet date events

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

Southern Pacific Financing 05-A (F) Limited

Directors' report
for the year ended 30 November 2016

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 mortgage assets and the funding loan. The directors noted that as at 30 November 2016 the respective fair values of the mortgage assets and the funding loan were lower than the carrying values recorded in the statement of financial position.

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

Corporate governance

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

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

Due to the nature of the funding loan 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 UK Corporate Governance Code.

Employees

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

Issued capital and capital contribution

Details of the share capital are set out in note 19 to the financial statements. The issued share capital consists of £1 comprising 1 ordinary share of £1.00 fully paid.

Qualifying third party indemnity provisions

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

Southern Pacific Financing 05-A (F) Limited

Directors' report
for the year ended 30 November 2016

Disclosure of information to auditors

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

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

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

Auditors

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

This report was approved by the Board on 31 AUG 2017 and signed on its behalf by:

Director Colin Arthur Benford
Date: 31 AUG 2017

Southern Pacific Financing 05-A (F) Limited

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS102). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the member of Southern Pacific Financing 05-A (F) Limited

We have audited the financial statements of Southern Pacific Financing 05-A (F) Limited for the year ended 30 November 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report to the member of Southern Pacific Financing 05-A (F) Limited

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Michael-John Albert (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 31st August 2012

Southern Pacific Financing 05-A (F) Limited

Statement of comprehensive income for the year ended 30 November 2016

	Note	2016 £'000	2015 £'000
Interest receivable and similar income	4	1,305	478
Interest payable and similar expenses	5	(300)	(303)
Net interest receivable		1,005	175
Operating expenses		(217)	(195)
Other operating income	6	35	33
Profit before taxation	7	823	13
Tax expense on profit	8	(168)	(3)
Profit and total comprehensive income for the financial year		655	10

All amounts relate to continuing operations.

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

The notes on pages 16 to 35 are an integral part of these financial statements.

Registered number: 05370021

Southern Pacific Financing 05-A (F) Limited

Statement of financial position as at 30 November 2016

	Note	2016 £'000	2015 £'000
Current assets			
Debtors: amounts falling due after more than one year	11	16,532	19,235
Debtors: amounts falling due within one year	12	1,530	521
Cash and cash equivalents	14	216	45
Total assets		18,278	19,801
Current liabilities			
Creditors: amounts falling due within one year	15	(1,620)	(644)
Net current assets		16,658	19,157
Non current liabilities			
Creditors: amounts falling due after more than one year	16	(15,585)	(18,907)
Deferred tax liabilities	17	(168)	-
Net assets		905	250
Capital and reserves			
Called up share capital	19	-	-
Retained earnings		905	250
Total equity		905	250

These financial statements were approved and authorised for issue by the Board on 31 AUG 2017 and were signed on its behalf by:

Director Colin Arthur Benford
Date: 31 AUG 2017

The notes on pages 16 to 35 are an integral part of these financial statements.

Southern Pacific Financing 05-A (F) Limited

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

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance at 1 December 2014	-	240	240
Profit for the financial year	-	10	10
Balance at 30 November 2015	-	250	250
Balance at 1 December 2015	-	250	250
Profit for the financial year	-	655	655
Balance at 30 November 2016	-	905	905

The notes on pages 16 to 35 are an integral part of these financial statements.

Southern Pacific Financing 05-A (F) Limited

Statement of cash flows
for the year ended 30 November 2016

		2016	2015
		£'000	£'000
Net cash flow from operating activities			
Profit before taxation		823	13
Adjustments for:			
Taxation paid		(4)	-
Interest received		(428)	(478)
Interest paid		300	303
EIR adjustments and amortisation of premium		(877)	-
Impairment charge/(credit) for the period		36	(27)
Amounts written off in relation to mortgage assets		-	(4)
(Decrease) in debtors		-	(2)
Increase / (decrease) in creditors		(39)	25
Net cash (used in)/generated from operating activities		(189)	(170)
Cash flow from investing activities			
Interest received on mortgage assets		428	478
Repayment of mortgage assets		2,536	1,372
Net cash generated from investing activities		2,964	1,850
Cash flow from financing activities			
Interest paid on funding loan		(300)	(303)
Repayment of funding loan		(2,304)	(1,375)
Net cash (used in) financing activities		(2,604)	(1,678)
Net increase/(decrease) in cash and cash equivalents		171	2
Cash and cash equivalents at the beginning of the year		45	43
Cash and cash equivalents at the end of the year	14	216	45

The notes on pages 16 to 35 are an integral part of these financial statements

Southern Pacific Financing 05-A (F) Limited

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

1 General information

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

The Company is a limited Company and was incorporated and is domiciled in England, United Kingdom. Its principal place of business is its registered office located at 4th Floor, 40 Dukes Place, London, EC3A 7NH.

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS102) and the Companies Act 2006.

2 Significant accounting policies

The Company transitioned from previously extant UK GAAP to Financial Reporting Standard 102 for all periods presented. The financial statements have therefore been prepared in accordance with FRS 102. This transition is not considered to have had a material impact on the recognition and measurement of balances in these financial statements (see note 25).

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

2.1. Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102. 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 preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The Company has early adopted Statutory Instruments 2015 No. 980 'The Companies, Partnership and Groups (Accounts and Reports) Regulations 2015' in preparing these financial statements.

2.1.1 Going concern

It is the intention of the directors to continue operations until such a time as the amounts due from the mortgage assets have been fully realised. Forecasts indicate that the Company will have adequate cash to enable it to meet its obligations within the next 12 months from the date of the approval of these financial statements. Additionally, the Company has performed as expected during the year and is expected to do the same over the next 12 months from the date of the approval of these financial statements. Due to the non-recourse nature of the funding loan, any shortfall in the proceeds from the mortgage loans will be a risk to the holder of the funding loan and accordingly the financial statements have been prepared on a going concern basis.

2.2. Interest recognition

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

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. Funding loan

The funding loan from Southern Pacific Financing 05-A plc is classified within creditors. The initial measurement is at fair value with subsequent measurement at amortised cost. The interest on the loan from Southern Pacific Financing 05-A plc is calculated with reference to the interest earned on the beneficial interest in the mortgage portfolio owned by the Company.

2.6. Financial instruments

Initial recognition

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

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

Classification and measurement

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Derecognition

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

2.6. Financial instruments (continued)

Financial assets

Debtors

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

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

Mortgage assets

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

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

Impairment of mortgage assets

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

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

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

Any impairment in the mortgage assets will be reflected in the Company's accounts by adjusting the carrying amount of the mortgage assets in the statement of financial position.

Financial liabilities

Trade and other creditors

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

2.6. Financial instruments (continued)

Offsetting of financial assets and liabilities

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

Fair value of financial assets and liabilities

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

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 of the factors that market participants would take into account in pricing a transaction.

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

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

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

iii. mortgage assets - 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).

2.7. Premiums paid on mortgage assets

A premium is recognised where mortgage assets are acquired at amounts in excess of their carrying values. Where this occurs the premium is capitalised by the Company and amortised over the expected repayment period of the mortgage assets. The amortised balance is added to the mortgage assets balance with the costs amortised in the period included in interest payable and similar expenses. Details of any unamortised premiums paid on mortgage assets are disclosed in note 13.

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. 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 a maturity of three months or less, which are subject to an insignificant risk of changes in value.

2.10. Share capital and capital contributions

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

3 Critical accounting estimates and judgements

The preparation of financial statements in accordance with FRS 102 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Critical accounting judgements

Derecognition of mortgage assets

The Company has made a significant accounting judgement in the assessment of mortgage assets. The Company performed an assessment of the risks and rewards associated with the financial assets acquired, and concluded that the financial assets qualify for derecognition for the originator. In making this assessment the Company considered the retained risks of the seller, in the form of credit enhancement paid in, and rewards, in the form of deferred purchase consideration to be paid out, of that financial asset. This follows the accounting treatment adopted in the sellers' financial statements.

3.2. Critical accounting estimates and assumptions

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

Impairment of mortgage assets

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

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

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

Effective Interest Rate ("EIR")

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

The book value of the mortgage assets 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").

4 Interest receivable and similar income

	2016	2015
	£'000	£'000
On mortgage assets	1,305	478
	1,305	478

In the current year, the method by which the cash flows for the EIR adjustment have been calculated was changed and the estimated weighted average life of the mortgage assets was reassessed resulting in an increase from 2 years to 7 years. This resulted in an EIR asset of £871,000. The change in estimate has been applied prospectively.

Interest has accrued for the year in relation to impaired financial assets at 2.30% (2015: 2.28%) of the principal balance.

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

5 Interest payable and similar expenses

	2016 £'000	2015 £'000
Interest expense on funding loan	299	300
Amortisation of premium paid on mortgage assets	1	3
	300	303

6 Other operating income

	2016 £'000	2015 £'000
Redemption fees	7	3
Sundry fee income	28	30
	35	33

7 Profit before taxation

	2016 £'000	2015 £'000
The operating profit is stated after charging:		
Auditors' remuneration for statutory audit	40	22
Impairment charge/credit for the year on mortgage assets	36	(27)

Auditors' remuneration for the audit of the financial statements of the Company for the year ended 30 November 2016 of £28,000 (2015: £6,000) were borne by the Company. Auditors' remuneration for the audit of the financial statements of Southern Pacific Financing 05-A plc for the year ended 30 November 2016 of £12,000 (2015: £16,000) were borne by the Company.

There were no non-audit services provided to the Company of Southern Pacific Financing 05-A plc.

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

8 Taxation

	2016 £'000	2015 £'000
Analysis of tax expense in the year		
Current tax		
UK corporation tax expense on profit for the year	-	3
Total current tax		3
Deferred tax		
Origination and reversal of timing differences	174	-
Rate change in respect of timing differences	(6)	
Tax expense	168	3

Factors affecting taxation

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

	2016 £'000	2015 £'000
Profit before tax	823	13
Profit multiplied by standard rate of corporation tax in the UK of 20% (2015: 20%)	165	3
Effects of:		
Changes in tax rates	(6)	
Losses carried forward not recognised	11	
Adjustments in respect of prior periods	(2)	-
Tax expense for the year	168	3

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

9 Directors and employees

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

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

10 Mortgage assets - net of impairment

	Mortgage assets £'000	Impairment £'000	Mortgage assets, net of impairment £'000
At 1 December 2014	21,157	(51)	21,106
Movement in the year	(1,377)	27	(1,350)
At 30 November 2015	19,780	(24)	19,756
Movement in the year	(1,658)	(36)	(1,694)
At 30 November 2016	18,122	(60)	18,062

The mortgage assets are denominated in Sterling and bear interest at a variable rate. Net mortgage assets of £18,062,000 (2015: £19,756,000) are held as security against the loan referred to in note 16. The current mortgage loans in the pool have loan periods of between 1 to 281 (2015: 1 to 297) months remaining with current interest rates ranging from 2.14% to 3.14% (2015: 2.30% to 3.34%) per annum.

The book value of the mortgage assets is measured at amortised cost with a provision made for impairment. The impairment provision includes a specific provision of £60,000 (2015: £24,000). The impairment model used to estimate future cash flows in the impairment calculation are sensitive to certain key assumptions being the expected probability of default, the expected time to move through the arrears/repossession cycle and expected recovery rates on losses incurred. The method of estimation of the cash flows has been changed in the year which has had the impact of increasing the provision by £42,000.

11 Debtors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Mortgage assets net of impairment (note 10)	16,527	19,233
Unamortised premium on the purchase of mortgage assets	5	2
	16,532	19,235

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

12 Debtors: amounts falling due within one year

	2016	2015
	£'000	£'000
Mortgage assets net of impairment (note 10)	1,529	516
Unamortised premium on the purchase of mortgage assets	1	5
	1,530	521

Mortgage assets net of impairment represent the portion of the mortgage book contractually receivable over the next 12 months.

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

13 Premium on mortgages underlying the mortgage assets

	2016	2015
	£'000	£'000
Premium on acquisition of mortgages		
At 1 December	7	9
Amortisation in year	(1)	(2)
At 30 November	6	7

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

14 Cash and cash equivalents

	2016	2015
	£'000	£'000
Cash at bank and in hand	216	45
	216	45

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

15 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Funding loan from Southern Pacific Financing 05-A plc	1,529	511
Accruals and deferred income	75	117
Other creditors	16	12
Corporation tax	-	4
	1,620	644

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

16 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Funding loan from Southern Pacific Financing 05-A plc	15,585	18,907
	15,585	18,907

The funding loan due 2052 is secured over the portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom and a floating charge over all assets of Southern Pacific Financing 05-A (F) Limited not subject to any fixed charge.

Interest payable on the loan is linked to the interest received on the mortgage portfolio. The funding loan does not bear a pre-determined rate of interest.

The interest payable each month will be an amount equal to the net credit balance of the "Funding Available Revenue Ledger" (which is defined in the Southern Pacific Financing 05-A plc Offering Circular dated 17 May 2005) as at the close of business on the day falling five business days prior to the interest payment date. Unless repaid earlier, the final repayment date is the Interest Payment date falling in September 2052.

17 Deferred tax

	2016 £'000	2015 £'000
Opening deferred tax liability balance	-	-
Deferred tax charge in the period	(168)	-
Closing deferred tax liability balance	(168)	-

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

The deferred tax balance is made up as follows:

	2016 £'000	2015 £'000
Short term timing differences	(168)	-
	(168)	-

Accumulated losses of £54,000 (2015: £nil) resulting in a deferred tax asset of £10,000 (2015: £nil) have not been recognised. The deferred tax asset has not been recognised due to uncertainty surrounding the Company's future profitability.

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

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 and interest rate risk as explained in the strategic report.

a) Credit risk

Credit risk is the risk that borrowers of the mortgage assets will not be able to meet their obligations as they fall due. All mortgage assets are required to adhere to specific lending criteria. The payments in respect of the financial instruments are dependent upon the performance of the mortgage assets. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) is closely monitored by the directors.

The level of arrears in the mortgage portfolio has largely stabilised, which the directors consider is consistent with the improvement in the market conditions experienced in the past few years in the United Kingdom mortgage market. Re-possession levels indicate a strong credit management strategy and robust oversight. Performance continues to be closely monitored and any relevant corrective action is taken as appropriate. Arrears management and recovery processes are performed with the aim of maximising customer rehabilitation. Whilst there has been strong arrears performance, the directors acknowledge that market conditions, resulting in a benign interest rate environment, has partly contributed to the strong portfolio performance. With this in mind, the directors continue to closely monitor the economic landscape to ensure the Company is best placed to respond to any pressures that may impact portfolio performance and proactively consider strategies to mitigate any adverse portfolio impact should these pressures occur.

Credit quality of the mortgages is assessed by an extensive assessment of each customer and the prevailing macroeconomic environment. Probability of default of the customer and the loss given default is calculated and impairment provisions raised where necessary.

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November 2016 was:

	2016 **£'000**	2015 £'000
Mortgage assets	18,122	19,780
Cash at bank and in hand	216	45
	18,338	19,825

The mortgage assets underlying the funding loan are secured over residential properties in the United Kingdom. The weighted average loan to value ratio of these properties is 71.23% (2015: 71.50%). Any impairment provision raised in relation to the properties takes into account the value of the underlying properties.

Mortgage assets and asset credit quality

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

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

18 Financial instruments and risk management (continued)

a) Credit risk (continued)

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

	2016 £'000	2015 £'000
Neither past due nor impaired	11,500	16,906
Past due but not impaired – less than 30 days	21	474
Past due but not impaired – between 30 and 60 days	153	560
Past due but not impaired – between 61 and 90 days	74	126
Past due but not impaired – between 91 and 120 days	-	74
Past due but not impaired – more than 120 days	15	1,098
Impaired	5,482	542
Total	17,245	19,780

b) Liquidity risk

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

As at 30 November 2016 Financial liabilities	Less than 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	5+ years £'000	Total £'000
Loan from Southern Pacific Financing 05-A plc	1,902	1,724	1,848	1,770	1,336	11,970	20,550

As at 30 November 2015 Financial liabilities	Less than 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	5+ years £'000	Total £'000
Loan from Southern Pacific Financing 05-A plc	1,491	991	17,501	-	-	-	19,983

There is no contractual obligation to pay down the funding loan other than as set out in note 16.

18 Financial instruments and risk management (continued)

b) Liquidity risk (continued)

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 funding loan.

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 funding loan in the above table will not agree to the liability in statement of financial position as the table incorporates both principal and interest payments on an undiscounted basis (see note 16 for maturity dates). For the current and the prior year, the funding loan is 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 funding loan to cash receipts from mortgage assets.

c) Interest rate risk

Interest rate risk profile of financial assets

	Total £'000	Total variable rate £'000	Total fixed rate £'000	Weighted average interest rate* %	Weighted average time for which rate is fixed Years
2016					
Mortgage assets	18,122	18,122	-	2.18	-
Cash at bank and in hand	216	-	216	0.00	0.25
2015					
Mortgage assets	19,780	19,780	-	3.61	-
Cash at bank and in hand	45	-	45	0.17	0.25

*this is the weighted average spread above LIBOR.

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

18 Financial instruments and risk management (continued)

c) Interest rate risk (continued)

Interest rate sensitivity analysis on financial assets

	Increase in basis points	Effect on equity £'000	Effect on result before tax £'000
2016			
Mortgage assets	25	43	43
Cash at bank and in hand	25	1	1
2015			
Mortgage assets	25	49	49
Cash at bank and in hand	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 £'000	Total variable rate £'000	Weighted average Interest rate %
2016			
Loan from Southern Pacific Financing 05-A plc	17,114	17,114	1.77
2015			
Loan from Southern Pacific Financing 05-A plc	19,418	19,418	1.77

Interest payable on the funding loan and receivable on mortgage assets are both based on LIBOR with interest payable on the loan being linked to the interest received on the mortgage portfolio. The Company thus has limited exposure to interest rate risk.

The Company's approach to managing interest rate risk is included in the principal risks and uncertainties section of the strategic report.

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

18 Financial instruments and risk management (continued)

c) Interest rate risk (continued)

Interest rate sensitivity analysis on financial liabilities

	Increase/ decrease in basis points	Effect on equity	Effect on result before tax
		£'000	£'000
2016			
GBP	25	43	43
2015			
GBP	25	49	49

In assessing the effect on financial liabilities of interest rate sensitivity, management have used a benchmark of 25 bps.

The Company also has certain financial instruments included within debtors (note 12) and creditors (note 15) which are not subject to interest rate risk as they bear no interest.

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

	2016 £'000	2015 £'000
Interest receivable on mortgage assets	1,305	478
Interest expense on funding loan	(300)	(303)
	1,005	175

d) Operational risk

Operational risk is defined as any instance where there is potential or actual impact to the Company resulting from inadequate or failed internal processes, people, systems, or from external events. The impacts can be financial as well as non-financial such as customer detriment, reputational or regulatory consequences.

The Company operates under a robust controls and governance framework provided by the servicer of the mortgage assets. This includes regulatory and compliance functions and internal audit. The business is covered by the servicer's business continuity management capability.

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

18 Financial instruments and risk management (continued)

e) Fair values of financial assets and liabilities

	2016 Book value £'000	2016 Fair value £'000	2015 Book value £'000	2015 Fair value £'000
Financial assets				
Mortgage assets	18,062	18,724	19,756	19,661
Cash at bank and in hand	216	216	45	45
	18,278	18,940	19,801	19,706
Financial liabilities				
Funding loan	(17,114)	(17,742)	(19,418)	(19,474)
	(17,114)	(17,742)	(19,418)	(19,474)

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

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

The directors have considered the fair values of the Company's main financial instruments which are mortgage assets, funding loans and cash.

As no liquid market exists for either the mortgage assets or the funding loan, 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 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.

The funding loan and mortgage assets are classified as level 3.

19 Share capital

	2016 £	2015 £
Authorised, allotted, called up and fully paid:		
1 ordinary 100% called and fully paid share of £1	1	1

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

20 Related party transactions

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

	Amount charged 2016	**Amount outstanding 2016**	Amount charged 2015	Amount outstanding 2015
	£'000	**£'000**	£'000	£'000
Capita Trust Corporate Services Limited				
Corporate service fees	32	-	32	3
Southern Pacific Financing 05-A plc				
Funding loan	299	(17,114)	299	(19,418)
	331	(17,114)	331	(19,415)

21 Parent undertaking and control

The Company's immediate parent undertaking is Southern Pacific 05-A Parent Limited, which is registered and operates in England, United Kingdom and has its registered office located at 4th Floor, 40 Dukes Place, London , EC3A 7NH. The entire issued share capital of Southern Pacific 05-A Parent Limited is held by a trustee under a declaration of trust for charitable purposes.

An affiliate company, Southern Pacific Mortgage Limited, retains an interest in the cash flows and profits of the Company. The Company's operations are managed by Capita Trust Corporate Limited, an affiliate Company.

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

The Company's ultimate controlling party is Lehman Brothers Holdings Inc., which is incorporated in the state of Delaware in the United States of America, and is the ultimate parent undertaking of 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 2016

22 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.

23 Contingent liabilities

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

24 Post balance sheet date events

There are no significant events occurring after the statement of financial position date, up to the date of approval of the financial statements that would meet the criteria to be disclosed or adjusted in the financial statements as at 30 November 2016.
delete

25 Transitioning from old UK GAAP to FRS 102

For all periods up to and including the year ended 30 November 2015, the Company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 30 November 2016, are the first the Company has prepared in accordance with FRS 102.

The company transitioned to FRS 102 – 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' from previously extant UK GAAP as at 1 December 2014. The transition to FRS 102 has resulted in increased disclosures contained within note 10 and note 18.

Accordingly, the Company has prepared individual financial statements which comply with FRS 102 applicable for periods beginning on or after 1 December 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening Statement of financial position as at 1 December 2014, the company's date of transition to FRS 102. There were no material changes in the primary statements from 1 December 2014 to 30 November 2016.