



## Auburn 1 Limited

Directors' report and  
consolidated financial  
statements

Year ended 31 December 2003

Registered number 3588419





# Auburn 1 Limited

## Directors' report and consolidated financial statements

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# Auburn 1 Limited

## Directors and other information

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

# Auburn 1 Limited

## Directors' report

The directors present their annual report and audited consolidated financial statements for the year ended 31 December 2003.

### 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 2003 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

On 7 April 2003, S. Cloke resigned as director to the company.

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, 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 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 Irish Life & Permanent plc, a related undertaking, 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

SPV Management Limited  
*Secretary*

23 April 2004



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 19.

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 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants  
Registered Auditors

23 April 2004



KPMG, a partnership established under Irish law,  
is the Irish member firm of KPMG International,  
a Swiss cooperative

# 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£25,005 (2002: Stg£25,005).

### **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 2003

	Note	2003 Stg£	2002 Stg£
<b>Interest receivable and similar income - continuing operations</b>	1	<b>39,727,862</b>	29,575,998
Interest payable and similar charges	2	(32,140,003)	(24,891,603)
		<hr/>	<hr/>
<b>Net interest income - continuing operations</b>		<b>7,587,859</b>	4,684,395
Other operating expenses		(7,313,368)	(4,672,159)
Provision for bad and doubtful debts	5	(207,945)	34,842
		<hr/>	<hr/>
<b>Operating profit on ordinary activities before taxation</b>	3	<b>66,546</b>	47,078
Tax on profit on ordinary activities	4	(12,274)	(9,362)
		<hr/>	<hr/>
<b>Profit for the financial year</b>		<b>54,272</b>	37,716
<b>Profit and loss account at beginning of year</b>		<b>170,859</b>	133,143
		<hr/>	<hr/>
<b>Profit and loss account at end of year</b>		<b>225,131</b>	170,859
		<hr/>	<hr/>

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 19 form part of these financial statements.




# Auburn 1 Limited

## Consolidated balance sheet at 31 December 2003

	<i>Note</i>	<b>2003 Stg£</b>	<b>2002 Stg£</b>
<b>Mortgage advances</b>	<b>6</b>	<b>581,957,559</b>	752,886,632
<b>Current assets</b>			
Debtors	7	220,160	893,806
Cash at bank and in hand		38,454,897	35,611,378
<b>Total assets</b>		<b>620,632,616</b>	<b>789,391,816</b>
<b>Capital and reserves</b>			
Called up share capital	9	12,503	12,503
Profit and loss account		225,131	170,859
<b>Shareholders' funds - equity</b>	<b>13</b>	<b>237,634</b>	183,362
<b>Creditors: amounts falling due within one year</b>	<b>8</b>	<b>614,894,982</b>	781,708,454
<b>Subordinated liabilities</b>	<b>10</b>	<b>5,500,000</b>	7,500,000
<b>Total liabilities and shareholders' funds - equity</b>		<b>620,632,616</b>	<b>789,391,816</b>

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

On behalf of the board

  
SPV Management Limited  
Director

23 April 2004

# Auburn 1 Limited

## Consolidated cash flow statement for the year ended 31 December 2003

	Note	2003 Stg£	2002 Stg£
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit		66,546	47,078
Charge/(credit) for bad and doubtful debts		207,945	(34,842)
Amortisation of set up costs		494,344	274,711
Decrease/(increase) in debtors		673,646	(885,000)
Increase in creditors		2,032,516	3,477,749
Decrease/(increase) in interest on mortgage-backed loan notes		(925,265)	1,441,153
Increase in interest on subordinated loan		385,317	31,635
		<hr/>	<hr/>
<b>Net cash inflow from trading activities</b>		<b>2,935,049</b>	<b>4,352,484</b>
Decrease/(increase) in loans and advances to customers		170,721,128	(297,164,747)
(Decrease)/increase in mortgage-backed loan notes		(168,803,612)	306,346,971
		<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>		<b>4,852,565</b>	<b>13,534,708</b>

## Consolidated cash flow statement

	2003 Stg£	2002 Stg£
<b>Net cash inflow from operating activities</b>	<b>4,852,565</b>	<b>13,534,708</b>
<b>Taxation</b>		
Tax paid	(9,046)	(5,122)
<b>Capital expenditure and financial investment</b>		
Set up costs	-	(1,500,000)
	<hr/>	<hr/>
<b>Net cash inflow before use of financing and liquid resources</b>	<b>4,843,519</b>	<b>12,029,586</b>
<b>Financing</b>		
Issue of shares	-	12,502
Issue of subordinated loan	-	5,500,000
Repayment of subordinated loan	(2,000,000)	(2,200,000)
	<hr/>	<hr/>
<b>Increase in cash</b>	<b>2,843,519</b>	<b>15,342,088</b>

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

# Auburn 1 Limited

## Company balance sheet at 31 December 2003

	<i>Note</i>	<b>2003 Stg£</b>	<b>2002 Stg£</b>
<b>Fixed assets</b>			
Financial assets	12	37,507	37,507
<b>Current assets</b>			
Debtors	7	1	1
		<hr/>	<hr/>
<b>Total assets</b>		<b>37,508</b>	<b>37,508</b>
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	9	12,503	12,503
Profit and loss account		25,005	25,005
		<hr/>	<hr/>
<b>Shareholders' funds - equity</b>	13	<b>37,508</b>	<b>37,508</b>
		<hr/>	<hr/>

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

On behalf of the board

  
SPV Management Limited  
Director

23 April 2004

# Auburn 1 Limited

## Notes

*forming part of the financial statements*

### 1 Interest receivable and similar income

	2003 Stg£	2002 Stg£
Mortgage interest receivable	38,101,923	28,544,356
Deposit interest receivable	1,000,973	707,509
Other income	624,966	324,133
	<u>39,727,862</u>	<u>29,575,998</u>

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

### 2 Interest payable and similar charges

	2003 Stg£	2002 Stg£
On mortgage backed loan notes	27,926,523	19,735,472
Swap interest payable	3,234,809	4,634,717
Amortisation of initial funding costs	494,344	274,711
On subordinated loan	483,539	232,390
Other interest	788	14,313
	<u>32,140,003</u>	<u>24,891,603</u>

### 3 Operating profit on ordinary activities

	2003 Stg£	2002 Stg£
<i>Profit on ordinary activities is stated after charging</i>		
Auditors' remuneration - audit fee	21,429	25,235
	<u>21,429</u>	<u>25,235</u>
Amortisation of initial funding costs ( <i>see note 8</i> )	494,344	274,711
	<u>494,344</u>	<u>274,711</u>
Deferred consideration ( <i>see note 8</i> )	6,830,960	4,123,331
	<u>6,830,960</u>	<u>4,123,331</u>

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)

<b>4 Tax on profit on ordinary activities</b>	<b>2003</b>	<b>2002</b>
	<b>Stg£</b>	<b>Stg£</b>
Current corporation tax	<b>12,274</b>	9,362
	<hr/>	<hr/>
<b><i>Reconciliation of effective tax rate</i></b>	<b>2003</b>	<b>2002</b>
	<b>Stg£</b>	<b>Stg£</b>
Headline corporation tax rate	<b>19%</b>	20%
<i>Effects of:</i>		
Overprovision in prior years	<b>(1%)</b>	-
	<hr/>	<hr/>
Balance at end of year	<b>18%</b>	20%
	<hr/>	<hr/>
<b>5 Provisions for bad and doubtful debts</b>	<b>2003</b>	<b>2002</b>
	<b>Stg£</b>	<b>Stg£</b>
Balance at beginning of year	<b>7,353</b>	114,854
Charged/(credited) to profit and loss account	<b>207,945</b>	(34,842)
Written off in year	<b>(10,304)</b>	(72,659)
	<hr/>	<hr/>
Balance at end of year	<b>204,994</b>	7,353
	<hr/>	<hr/>
<b>6 Mortgage advances</b>		

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 and November 2002 the group purchased a further Stg£300 million and Stg£397.9 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.

# 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.

	<b>Mortgage advances Stg£</b>	<b>Provision for bad and doubtful debts Stg£</b>	<b>Total Stg£</b>
At beginning of year	752,893,985	(7,353)	752,886,632
Net movement in year	(170,731,432)	(197,641)	(170,929,073)
<b>At end of year</b>	<b>582,162,553</b>	<b>(204,994)</b>	<b>581,957,559</b>

<b>7 Debtors</b>	<b>2003 Stg£</b>	<b>2002 Stg£</b>
<i>Group</i>		
Other debtors	<b>220,160</b>	893,806
<i>Company</i>		
Other debtors	<b>1</b>	1

All amounts fall due within one year.

<b>8 Creditors: amounts falling due within one year</b>	<b>2003 Stg£</b>	<b>2002 Stg£</b>
<i>Group</i>		
Corporation tax	<b>12,644</b>	9,416
Deferred consideration (see below)	<b>13,446,568</b>	11,013,859
Accruals and deferred income	<b>3,210,948</b>	4,151,089
Mortgage backed loan notes	<b>600,537,396</b>	769,341,008
Less: unamortised element of initial funding costs (see below)	<b>(2,312,574)</b>	(2,806,918)
	<b>614,894,982</b>	781,708,454

# Auburn 1 Limited

## Notes (continued)

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

<i>Reconciliation of deferred consideration – group</i>	<b>2003</b> <b>Stg£</b>	<b>2002</b> <b>Stg£</b>
At start of year	<b>11,013,859</b>	7,889,168
Deferred consideration arising in year	<b>6,830,960</b>	4,123,331
Deferred consideration paid in year	<b>(4,398,251)</b>	(998,640)
	<hr/>	<hr/>
At end of year	<b>13,446,568</b>	11,013,859
	<hr/>	<hr/>
<i>Reconciliation of initial funding costs – group</i>	<b>2003</b> <b>Stg£</b>	<b>2002</b> <b>Stg£</b>
Opening balance of unamortised initial funding costs	<b>(2,806,918)</b>	(1,581,629)
New funding costs arising in year	-	(1,500,000)
Amortisation of initial funding costs	<b>494,344</b>	274,711
	<hr/>	<hr/>
Closing balance of unamortised initial funding costs	<b>(2,312,574)</b>	(2,806,918)
	<hr/>	<hr/>

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 and 25 November 2002, the group issued a further Stg£300 million and Stg£400 million, respectively, in mortgage backed loan notes to fund the purchase of the second and third mortgage portfolios. The balance of these notes at 31 December 2003 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 three 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:

<b>Stg£400 million mortgage backed loan notes - 1998</b>	<b>Balance outstanding at end of year</b>	<b>Up to November 2008</b>	<b>After November 2008</b>
Class A1 (Stg£80 million)	Stg£Nil	LIBOR + 0.10%	LIBOR + 0.10%
Class A2 (Stg£284 million)	Stg£102,968,460	LIBOR + 0.25%	LIBOR + 0.50%
Class M (Stg£36 million)	Stg£22,936,212	LIBOR + 0.75%	LIBOR + 1.50%

# Auburn 1 Limited

## Notes (*continued*)

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

<b>Stg£300 million mortgage backed loan notes -2000</b>	<b>Balance outstanding at end of year</b>	<b>Up to July 2006</b>	<b>After July 2006</b>
Class A1 (Stg£70 million)	Stg£Nil	LIBOR + 0.20%	LIBOR + 0.40%
Class A2 (Stg£200 million)	Stg£136,236,200	LIBOR + 0.29%	LIBOR + 0.58%
Class M (Stg£30 million)	Stg£30,000,000	LIBOR + 0.85%	LIBOR + 1.70%
<b>Stg£400 million mortgage backed loan notes - 2002</b>	<b>Balance outstanding at end of year</b>	<b>Up to November 2009</b>	<b>After November 2009</b>
Class A1 (Stg£106 million)	Stg£14,566,524	LIBOR + 0.18%	LIBOR + 0.36%
Class A2 (Stg£268 million)	Stg£267,630,000	LIBOR + 0.325%	LIBOR + 0.65%
Class M (Stg£26 million)	Stg£26,200,000	LIBOR + 1.25%	LIBOR + 2.24%

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:

- 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;
- 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, and in respect of the third tranche of notes, on the interest payment falling in November 2009, or any interest payment dates falling thereafter;
- 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 tranche of notes, on any interest payment date on which the aggregate principal amount outstanding of the note is less than 10% of the total aggregate principal amount outstanding of the notes at the issue date.



# Auburn 1 Limited

## Notes (continued)

### 9 Called up share capital

<i>Company and group</i>	<b>2003</b>	<b>2002</b>
	<b>Stg£</b>	<b>Stg£</b>
<i>Authorised</i>		
Ordinary shares of Stg£1 each	<b>15,000</b>	15,000
	<hr/>	<hr/>
<i>Allotted and called up</i>		
Ordinary shares of Stg£1 each	<b>12,503</b>	12,503
	<hr/>	<hr/>

### 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 2002 with a final Stg£2,000,000 repaid in 2003. During 2002 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, 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

<i>Company</i>	<b>2003</b>	<b>2002</b>
	<b>Stg£</b>	<b>Stg£</b>
Investment in subsidiary undertakings	<b>37,507</b>	37,507
	<hr/>	<hr/>

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

# Auburn 1 Limited

Notes (continued)

## 12 Financial assets (continued)

### 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 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 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

## 13 Reconciliation of movement in shareholders' funds

	2003 Stg£	2002 Stg£
<i>Group</i>		
Opening shareholders' funds - equity	183,362	133,144
Increase in share capital	-	12,502
Total recognised gains for year	54,272	37,716
<b>Closing shareholders' funds - equity</b>	<b>237,634</b>	<b>183,362</b>
	2003 Stg£	2002 Stg£
<i>Company</i>		
Opening shareholders' funds - equity	37,508	25,006
Increase in share capital	-	12,502
<b>Closing shareholders' funds - equity</b>	<b>37,508</b>	<b>37,508</b>

# Auburn 1 Limited

## Notes (continued)

### 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 2003 was Stg£22,834,436 (2002: Stg£62,694,800) at an average interest rate of 7.0853% per annum (2002: 7.5277%).

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 2003 was Stg£165,596,294 (2002: Stg£199,327,087) at an average interest rate of 6.0% (2002: 6.23769%) 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 2003 was Stg£308,594,268 (2002: Stg£391,393,219) at an average interest rate of 5.37014% (2002: 5.6624%) per annum.

### 15 Related party transactions

The group purchased mortgages in three tranches with a book value of Stg£1.1 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 2003 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 2003 Stg£	Balance outstanding at 31 December 2003 Stg£
Interest payable on start up loans	483,539	442,707
Swap interest payable	3,234,809	150,865
Administration fees	46,677	12,681
Deferred consideration payable	6,830,960	13,448,584

### 16 Ultimate parent undertaking

The shareholding is held by SPV Management, as trustee, under a declaration of trust, for charitable purposes.

# Auburn 1 Limited

## 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*

	<b>Floating Rate Stg£000</b>	<b>Fixed rate Stg£000</b>	<b>Non-interest bearing Stg£000</b>	<b>Total Stg£000</b>
<b>Financial assets</b>				
Mortgage advances	445,091	136,867	-	581,958
Debtors	-	-	222	222
Cash	38,455	-	-	38,455
	<u>483,546</u>	<u>136,867</u>	<u>222</u>	<u>620,635</u>
<b>Financial liabilities</b>				
Deferred consideration	-	-	13,448	13,448
Mortgage backed notes	600,538	-	(2,313)	598,225
Subordinated loan notes	5,500	-	-	5,500
Interest payable	2,585	-	-	2,585
Other creditors	-	-	639	639
Capital and reserves	-	-	238	238
	<u>608,623</u>	<u>-</u>	<u>12,012</u>	<u>620,635</u>
<b>Derivatives</b>				
Interest rate swaps	360,158	136,867	-	497,025

The interest rates of floating rate assets are determined with reference either to the Bank of England base rate or a standard variable rate, based on market conditions. The interest rates of floating rate liabilities are determined with reference to the London Inter-Bank Offering Rate.

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 Auburn Securities 2 plc's and Auburn Securities 3 plc'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 those companies. The loan notes issued by Auburn Securities 1 plc contain no such required conditions. 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 each company in the group.

# Auburn 1 Limited

## 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 and November 2039 in respect of the third 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 note issued in 2002 is repayable in full by November 2039, 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	35,611,378	2,843,519	38,454,897
Mortgage backed loan notes	(769,341,008)	168,803,612	(600,537,396)
Subordinated loan notes	(7,500,000)	2,000,000	(5,500,000)
Total debt	(776,841,008)	170,803,612	(606,037,396)
Net debt	(741,229,630)	173,647,131	(567,582,499)

### 19 Approval of the financial statements

The board of directors approved these financial statements on 23 April 2004.