KPMG

Auburn 1 Limited

Directors' report and consolidated financial statements

Year ended 31 December 2004

Registered number 3588419

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Directors' report and consolidated financial statements

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Directors and other information

Directors	R.G. Baker J.P.J. Fairrie D. Gantly SPV Management Limited
Secretary	SPV Management Limited
Bankers	Barclays Bank PLC London Corporate Banking Centre 54 Lombard Street London EC3P 3AH
Solicitors	TLT Solicitors One Redcliff Road Bristol BS99 7JZ
Auditors	KPMG Chartered Accountants 1 Stokes Place St. Stephen's Green Dublin 2
Registered office	SPV Management Tower 42 (level 11) 25 Old Broad Street London EC2N 1HQ

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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 2004.

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 scope of the business in the foreseeable future.

Results for the year

The consolidated profit and loss account for the year to 31 December 2004 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 year, 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, in accordance with applicable law and accounting standards, 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.

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, subordinated loans 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 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. Subordinated loans from Capital Home Loans Limited and Irish Life & Permanent plc, related undertakings, are used to ensure the group has sufficient initial 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

for SPV Management Limited
Secretary

6 May 2005

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

Independent auditors' report to the members of Auburn 1 Limited

We have audited the financial statements on pages 5 to 20.

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

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 2004 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

6 May 2005

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£12,500 *(2003: Stg£Nil).*

Taxation

Current tax is provided on taxable profits, at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse.

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 on a straight line 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 an agreement between the group and a related undertaking, Capital Home Loans Limited, the group has a liability for future deferred consideration which is contingent on the occurrence of certain future events. The directors consider that the occurrence of these events cannot be forecast with reasonable accuracy, and accordingly, that such liabilities cannot be quantified. The group's contingent liability for future deferred consideration has been disclosed in note 11 to the financial statements.

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.

Auburn 1 Limited

Consolidated profit and loss account
for the year ended 31 December 2004

	Note	2004 Stg£	2003 Stg£
Interest receivable and similar income - continuing operations	*1*	**46,563,317**	39,727,862
Interest payable and similar charges	2	**(38,537,389)**	(32,140,003)
Net interest income - continuing operations		**8,025,928**	7,587,859
Other operating expenses		**(8,029,481)**	(7,313,368)
Provision for bad and doubtful debts	5	**73,013**	(207,945)
Operating profit on ordinary activities before taxation	*3*	**69,460**	66,546
Tax on profit on ordinary activities	*4*	**(10,724)**	(12,274)
Profit for the financial year		**58,736**	54,272
Profit and loss account at beginning of year		**225,131**	170,859
Profit and loss account at end of year		**283,867**	225,131

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 20 form part of these financial statements.

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Auburn 1 Limited

Consolidated balance sheet
at 31 December 2004

	Note	2004 Stg£	2003 Stg£
Mortgage advances	*6*	**1,415,796,284**	581,957,559
Current assets			
Debtors	*7*	**197,003**	220,160
Cash at bank and in hand		**50,653,005**	38,454,897
Total assets		**1,466,646,292**	620,632,616
Capital and reserves			
Called up share capital	*9*	**12,503**	12,503
Profit and loss account		**283,867**	225,131
Shareholders' funds - equity	*13*	**296,370**	237,634
Creditors: amounts falling due within one year	*8*	**1,454,449,922**	614,894,982
Subordinated liabilities	*10*	**11,900,000**	5,500,000
Total liabilities and shareholders' funds - equity		**1,466,646,292**	620,632,616

The notes on pages 10 to 20 form part of these financial statements.

On behalf of the board

SPV Management Limited
Director

6 May 2005

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Auburn 1 Limited

Consolidated cash flow statement
for the year ended 31 December 2004

	Note	2004 Stg£	2003 Stg£
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**69,460**	66,546
(Credit)/charge for bad and doubtful debts		**(73,013)**	207,945
Amortisation of set up costs		**629,242**	494,344
Decrease in debtors		**23,157**	673,646
Increase in creditors		**2,684,046**	2,032,516
Increase/(decrease) in interest on mortgage-backed loan notes		**4,114,569**	(925,265)
(Decrease)/increase in interest on subordinated loan		**(261,242)**	385,317
Net cash inflow from trading activities		**7,186,219**	2,935,049
(Increase)/decrease in loans and advances to customers		**(833,765,711)**	170,721,128
Increase/(decrease) in mortgage-backed loan notes		**834,690,123**	(168,803,612)
Net cash inflow from operating activities		**8,110,631**	4,852,565

Consolidated cash flow statement

	Note	2004 Stg£	2003 Stg£
Net cash inflow from operating activities		**8,110,631**	4,852,565
Taxation			
Tax paid		**(12,523)**	(9,046)
Capital expenditure and financial investment			
Set up costs		**(2,300,000)**	-
Net cash inflow before use of financing and liquid resources		**5,798,108**	4,843,519
Financing			
Issue of subordinated loan		**7,400,000**	-
Repayment of subordinated loan		**(1,000,000)**	(2,000,000)
Increase in cash	*18*	**12,198,108**	2,843,519

The notes on pages 10 to 20 form part of these financial statements.

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Auburn 1 Limited

Company balance sheet
at 31 December 2004

	Note	2004 Stg£	2003 Stg£
Fixed assets			
Financial assets	*12*	**50,007**	37,507
Current assets			
Debtors	*7*	**1**	1
Total assets		**50,008**	37,508
Capital and reserves			
Called up share capital	*9*	**12,503**	12,503
Profit and loss account		**37,505**	25,005
Shareholders' funds - equity	*13*	**50,008**	37,508

The notes on pages 10 to 19 form part of these financial statements.

On behalf of the board

for SPV Management Limited
Director

6 May 2005

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Auburn 1 Limited

Notes
forming part of the financial statements

1 Interest receivable and similar income

	2004 Stg£	2003 Stg£
Mortgage interest receivable	**43,628,208**	38,101,923
Deposit interest receivable	**1,484,172**	1,000,973
Other income	**463,663**	624,966
	45,576,043	39,727,862

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

2 Interest payable and similar charges

	2004 Stg£	2003 Stg£
On mortgage backed loan notes	**36,652,271**	27,926,523
Net swap interest (receivable)/payable	**(365,171)**	3,234,809
Amortisation of initial funding costs	**629,242**	494,344
On subordinated loan	**621,589**	483,539
Other interest	**12,184**	788
	37,550,115	32,140,003

3 Operating profit on ordinary activities

	2004 Stg£	2003 Stg£
Profit on ordinary activities is stated after charging		
Auditors' remuneration - audit fee	**27,143**	21,429
Amortisation of initial funding costs *(see note 8)*	**629,242**	494,344
Deferred consideration *(see note 8)*	**7,487,865**	6,830,960

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.

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Notes *(continued)*

4 Tax on profit on ordinary activities

	2004 Stg£	2003 Stg£
Current corporation tax	**10,724**	12,274

Reconciliation of effective tax rate	2004 Stg£	2003 Stg£
Headline corporation tax rate	**19%**	19%
Effects of:		
Income taxable at lower rates	(4%)	(1%)
Balance at end of year	**15%**	18%

5 Provisions for bad and doubtful debts

	2004 Stg£	2003 Stg£
Balance at beginning of year	**207,945**	7,353
(Credited)/charged to profit and loss account	**(73,013)**	207,945
Written off in year	-	(7,353)
Balance at end of year	**134,932**	207,945

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 2000, November 2003 and October 2004 the group purchased a further Stg£300 million, Stg£397.9 million, and Stg£995.9 million respectively, of mortgage assets from Capital Home Loans Limited. All of the assets purchased are United Kingdom residential mortgages, wholly secured on properties in the United Kingdom. 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.

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Auburn 1 Limited

Notes *(continued)*

6 Mortgage advances *(continued)*

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, are 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	582,165,504	(207,945)	581,957,559
New mortgages acquired in year	995,894,095	-	995,894,095
Repaid in year	(162,128,383)	73,013	(162,055,370)
At end of year	**1,415,931,216**	**(134,932)**	**1,415,796,284**

7 Debtors

	2004 Stg£	2003 Stg£
Group		
Other debtors	**197,003**	220,160
Company		
Other debtors	**1**	1

All amounts fall due within one year.

8 Creditors: amounts falling due within one year

	2004 Stg£	2003 Stg£
Group		
Corporation tax	**10,845**	12,644
Deferred consideration (see below)	**16,260,524**	13,446,568
Accruals and deferred income	**6,934,366**	3,210,948
Mortgage backed loan notes	**1,435,227,519**	600,537,396
Less: unamortised element of initial funding costs (see below)	**(3,983,332)**	(2,312,574)
	1,454,449,922	614,894,982

Auburn 1 Limited

Notes *(continued)*

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

Reconciliation of deferred consideration – group	**2004 Stg£**	2003 Stg£
At start of year	**13,446,568**	11,013,859
Deferred consideration arising in year	**7,487,865**	6,830,960
Deferred consideration paid in year	**(4,673,909)**	(4,398,251)
At end of year	**16,260,524**	13,446,568

Reconciliation of initial funding costs – group	**2004 Stg£**	2003 Stg£
Opening balance of unamortised initial funding costs	**(2,312,574)**	(2,806,918)
New funding costs arising in year	**(2,300,000)**	-
Amortisation of initial funding costs	**629,242**	494,344
Closing balance of unamortised initial funding costs	**(3,983,332)**	(2,312,574)

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. On 24 July 2000, 25 November 2003 and 11 October 2004, the group issued a further Stg£300 million, Stg£400 million and Stg£1 billion respectively, in mortgage backed loan notes to fund the purchase of the second, third and fourth mortgage portfolios. The balance of these notes at 31 December 2004 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 by each of the four 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 - 1998	**Balance outstanding at end of year**	**Up to November 2008**	**After November 2008**
Class A1 (Stg£80 million)	Stg£Nil	LIBOR + 0.10%	LIBOR + 0.20%
Class A2 (Stg£284 million)	Stg£81,294,148	LIBOR + 0.25%	LIBOR + 0.50%
Class M (Stg£36 million)	Stg£8,039,952	LIBOR + 0.75%	LIBOR + 1.50%

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Auburn 1 Limited

Notes *(continued)*

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

Stg£300 million mortgage backed loan notes -2000	**Balance outstanding at end of year**	**Up to July 2006**	**After July 2006**
Class A1 (Stg£70 million)	Stg£Nil	LIBOR + 0.20%	LIBOR + 0.40%
Class A2 (Stg£200 million)	Stg£102,958,600	LIBOR + 0.29%	LIBOR + 0.58%
Class M (Stg£30 million)	Stg£30,000,000	LIBOR + 0.85%	LIBOR + 1.70%
Stg£400 million mortgage backed loan notes - 2003	**Balance outstanding at end of year**	**Up to November 2009**	**After November 2009**
Class A1 (Stg£106 million)	Stg£Nil	LIBOR + 0.18%	LIBOR + 0.36%
Class A2 (Stg£268 million)	Stg£212,315,429	LIBOR + 0.325%	LIBOR + 0.65%
Class M (Stg£26 million)	Stg£26,200,000	LIBOR + 1.25%	LIBOR + 2.24%
Stg£1 billion mortgage backed loan notes	**Balance outstanding at end of year**	**Up to October 2009**	**After October 2009**
Class A1 (Stg£270 million)	Stg£244,419,390	LIBOR +0.12%	LIBOR + 0.24%
Class A2 (Stg£597.5 million)	Stg£597,500,000	LIBOR +0.2%	LIBOR + 0.4%
Class M (Stg£15 million)	Stg£15,000,000	LIBOR +0.25%	LIBOR + 0.5%
Class B (Stg£40 million)	Stg£40,000,000	LIBOR + 0.35%	LIBOR + 0.70%
Class C (Stg£40 million)	Stg£40,000,000	LIBOR + 0.65%	LIBOR + 1.65%
Class D (Stg£25 million)	Stg£25,000,000	LIBOR + 1.05%	LIBOR + 2.05%
Class E (Stg£12.5 million)	Stg£12,500,000	LIBOR + 3.20%	LIBOR + 4.20%

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, B, C, D and E 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:

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

Optional redemption (continued)

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, in respect of the second tranche of notes, on the interest payment date falling in July 2006, in respect of the third tranche of notes, on the interest payment falling in November 2009, and in respect of the fourth tranche of notes, on the interest payment date falling in October 2009, or any interest payment dates falling thereafter;

c) in respect of the first and second tranche of notes, 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, and in respect of the third and fourth tranche of notes, on any interest payment date on which the aggregate principal amount outstanding of the notes is less than 10% of the total aggregate principal amount outstanding of the notes at the issue date.

9 Called up share capital

Company and group	**2004** **Stg£**	2003 Stg£
Authorised		
Ordinary shares of Stg£1 each	**15,000**	15,000
Allotted and called up		
Ordinary shares of Stg£1 each	**12,503**	12,503

10 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. Stg£2,200,000 of this loan was repaid in 2003 with a final Stg£2,000,000 repaid in 2004. During 2003 the group received an additional subordinated loan of Stg£5,500,000 from Irish Life and Permanent plc at 4% above 1 month LIBOR, with a maturity date of November 2039. Stg£1,000,000 of this loan was repaid in 2004. In 2004 the group received a further loan of Stg£7,400,000 from Capital Home Loans Ltd. at 4% above 1 month LIBOR with a maturity date of October 2041, none of which has been repaid as yet.

11 Contingent liability

Under the terms of an agreement with a related undertaking, Capital Home Loans Limited, the group has a liability for future deferred consideration which is contingent on the occurrence of certain future events. The directors consider that the occurrence of these events cannot be forecast with reasonable accuracy, and accordingly, that such liabilities cannot be quantified.

12 Financial assets

Company	**2004 Stg£**	2003 Stg£
Investment in subsidiary undertakings	**50,007**	37,507

Details of the group's subsidiaries have been included below.

Subsidiary undertakings

Name and registered office	**Country of incorporation**	**Details of investments**	**Proportion held**	**Principal activity**
Auburn Securities 1 plc SPV Management, Tower 42 (level 11), 25 Old Broad Street, London, EC2N 1HQ	United Kingdom	Stg£12,502	100%	Investment in mortgage assets
Auburn Securities 2 plc SPV Management, Tower 42 (level 11), 25 Old Broad Street, London, EC2N 1HQ	United Kingdom	Stg£12,502	100%	Investment in mortgage assets
Auburn Securities 3 plc SPV Management, Tower 42 (level 11), 25 Old Broad Street, London, EC2N 1HQ	United Kingdom	Stg£12,502	100%	Investment in mortgage assets
Auburn Securities 4 plc SPV Management, Tower 42 (level 11), 25 Old Broad Street, London, EC2N 1HQ	United Kingdom	Stg£12,502	100%	Investment in mortgage assets
Auburn Options Limited SPV Management, Tower 42 (level 11), 25 Old Broad Street, London, EC2N 1HQ	United Kingdom	Stg£1	100%	Not yet commenced to trade

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Notes *(continued)*

13 Reconciliation of movement in shareholders' funds

	2004	2003
	Stg£	Stg£
Group		
Opening shareholders' funds - equity	**237,634**	183,362
Total recognised gains for year	**58,736**	54,272
Closing shareholders' funds - equity	**296,370**	237,634

	2004	2003
	Stg£	Stg£
Company		
Opening shareholders' funds – equity	**37,508**	37,508
Total recognised gains for year	**12,500**	-
Closing shareholders' funds – equity	**50,008**	37,508

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 2004 was Stg£13,920,254 *(2003: Stg£22,834,436)* at an average interest rate of 6.5396% per annum *(2003: 7.0853%).*

In relation to the second mortgage portfolio purchase the group entered into a series of interest rate swap agreements 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 2004 was Stg£130,197,921 *(2003: Stg£165,596,294)* at an average interest rate of 6.2078% *(2003: 6.0%)* per annum.

In relation to the third mortgage portfolio purchase the group entered into a series of interest rate swap agreements with Capital Home Loans Limited with an expiry date of the earlier of the redemption date of the mortgage backed loan notes or 2039. The notional amount outstanding at 31 December 2004 was Stg£234,545,549 *(2003: Stg£308,594,268)* at an average interest rate of 5.7870% (2003: 5.37014%) per annum.

In relation to the fourth mortgage portfolio purchase the group entered into a series of 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 2041. The notional amount outstanding as at 31 December 2004 was Stg£964,459,487 at an average interest rate of 5.8964% per annum.

15 Related party transactions

The group purchased mortgages in four tranches with a book value of Stg£2.1 billion 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 2004 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 2004 Stg£	**Balance outstanding at 31 December 2004 Stg£**
Interest payable on start up loans	621,589	181,466
Swap interest receivable	(365,171)	(258,308)
Administration fees	49,400	7,481
Deferred consideration payable	7,487,865	16,260,524

16 Ultimate parent undertaking

The shareholding is held by SPV Management Limited, as trustee, under a declaration of trust, for charitable purposes, dated 5 November 1998.

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Notes *(continued)*

17 Derivatives and other financial instruments

The group'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	1,262,991	152,809	-	**1,415,800**
Debtors	-	-	193	**193**
Cash	50,653	-	-	**50,653**
	1,313,644	152,809	193	**1,466,646**
Financial liabilities				
Deferred consideration	-	-	16,261	**16,261**
Mortgage backed notes	1,435,227	-	(3,984)	**1,431,243**
Subordinated loan notes	11,900	-	-	**11,900**
Interest payable	6,257	-	-	**6,257**
Other creditors	-	-	689	**689**
Capital and reserves	-	-	296	**296**
	1,453,384	-	13,262	**1,466,646**
Derivatives				
Interest rate swaps	1,189,640	152,809	-	**1,342,449**

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

Interest rate swaps

In order to minimise the group's exposure to differences between fixed and variable rate assets and liabilities, the group enters into interest rate swaps, as shown above. The swaps presented under the "floating rate" heading above relate to derivatives which swap certain of the group's floating rate assets to the London Inter-Bank Offering Rate, in order to match the interest basis of these assets to the related variable rate funding, as required by the conditions of the loan notes issued by the group's subsidiaries. Those swaps which are categorised under the "fixed rate" heading above relate to derivatives which swap the group's fixed rate assets to the London Inter-Bank Offering Rate to also match the interest basis of these assets against the related variable funding, as required by the conditions of the loan notes issued by the group's subsidiaries.

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Notes *(continued)*

17 Derivatives and other financial instruments *(continued)*

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, July 2037 in respect of the second tranche, November 2039 in respect of the third tranche and October 2041 in respect of the fourth tranche).

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 notes issued in 2004 are repayable in full by October 2041, but these 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.

18 Analysis of changes in net debt in year

	At beginning of year Stg£	Cash flow in year Stg£	At end of year Stg£
Cash at bank and in hand	38,454,897	12,198,108	50,653,005
Mortgage backed loan notes	(600,537,396)	(834,690,123)	(1,435,227,519)
Subordinated loan notes	(5,500,000)	(6,400,000)	(11,900,000)
Total debt	(606,037,396)	(841,090,123)	(1,447,127,519)
Net debt	(567,582,499)	(828,892,015)	(1,396,474,514)

19 Approval of the financial statements

The board of directors approved these financial statements on 6 May 2005.