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Auburn 1 Limited

Directors' report and consolidated financial statements

Year ended 31 December 2001

Registered number 3588419

Auburn 1 Limited

Directors' report and consolidated financial statements

Contents	*Page*

KPMG

Auburn 1 Limited

Directors and other information

Directors	D. Gantly R.G. Baker P. Minoprio SPV Management Limited
Secretary	SPV Management Limited
Bankers	Barclays Bank PLC London Corporate Banking Centre 54 Lombard Street London EC3P 3AH
Solicitors	Lewis Silkin Solicitors 12 Gough Square London EC4A 3DW
Auditors	KPMG Chartered Accountants 1 Stokes Place St. Stephen's Green Dublin 2
Registered office	78 Cannon Street London EC4P 5LN

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Auburn 1 Limited

Directors' report

The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2001.

Principal activities, business and future developments

Auburn 1 Limited is an investment holding company which invests in companies established for the purpose of acquiring mortgage portfolios funded by publicly traded loan notes. There has been no significant change in those activities during the year. The directors do not anticipate any material changes to the nature or volume of the business in the foreseeable future.

The consolidated profit and loss account for the year to 31 December 2001 is set out on page 6 and in the related notes. The directors do not recommend the payment of a dividend.

Directors and secretary and their interests

During the period, no director had any interest in the share capital or debentures or loan stock of the company or group companies.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- 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 proper books of account which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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Auburn 1 Limited

Directors' report *(continued)*

Policy on payment of creditors

The group is responsible for the agreement of terms and conditions under which business transactions with suppliers are conducted. It is the group's policy that payments to suppliers are made in accordance with these terms, normally between 30 and 60 days, provided that the supplier is also complying with all relevant terms and conditions.

Financial instruments

The group's financial instruments comprise mortgages, borrowings, cash and liquid resources, a subordinated loan and other sundry instruments such as debtors and creditors arising directly from the group's operations. The group has also entered into a number of interest rate swap agreements with Capital Home Loans Limited (a subsidiary of Irish Life & Permanent plc) for the purposes of managing the interest rate risk associated with the group's operations. No trading in financial instruments has been undertaken during the year. The main risks arising from the group's financial instruments held are credit risk, interest rate risk and liquidity risk. The group's management reviews and agrees policies for managing each of these risks and they are, broadly, as follows:

Credit risk
Credit risk is the risk that borrowers will not be able to meet their obligations as they fall due. The group has established high level credit policies which are used to control the quality of new lending and the management of any amounts in arrears. Additionally, the group provides for loan losses in advance where it is believed such losses will be incurred.

Interest rate risk
Interest rate risk exists when assets and liabilities attract interest rates set according to different bases or which are reset at different times. The group minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar. Where this is not possible, interest rate swaps are utilised to mitigate any residual interest rate risk.

Liquidity risk
As the mortgage assets are repaid, the funds generated are used to pay down the group's borrowings in accordance with a pre-agreed priority of payments. The subordinated loan from Irish Life & Permanent plc is used to ensure the group has sufficient working capital.

Auditors

In accordance with Section 384 of the Companies Act, 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

SPV Management Limited
Secretary

17 April 2002

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Chartered Accountants

1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

Auditors' report to the members of Auburn 1 Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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Chartered Accountants
Registered Auditors

17 April 2002

Auburn 1 Limited

Statement of accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board. The financial statements are denominated in sterling. A separate profit and loss account for the company is not presented, as provided by Section 230 of the Companies Act, 1985. The retained profit for the year attributable to the company was Stg£4,880 *(2001: Stg£10,002).*

Taxation

The charge for taxation is based on the profit for the year. Deferred taxation is accounted for in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that such differences are expected to reverse in the foreseeable future.

Interest rate swaps

The group hedges its exposure to gains and losses from interest rate movements by using interest rate swaps. The swaps are used entirely for hedging and are, therefore, not marked to market but are accounted for in the same manner as the underlying transactions.

Mortgage advances

Mortgage advances are stated at cost less provisions made to reduce the value of the assets to the amount that the directors consider is likely ultimately to be recovered, taking into account underlying security values and insurance arrangements.

Income and expense recognition

Interest income and expenses are recognised on an accruals basis. Expenses are, in general, charged to the profit and loss account as accrued. However, initial costs incurred in arranging funding facilities are amortised over the expected life of the underlying security, at 15% per annum on a reducing balance basis. Unamortised initial costs are deducted from the associated liability in accordance with Financial Reporting Standard No. 4 ("Capital Instruments") and costs amortised in the period are included in interest payable.

Deferred consideration

Under the terms of the agreement for the purchase of the mortgage loans the group has a liability to pay deferred consideration. This has been estimated and shown as a liability in these financial statements and the cost is being charged to the profit and loss account over the estimated life of the mortgage book.

Financial fixed assets

Financial fixed assets are shown at cost less provisions for impairments in value. Income from financial fixed assets is recognised in the profit and loss account in the year in which it is receivable.

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Auburn 1 Limited

Consolidated profit and loss account
for the year ended 31 December 2001

	Note	2001 Stg£	2000 Stg£
Interest receivable and similar income - continuing operations	1	**37,154,240**	33,060,040
Interest payable and similar charges	2	**(30,689,430)**	(27,978,377)
Net income - continuing operations		**6,464,810**	5,081,663
Other operating expenses		**(6,452,454)**	(4,961,863)
(Credit)/charge for bad and doubtful debts	5	**37,926**	(63,734)
Operating profit on ordinary activities before taxation	3	**50,282**	56,066
Tax on profit on ordinary activities	4	**(5,192)**	(11,212)
Profit for the financial year		**45,090**	44,854
Profit and loss account at beginning of year		**88,053**	43,199
Profit and loss account at end of year		**133,143**	88,053

The group had no recognised gains and losses in the current or preceding financial years other than those shown above and accordingly, no statement of total recognised gains and losses has been presented.

The notes on pages 10 to 18 form part of these financial statements.

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Auburn 1 Limited

Consolidated balance sheet
at 31 December 2001

	Note	2001 Stg£	2001 Stg£	2000 Stg£	2000 Stg£
Mortgage advances	6		**455,687,043**		548,913,021
Unamortised premium	7		**8,460,000**		9,710,000
			464,147,043		558,623,021
Current assets					
Debtors	8	**8,806**		61,077	
Cash at bank and in hand		**20,269,290**		18,997,804	
			20,278,096		19,058,881
Total assets			**484,425,139**		577,681,902
Capital and reserves					
Called up share capital	10		**1**		1
Profit and loss account			**133,143**		88,053
Shareholders' funds - equity	13		**133,144**		88,054
Creditors: amounts falling due within one year	9		**480,091,995**		573,393,848
Subordinated liabilities	11		**4,200,000**		4,200,000
Total liabilities and shareholders' funds - equity			**484,425,139**		577,681,902

The notes on pages 10 to 18 form part of these financial statements.

On behalf of the board

SPV Management Limited
Director

17 April 2002

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Auburn 1 Limited

Consolidated cash flow statement
for the year ended 31 December 2001

	2001 Stg£	2000 Stg£
Reconciliation of operating profit to net operating cash flows		
Operating profit	**50,282**	56,066
(Credit)/charge for bad and doubtful debts	**(37,926)**	63,734
Amortisation of set up costs	**279,111**	240,511
Decrease in debtors	**1,302,269**	1,748,992
Increase/(decrease) in creditors	**2,034,194**	(902,619)
(Decrease)/increase in interest on mortgage backed loan notes	**(1,359,552)**	1,233,924
(Decrease)/increase in interest on subordinated loan	**(243,939)**	17,303
Net cash inflow from trading activities	**2,024,439**	2,457,911
Decrease/(increase) in loans and advances to customers	**93,263,904**	(224,322,237)
(Decrease)/increase in mortgage backed loan notes	**(94,003,249)**	224,182,566
Net cash inflow from operating activities	**1,285,094**	2,318,240

Cash flow statement

	2001 Stg£	2000 Stg£
Net cash inflow from operating activities	**1,285,094**	2,318,240
Taxation		
Tax paid	**(13,608)**	(8,444)
Financing		
Issue of subordinated loan	**-**	4,200,000
Initial funding costs	**-**	(995,690)
Increase in cash	**1,271,486**	5,514,106

The notes on pages 10 to 18 form part of these financial statements.

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Auburn 1 Limited

Company balance sheet
at 31 December 2001

	Note	**2001 Stg£**	2000 Stg£
Fixed assets			
Financial assets	*12*	**25,005**	25,005
Current assets			
Debtors	*8*	**1**	1
Total assets		**25,006**	25,006
Capital and reserves			
Called up share capital	*10*	**1**	1
Profit and loss account		**25,005**	20,125
Shareholders' funds - equity		**25,006**	20,126
Creditors: amounts falling due within one year	*9*	**-**	4,880
Total liabilities and shareholders' funds – equity	*13*	**25,006**	25,006

The notes on pages 10 to 18 form part of these financial statements.

On behalf of the board

SPV Management Limited
Director

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Auburn 1 Limited

Notes
forming part of the financial statements

1 Interest receivable and similar income

	2001 Stg£	2000 Stg£
Mortgage interest receivable	**36,004,533**	31,711,084
Swap interest receivable	**-**	383,911
Deposit interest receivable	**835,646**	724,639
Other income	**314,061**	240,406
	37,154,240	33,060,040

All of the group's revenues arose in the United Kingdom.

2 Interest payable and similar charges

	2001 Stg£	2000 Stg£
On mortgage backed loan notes	**28,263,946**	27,114,410
Swap interest payable	**1,827,801**	353,681
Amortisation of initial funding costs	**279,111**	240,511
On subordinated loan	**318,396**	189,435
Other interest	**176**	80,340
	30,689,430	27,978,377

3 Operating profit on ordinary activities

	2001 Stg£	2000 Stg£
Profit on ordinary activities is stated after charging		
Auditors' remuneration - audit fee	**16,200**	15,700
Amortisation of initial funding costs *(see note 9)*	**279,111**	240,511
Deferred consideration *(see note 7)*	**5,973,810**	4,537,114

The directors received no remuneration from the group during the current and preceding financial years. The group has no employees and services required are contracted from third parties.

Auburn 1 Limited

Notes *(continued)*

4 Tax on profit on ordinary activities

	2001 Stg£	2000 Stg£
Corporation tax at 20%	**10,072**	11,212
Release of overprovision in previous years	**(4,880)**	-
	5,192	11,212

5 Provisions for bad and doubtful debts

	2001 Stg£	2000 Stg£
Balance at beginning of year	**198,815**	135,081
(Credited)/charged to profit and loss account	**(37,926)**	63,734
Written off in year	**(46,035)**	-
Balance at end of year	**114,854**	198,815

6 Mortgage advances

In November 1998, the group purchased Stg£400 million of mortgage assets from Capital Home Loans Limited, a wholly owned subsidiary of Irish Life & Permanent plc. In July 2001, a further Stg£300 million of mortgage assets were purchased from Capital Home Loans. All of the assets purchased are UK residential mortgages, wholly secured on properties in the UK. In order to fund the purchase of these assets, the group issued a series of floating rate notes. Under the terms of these arrangements, the rights of the providers of the finance for these transactions are limited to the mortgage assets purchased and any related income generated by the portfolios, and are without recourse to Capital Home Loans Limited.

Capital Home Loans Limited is not obliged to support any losses which may arise in respect of the mortgage assets. During the terms of these transactions, any amounts realised from the mortgage portfolios in excess of that due to the providers of the funding, less any related administrative costs, will be payable to Capital Home Loans Limited in the form of deferred consideration.

	Mortgage advances Stg£	**Provision for bad and doubtful debts Stg£**	**Total Stg£**
At beginning of year	549,111,836	(198,815)	548,913,021
Net movement in year	(93,309,939)	83,961	(93,225,978)
At end of year	**455,801,897**	**(114,854)**	**455,687,043**

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Auburn 1 Limited

Notes *(continued)*

7 Unamortised premium

Deferred consideration	**2001**	2000
	Stg£	Stg£
At beginning of year	**9,710,000**	11,461,000
On acquisition of new portfolio	**-**	4,230,000
Revaluation in year	**4,723,810**	(1,443,886)
Amortisation in year	**(5,973,810)**	(4,537,114)
At end of year	**8,460,000**	9,710,000

8 Debtors

	2001	2000
	Stg£	Stg£
Group		
Other debtors	**8,806**	-
Swap interest receivable	**-**	61,077
	8,806	61,077
Company		
Other debtors	**1**	1

All amounts fall due within one year.

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Auburn 1 Limited

Notes *(continued)*

9 **Creditors:** amounts falling due within one year	**2001 Stg£**	2000 Stg£
Group		
Corporation tax	**5,176**	13,592
Deferred consideration	**16,349,168**	14,628,751
Accruals and deferred income	**2,325,243**	3,614,959
Mortgage backed loan notes	**462,994,037**	556,997,286
Less: unamortised element of initial funding costs	**(1,581,629)**	(1,860,740)
	480,091,995	573,393,848
Company		
Corporation tax provision	**-**	4,880

On 12 November 1998, the group issued Stg£400 million in mortgage backed loan notes in order to fund the purchase of the first mortgage portfolio purchased. On 24 July 2001, the group issued a further Stg£300 million in mortgage backed loan notes to fund the purchase of the second mortgage portfolio. The balance of these notes at 31 December 2001 is shown net of the unamortised portion of initial funding costs incurred in arranging the transactions, which are being written off over the expected lives of the underlying transactions.

The floating rate loan notes are secured over each of the two portfolios of mortgage loans which are secured by first charges over residential properties in the United Kingdom. The mortgages were purchased from Capital Home Loans Limited, which is a wholly owned subsidiary of Irish Life & Permanent plc. The mortgage portfolios are administered by Capital Home Loans Limited.

Interest on the notes is payable, monthly in arrears, at the following rates:

Stg£400 million mortgage backed loan notes	**Balance outstanding at end of year**	**Up to November 2008**	**After November 2008**
Class A1 (Stg£80 million)	Stg£Nil	LIBOR + 0.10%	LIBOR + 0.10%
Class A2 (Stg£284 million)	Stg£177,883,967	LIBOR + 0.25%	LIBOR + 0.50%
Class M (Stg£36 million)	Stg£36,000,000	LIBOR + 0.75%	LIBOR + 1.50%

The Class A1 notes have been fully repaid.

Auburn 1 Limited

Notes *(continued)*

9 Creditors: amounts falling due within one year *(continued)*

Stg£300 million mortgage backed loan notes	**Balance outstanding at end of year**	**Up to July 2006**	**After July 2006**
Class A1 (Stg£70 million)	Stg£19,110,070	LIBOR + 0.20%	LIBOR + 0.40%
Class A2 (Stg£200 million)	Stg£200,000,000	LIBOR + 0.29%	LIBOR + 0.58%
Class M (Stg£30 million)	Stg£30,000,000	LIBOR + 0.85%	LIBOR + 1.70%

The A1 and A2 notes ("the senior notes") rank pari passu in point of payment and security without preference or priority amongst themselves. The senior notes rank in priority to the M notes in point of payment and security.

Optional redemption

The group may, at its option, redeem all (but not some only) of the notes at their principal amounts outstanding:

a) in the event of certain tax changes affecting the notes, the swap agreements (see note 14) or the mortgages comprising the mortgage pool at any time;

b) in respect of the first tranche of notes, on the interest payment date falling in December 2006 and in respect of the second tranche of notes, on the interest payment date falling in July 2006, or any interest payment dates falling thereafter;

c) on any interest payment date on which the aggregate principal amount outstanding of the notes is less than 20% of the total aggregate principal amount outstanding of the notes at the issue date.

10 Called up share capital

	2001 Stg£	2000 Stg£
Authorised		
Ordinary shares of Stg£1 each	**100**	100
Allotted and called up		
Ordinary shares of Stg£1 each	**1**	1

11 Subordinated loan

During 2000 the group received a subordinated loan of Stg£4,200,000 from Irish Life & Permanent plc at 4% above 1 month LIBOR, with a maturity date of July 2037.

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Auburn 1 Limited

Notes *(continued)*

12 Financial assets

	Company 2001 Stg£	Company 2001 Stg£
Investment in subsidiary undertakings	**25,005**	25,005

Subsidiary undertakings

Name and registered office	Country of incorporation	Details of investments	Proportion held	Principal activity
Auburn Securities 1 plc	United Kingdom	Stg£12,502	100%	Investment in mortgage assets
Auburn Securities 2 plc	United Kingdom	Stg£12,502	100%	Investment in mortgage assets
Auburn Options Limited	United Kingdom	Stg£1	100%	Dormant

13 Reconciliation of movement in shareholders' funds

	2001 Stg£	2000 Stg£
Group		
Opening shareholders' funds - equity	**88,054**	43,200
Total recognised gains for year	**40,210**	44,854
Closing shareholders' funds - equity	**128,264**	88,054
Company		
Opening shareholders' funds – equity	**20,126**	10,124
Total recognised gains for year	**4,880**	10,002
Closing shareholders' funds – equity	**25,006**	20,126

14 Commitments

In relation to the purchase of the first mortgage portfolio in 1998 the group entered into an interest rate swap agreement with Capital Home Loans Limited with an expiry date of the earlier of the redemption date of the mortgage backed loan notes or 2035. The notional amount outstanding as at 31 December 2001 was Stg£108,698,114 *(2000: Stg£146,566,668)* at an average interest rate of 7.61454% per annum *(2000: 7.5007%)*.

Auburn 1 Limited

Notes *(continued)*

14 Commitments *(continued)*

In relation to the second mortgage portfolio purchase the group entered into a second interest rate swap agreement with Capital Home Loans Limited with an expiry date of the earlier of the redemption date of the mortgage backed loan notes or 2037. The notional amount outstanding at 31 December 2001 was Stg£117,145,688 *(2000: Stg£161,953,376)* at an average interest rate of 6.95796% *(2000: 6.87814%)* per annum.

15 Related party transactions

The group purchased mortgages in two tranches with a book value of Stg£700 million from Capital Home Loans Limited, a subsidiary of Irish Life & Permanent plc, which is incorporated in the Republic of Ireland. During the year to 31 December 2001 the group has been charged the following amounts by Capital Home Loans Limited and Irish Life & Permanent plc in interest, administration fees and deferred consideration:

	Charged during year ended 31 December 2001 Stg£	**Balance outstanding at 31 December 2001 Stg£**
Interest payable on start-up loan of Stg£4,200,000	318,396	4,200,000
Swap interest payable	1,827,801	298,592
Administration fees	32,267	8,345
Deferred consideration payable	5,973,810	16,349,168

Auburn 1 Limited

Notes *(continued)*

16 Derivatives and other financial instruments

The company's policies with regard to derivatives and other financial instruments have been outlined in the directors' report.

Interest rate repricing

	Floating Rate Stg£000	Fixed rate Stg£000	Non-interest bearing Stg£000	Total Stg£000
Financial assets				
Mortgage advances	229,843	225,844	-	455,687
Unamortised premium	-	-	8,460	8,460
Debtors	9	-	-	9
Cash	20,269	-	-	20,269
	250,121	225,844	8,460	484,425
Financial liabilities				
Deferred consideration	-	-	16,348	16,348
Mortgage backed notes	462,994	-	(1,581)	461,413
Subordinated loan notes	4,200	-	-	4,200
Interest payable	1,776	-	-	1,776
Other creditors	-	-	555	555
Capital and reserves	-	-	133	133
	468,970	-	15,455	484,425
Derivatives				
Interest rate swap	225,844	-	-	-

The interest rate of floating rate assets and liabilities is determined with reference to the London Inter-Bank Offering Rate.

Maturity of borrowings
The directors consider that the timing of the repayment of the mortgage backed loan notes and the deferred consideration is uncertain given that the timing of such payments is dependent on the receipt of interest and principal amounts yielded by the mortgage assets. (The notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgages. If not otherwise redeemed, purchased or cancelled, the notes will be redeemed at their principal amount outstanding on the last interest payment date falling in July 2035 in respect of the first tranche of loan notes, and July 2037 in respect of the second tranche).

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Auburn 1 Limited

Notes *(continued)*

16 Derivatives and other financial instruments *(continued)*

Deferred consideration also arises based on the timing of receipts yielded by the mortgage assets. Accordingly, all deferred consideration and mortgage backed loan notes have been classified as due within one year in the group's balance sheet. The subordinated loan note is repayable in full in July 2037, but may be repaid at an earlier date, depending on the timing of cashflows from the group's mortgage assets.

Fair value of financial assets and liabilities
As all of the group's assets and liabilities are either non-interest bearing, based on floating rates, or are effectively swapped from fixed into floating rates, the directors consider that the fair value of the group's financial assets and liabilities materially equates to their book values.

Foreign currency
The group has not entered into transactions in any currency other than sterling throughout the period.

17 Approval of the financial statements

The board of directors approved these financial statements on 17 April 2002.